REPORT OF THE
COMPTROLLER AND AUDITOR GENERAL
OF INDIA

UNION GOVERNMENT
No. 5 (COMMERCIAL) OF 1991

THE HANDICRAFTS AND HANDLOOMS EXPORTS
CORPORATION OF INDIA LIMITED

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PREFACE

The Audit Board in this case consisted of the following members:-

S/Shri

A.C. Tiwari	Deputy Comptroller and Auditor General (Commercial)-cum-Chairman, Audit Board from 1st May, 1990 to 7th June, 1991.
P.K. Sarkar	Deputy Comptroller and Auditor General (Commercial)-cum- Chairman, Audit Board from 8th June, 1991 till date.
B.P. Mathur	Principal Director of Commercial, Audit & Ex-officio Member, Audit Board-I,New Delhi from 16th August, 1988 to 2nd July, 1990.
Vijay Kumar	Principal Director of Commercial Audit & Ex-officio Member, Audit Board-I,New Delhi from 3rd July, 1990 till date.
B.C. Mahey	Member,Audit Board &Ex-officio Director of Commercial Audit - II, New Delhi from 8th March, 1989 to 1st July, 1991.
K.S. Menon	Member Secretary, Audit Board from 2nd July ,1990 till date.
K.V.S. Murthi	Formerly Advisor (Village & Small Industries Division), Planning Commission - Part-time Member
H.K. Wattal	Kailash Carpets, Dholpur House, Agra - Part-time Member

2. The report was finalised by the Audit Board after taking into account the results of discussions held with the representatives of the Company and the Ministry of Textiles.

3. The Comptroller and Auditor General of India wishes to place on record his appreciation of the work done by the Audit Board and, in particular,the contribution made by the non-official members.

OVERVIEW

I. The Handicrafts and Handlooms Exports Corporation of India Limited was incorporated on 1st June, 1962 as a wholly-owned subsidiary of the State Trading Corporation of India with the main objectives of development and export of handicrafts and handlooms products of India. In pursurance of its objectives, the Company has taken up the export of handlooms, handicrafts, carpets and ready-to-wear (RTW) garments besides export of gold and silver jewellery through its Associates. The Company has, however, not yet framed its macro and micro objectives in terms of guidelines issued by Bureau of Public Enterprises

(Paras 1.1 and 2.2)

II. An analysis of the performance of the Company in its export activities relating to handlooms, handicrafts, carpets and garments showed that the Company had not only been unable to keep pace with the overall growth of Indian exports of these products, it had not even been able to achieve its prescribed annual targets.

While the Company's export of handlooms increased by 71percent, during the period 1983-84 to 1989-90 the growth in all India exports was 902 percent.

The Company had a very nominal share in all India handicrafts exports, which constituted 0.6 to 1.4 per cent of the all India exports during 1983-84 to 1989-90. Further, about 87 per cent of the export of handicrafts by the Company during 1988-89 and 55.21 per cent in 1989-90 were through associates and that too to one country viz. the USSR.

The export of carpets declined from Rs. 535.51 lakhs in 1983-84 to Rs. 510.83 lakhs in 1989-90 (it was as low as Rs. 381.40 lakhs in 1987-88) whereas the all India exports varied from Rs. 21337.87 lakhs to Rs. 58649 lakhs during the same period.

The total exports of RTW garments during the years 1983-84 to 1989-90 rose from Rs. 290.26 lakhs to Rs. 1233.65 lakhs but constituted a minor fraction of the all India exports of ready made garments.

(Paras 5.3 to 5.6).

III. The Company did not prepare a long-term perspective plan or Corporate Plan within which annual plans could be drawn up. It was observed that the Company's annual sales targets were considerably scaled down at the end of the financial year and more or less brought to the level of actual exports made during the year.

(Paras 2.3 and 5.2).

IV. The Company had not created a product development and design cell for its exports. The Company's design cell caters only to graphics and designs for outside agencies.

(Para 5.7).

V. The Company exported gold jewellery through associates. There was a declining trend in the export of gold jewellery and the exports went down to Rs. 45.55 crores in 1989-90 from Rs. 81.12 crores in 1983-84.

(Paras 5.8.2.5 and 5.8.2.6).

VI. The Company had five branches abroad at New York, Paris, Hamburg, Tokyo and Nuess (Dusseldorf). The branches at New York and Paris had generally been incurring losses. There was also heavy accumulation of stock in New York (Rs. 55.00 lakhs) and Paris (Rs.67.40 lakhs) as on 31st March, 1990. Hamburg branch also incurred heavy losses largely due to heavy accumulation of carpets. The closing stock of carpets rose from Rs. 237.56 lakhs in 1983-84 to Rs. 285.87 lakhs in 1988-89. The Government decided to close down the Hamburg Depot from December, 1989 due to its unsatisfactory performance.

(Paras 6.1 to 6.5).

VII. The Company had not introduced a system of working out separate Profit and Loss Account of garment factories at Madras and Noida. The compensation received from the contractors for use of the factory was below the guaranteed minimum during the three years upto 31st March, 1988. A proper costing system was not adopted. At Noida factory, the production capacity remained largely unutilised as bulk of the production of garments was got done from outside factories

(Paras 7.1.3 to 7.2.7).

VIII. A review of some business deals in respect of garments and certain other commodities revealed cases where (a) the company entered into a contract with an unreliable party due to which the deal could not be executed; (b) supplies were made which did not meet the specifications of the buyer or there was delay in supply leading to cancellation of orders and (c) advance payments were made without justification. In one case a loss of Rs. 130.21 lakhs was incurred due to entering into contract with a designer for production and sale of garments in U.S.A. who subsequently backed out. In another case, a loss of Rs.19.82 lakhs was incurred due to cancellation of an order by the buyer due to delayed supplies.

(Paras 8.1 to 8.3).

IX. The Company's handling of export insurance cover showed several deficiencies. The company did not lodge claims worth Rs. 15.18 lakhs in 24 cases (upto March, 1984), and in another 14 cases involving claims worth Rs. 4.05 lakhs for which claims were lodged, ECGC did not make any payment on the ground that the Company had been deviating from the rules governing insurance policies.

(Paras 9.1 to 9.4.5).

X. It was seen that in Delhi Division most of the purchases of handicrafts were made from a few art dealers and not directly from artisans and craftsmen.

(Paras 10.1.2 and 10.1.3).

XI. The working results of the Company during the seven years upto 31st March, 1990 showed marginal profits in five years. In the year 1988-89 the Company incurred a loss of Rs. 146.05 lakhs but earned a marginal profit of Rs. 11.43 lakhs in 1989-90.

There were accumulated losses of Rs. 152.95 lakhs as on 31st March, 1990. Due to high stock accumulation and large trade debts the Company was forced to undertake large borrowings which involved payment of heavy interest.

The sundry debtors outstanding as on 31st March, 1990 for over three years (Rs. 219.40 lakhs) constituted about 30 percent of total debtors (Rs. 741.96 lakhs).

(Paras 11.2 to 11.4).

XII. There was also heavy accumulation of stock. The closing stock of the Company as on 31st March, 1990 was Rs. 457.09 lakhs. More than one year old stock (Rs. 159.21 lakhs) constituted about 40.8 per cent of the total stock.

(Paras 12.1 to 12.4).

XIII. Internal Audit Wing was not adequately staffed and had, therefore, not been able to discharge its full responsibilties as a tool to assist Management in improving organisational efficiency.

(Paras 13.1 and 13.2).

1. INTRODUCTION

1.1 Pursuant to a decision of Government of India in November 1961 to merge a wing of the State Trading Corporation of India Limited (STC) known as the Handlooms Export Organisation and the Indian Handicrafts Development Corporation of India Limited, the Handicrafts & Handlooms Exports Corporation of India Limited was incorporated on 1st June, 1962 as a wholly owned subsidiary of STC under the Companies Act, 1956. The main objectives of the Company were development and export of handicrafts and handlooms products of India.

1.2 The Company has its units / branches at Madras, Bombay, Calcutta, Srinagar and Bhadohi, and branches/warehouses/offices abroad at New York, Paris, Hamburg, (closed in September, 1990), Neuss and Tokyo. Besides procurement centres at some places in India, the Company has two factories for manufacture of ready-to-wear (RTW) garments, one at Madras and the other at New Okhla Industrial Development Area (NOIDA) near Delhi.

1.3 The Company has a subsidiary known as Central Cottage Industries Corporation of India Limited, New Delhi.

1.4 The working of the Company was earlier reviewed in the Comptroller and Auditor General's Report- Union Government (Commercial) 1969. The present report covers the working of the Company for the subsequent period in general and for the last 7 years ending 31st March, 1990 in particular.

2. OBJECTIVES

2.1 The Company was set up with the twin objectives of export promotion and trade development. The Memorandum of Association of the Company laid down the following main objectives-

a) to undertake export of handicrafts, handlooms, khadi and products of village industries;

b) to open publicity-cum-information centres, showrooms, sales depots and warehouses in foreign countries;

c) to make available technical, financial and other assistance and to supply raw materials and other inputs to artisans, co-operatives etc., and

d) to aid, counsel, assist, protect and promote the interest of handicrafts, handloom products, khadi and products of village industries.

In pursuance of its objectives, the Company had taken up the activities of manufacture of ready-to-wear garments; exports of handicrafts, handlooms, carpets and ready-to-wear garments directly and of gold and silver jewellery and woollen knitwear through associates. The Company had also undertaken export promotion and trade development by participation in fairs, exhibitions and fashion shows abroad and opening of offices, warehouses and 'Sona' shops in some selected countries.

2.2 Pursuant to the recommendations made by the Committee on Public undertakings in their 38th Report (Sixth Lok Sabha 1978- 79), the Bureau of Public Enterprises had requested (May 1979), all the Ministries to advise the public enterprises under their administrative control to spell out their macro/micro objectives in order to facilitate a realistic and meaningful evaluation of their performance. No such macro/micro objectives were framed by the Company.

2.3 The Company had not prepared a perspective/corporate plan.The Ministry of Textiles informed (March, 1990) the Audit Board that they were looking into the question of preparing a perspective plan for a period of 5-7 years.

3. ORGANISATIONAL STRUCTURE

3.1 The Management of the Company is vested in a Board of Directors consisting of not less than five and not more than eleven directors including the chairman; the power to appoint or remove the chairman and other directors vests with the President of India. As on 31st March, 1990 the Board of Directors consisted of Chairman-cum-Managing Director (CMD) besides eight other part time official directors, four of them representing Government of India.

3.2 The CMD is assisted by General Managers in charge of

(i) Finance

(ii) Administration and Operation

(iii) Madras Unit

(iv) Carpets and

(v) Hamburg office.

The operations of the company are carried out by seven divisions. From November, 1987 to April, 1989 the Company did not have a qualified Secretary as required under Section 383 (A) (1) of the Companies Act, 1956.

3.3 An organisational chart showing the detailed position of the organisation of the Company as on 31st March, 1990 is given in Annexure.

4. CAPITAL STRUCTURE

4.1 The authorised and paid-up capital of the Company as on 31st March 1990 was Rs. 750 lakhs, divided into 7,50,000 equity shares of Rs. 100 each held by the holding company, the State Trading Corporation of India Limited, or its nominees. The paid-up capital was increased from Rs. 500 lakhs to Rs. 750 lakhs in 1987-88 when the loan granted by the holding company (Rs. 250 lakhs) was converted into equity capital . The outstanding balance of unpaid interest of Rs. 124.41 lakhs was waived by the Holding Company.

5. TRADING ACTIVITIES

5.1 The Company undertakes direct trading activities by export of handlooms, handicrafts, ready-to-wear (RTW) garments and carpets. The company also carried out indirect trade in gold and silver jewellery and knitwear through Associates.

5.2 Targets for Sales Performance

5.2.1 The company prepared its annual targets for sales performance in respect of each commodity, region-wise, at the beginning of the year in its annual performance budget. The sales targets were not linked with export plans of the Ministry of Commerce. The annual targets of sales fixed at the beginning of the year were revised downwards every year, generally at the end of the year. The actual achievements each year more or less corresponded to these revised and reduced targets fixed in the closing months of the financial year. The extent of variations in the original/revised targets vis-a-vis the actuals achieved in respect of direct export sales of the Company for the seven years ending 31st March, 1990 is given in the following table:

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Original targets	2,060	2,041	2,315	2,194	2,563	2,905	2,936
Revised targets	1,637	1,911	1,826	1,898	2,328	2,958	2,640
Percentage of reduction as compared to original targets	20.5	6.4	21.1	13.5	9.2	1.82 (excess)	10.08
Actual sales	1464.53	1827.77	1697.03	1896.26	2272.41	3031	2964
Percentage of actual sales to original targets	71.09	89.55	73.30	86.43	88.66	104.33	100.95

5.2.2 The Ministry stated (March,1990) that revised estimates were prepared in October/November after an analysis of the performance during the previous half year and the projections for the next half year.They further stated that the nature of the trade did not permit precise projections. It is observed that actual sales each year, except in 1988-89 and 1989-90, were substantially less than the original targets.

5.2.3 Downward revision of targets erodes the credibility of the targets prescribed initially and is likely to reduce the motivation to achieve the targets fixed at the beginning of the year.

5.3 **Handlooms**

5.3.1 The table below indicates the targetted and actual sales of handlooms by the Company for the seven years upto 31st March, 1990:

Year	Original targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Precentage of Excess(+)/ Shortfall(-) with reference to targets
1983-84	870.00	(+)24.82	670.13	(-) 21.70	(-) 22.97
1984-85	758.95	(-) 12.76	680.79	(+) 1.59	(-) 10.30
1985-86	1044.45	(+)37.62	626.80	(-) 7.93	(-) 39.99
1986-87	828.90	(-) 20.64	616.64	(-) 1.62	(-) 25.61
1987-88	759.00	(-) 8.43	793.49	(+)28.68	(+) 4.54
1988-89	886.20	(+)16.76	1012.49	(+)27.60	(+)14.25
1989-90	1081.75	(+)22.06	1005.14	(-) 0.73	(-) 7.08

5.3.2 It may be seen from the table that:

i) except during 1987-88 and 1988-89 there were consistent shortfalls in achievements vis-a-vis the targets. The shortfalls ranged from 10.30 percent to 40 percent; and

ii) except during 1988-89, the sales did not show steady increase; decrease over previous year took place in 1985-86, 1986-87 and 1989- 90.

The reasons for shortfall and decrease in sales during 1985-86, 1986- 87 and 1989-90 were not analysed by the Company.

5.3.3 The following two tables indicate the targets and achievements for domestic sales and exports respectively.

Domestic Sales

Year	Original targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall(-) with reference to targets
1983-84	30.00	(-) 75.40	104.98	(-) 56.65	(+)249.93
1984-85	13.95	(-) 53.5	28.93	(-) 72.44	(+)107.38
1985-86	17.45	(+) 25.09	17.11	(-) 40.86	(-) 1.95
1986-87	14.90	(-) 14.61	66.22	(+)287.03	(+)344.43
1987-88	21.00	(+) 40.94	12.88	(-) 80.55	(-) 38.67
1988-89	74.20	(+)253.33	32.97	(+)155.98	(-) 55.57
1989-90	13.75	(-) 81.47	37.14	(+) 12.64	(+)170.10

Exports

Year	Original targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall(-) with reference to targets
1983-84	840.00	(+)46.09	565.15	(-) 7.90	(-) 32.72
1984-85	745.00	(-) 11.31	651.86	(+)15.34	(-) 12.50
1985-86	1027.00	(+)37.85	609.69	(-) 6.47	(-) 40.63
1986-87	814.00	(-) 20.74	550.42	(-) 9.72	(-) 32.38
1987-88	738.00	(-) 9.34	780.61	(+)41.82	(+) 5.77
1988-89	812.00	(+)10.03	979.52	(+)25.48	(+) 20.63
1989-90	1068.00	(+)31.53	968.00	(-) 1.18	(-) 9.36

Domestic Sales

5.3.4 It would be apparent from the table that:

i) the actual figures of sales varied very widely from Rs. 104.98 lakhs in 1983-84 (highest) to Rs. 12.88 lakhs in 1987-88 (lowest).

ii) the targets and excesses and shortfalls in achievements did not show any definite trend. The percentage of growth over previous year in the targets ranged from (-) 14.61 to (+) 253.33 while the percentage of achievements ranged from (-) 80.55 to (+) 287.03;

iii) Specific reasons for the widely varying trends of domestic targets and sales were not analysed by the Company.

iv) the absence of a dependable method to fix targets for domestic sales is clear from the fact that actual sales in 1983-84, 1984-85, 1986-87 and 1989-90 were 249.93 percent, 107.38 percent, 344.43 percent and 170.10 percent of the targets. It should have been possible to assess the domestic market more realistically.

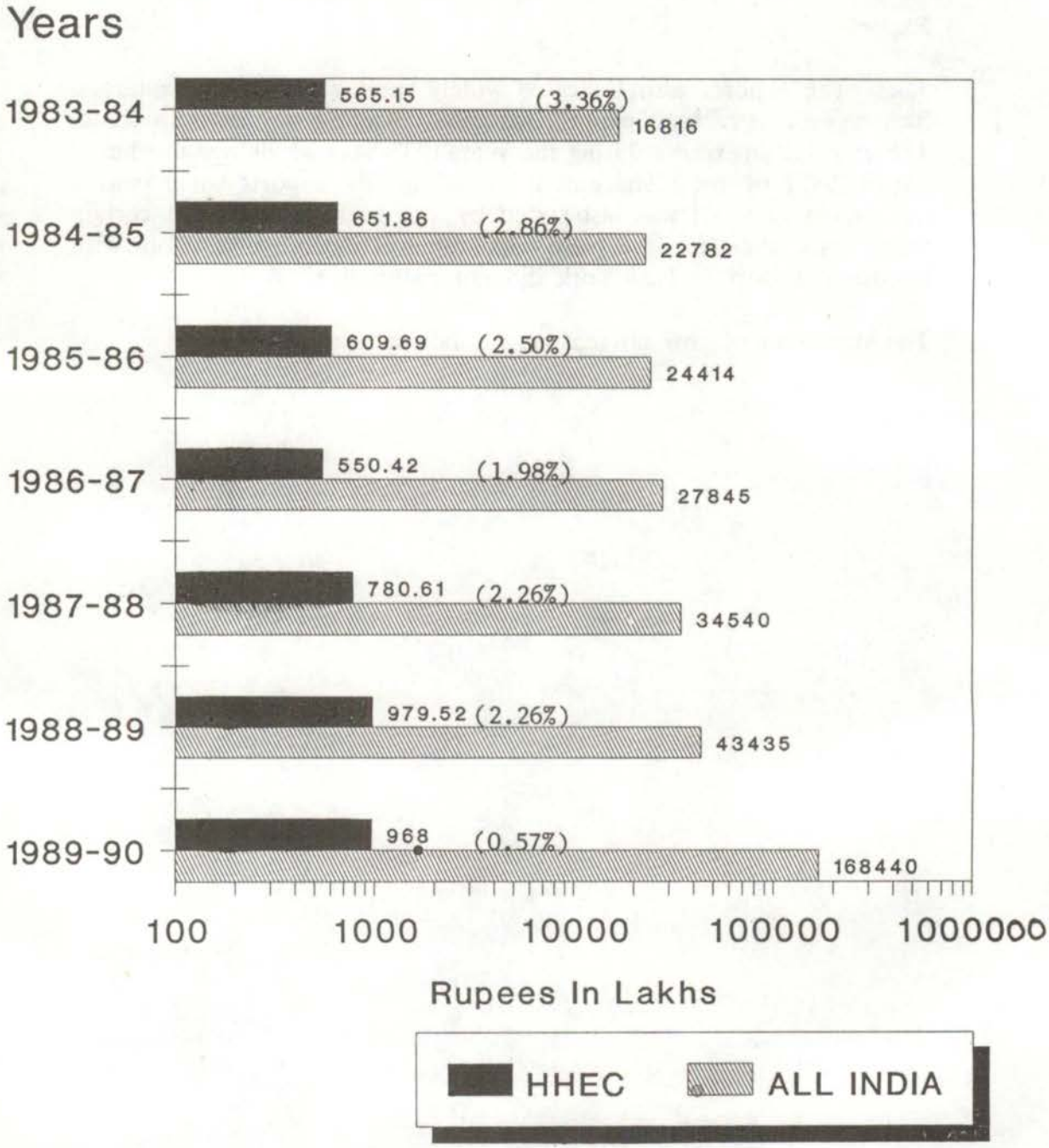
Exports

5.3.5 The exports also indicated widely varying pattern in the targets fixed as well as actual exports without indicating any definite trend. The shortfall in exports during the years 1983-84 onwards was attributed (April 1989) by the Management to fall in silk exports which was a high value item. It was also stated by the Management that certain projections made for the New York branch based on discussions with important buyers in New York did not materialise.

The Management gave no reasons for fall in silk exports.

5.3.6 The following chart indicates exports of the Company in comparison with the all India exports:

EXPORT OF HANDLOOMS



The share of Company's export of handlooms in all India exports declined from 3.36 percent in 1983-84 to 0.57 percent in 1989-90. While the all India export sales of handlooms has gone up by 902 percent from 1983-84 to 1989-90, Company's export sale has increased by only 71 percent during this period.

The value of exports made by the company remained insignificant compared to the figures of all India exports.

5.3.7 The directional export sales (i.e. countrywise exports) of handlooms by the Company for the five years ending 31st March, 1990 were as follows: **(Rs. in Crores)**

Country of Export	1985-86	1986-87	1987-88	1988-89	1989-90
France	1.76	1.45	2.23	2.36	2.34
Japan	0.92	0.59	0.78	2.22	2.22
Italy	0.97	1.26	1.92	1.74	1.74
West Germany	0.78	0.82	1.21	0.83	0.78
Holland	0.02	0.09	0.17	0.65	0.64
U.S.A	1.12	0.63	0.61	0.42	0.42
Malaysia	--	--	--	0.02	0.40
Sweden	0.10	0.09	0.20	0.32	0.32
South Korea	--	0.03	0.05	0.20	0.20
U.K	0.14	0.07	0.21	0.20	0.20

Country of Export	1985-86	1986-87	1987-88	1988-89	1989-90
Hong Kong	0.11	0.28	0.06	0.14	0.14
Austria	0.01	0.15	0.03	0.12	0.12
Netherlands	--	--	--	0.08	0.08
Belgium	0.03	0.01	0.03	0.02	0.02
Spain	--	--	--	0.02	0.02
Brazil	--	--	--	0.02	0.02
U.A.E.	0.03	--	--	–	--
Australia	--	--	0.23	0.02	0.01
Thailand	--	--	--	0.01	0.01
Switzerland	0.03	0.01	0.03	--	--
Denmark	0.01	0.02	0.02	--	--
Bahrain	--	--	0.01	--	--
Canada	--	--	0.01	--	--

Country of Export	1985-86	1986-87	1987-88	1988-89	1989-90
Ireland	--	--	0.01	--	--
Kuwait	0.01	--	--	--	--
Sri Lanka	0.06	--	--	0.02	0.02
Total:	6.10	5.50	7.81	9.41	9.70

The Company's exports to developed countries like the U.S.A., U.K, Switzerland etc . were insignificant and in case of exports to countries like the U.S.A. and Japan there was decline from 1987-88 onwards in comparison to 1985-86.

5.3.8 The Company stated (April, 1989) that they had taken various measures like identification and development of new fabric qualities, designs and colours on the basis of samples produced by Weavers Service Centres, procurement of fabrics on the basis of export requirements, providing information to manufacturers about new qualities of fabrics/designs/colours on the basis of fashion trends abroad and procurement of raw materials for supply to producers at reasonable prices. They, further, stated that their business strategy was to eschew traditional items of export and to develop new items of fashion-interest, avoid competition with other Indian exporters and to supplement total exports of India.

5.3.9 The Ministry of Textiles informed (March, 1990) the Audit Board that they would convene a meeting of all concerend to explore various ways and means of increasing exports of handlooms, particularly to the U.S., for which the company proposed to open an office in the West Coast of the U.S.A. where handlooms were likely to be popular.

5.4 Handicrafts

5.4.1 The table below indicates the targets and actual sales of handicrafts during the seven years upto 31st March, 1990.

Year	Original targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall (-) with reference to targets
1983-84	D 80.00	--	66.13	--	(-)17.34
	A 300.00	--	26.05	--	(-)91.32
	380.00	(-)62.87	92.18	(-)54.00	(-) 75.74
1984-85	D 84.00	(+)5.00	101.44	(+) 53.39	(+)20.76
	A 150.00	(-) 50.00	65.30	(+)150.67	(-) 56.47
	234.00	(-) 38.42	166.74	(+) 80.89	(-) 28.74
1985-86	D 152.00	(+) 80.95	152.39	(+)50.23	(-) 0.26
	A 150.00	--	67.55	(+) 3.44	(-)54.97
	302.00	(+) 29.06	219.94	(+) 31.91	(-)27.17
1986-87	D 162.00	(+)6.58	89.71	(-) 41.13	(-)44.62
	A 88.00	(-) 41.33	147.29	(+)118.04	(-)67.37
	250.00	(-) 17.22	237.00	(+) 7.76	(-) 5.20
1987-88	D 122.00	(-) 24.70	169.26	(+)88.67	(+) 38.73
	A 100.00	(+)13.64	268.54	(+)82.32	(+)168.54
	222.00	(-) 11.20	437.79	(+)84.72	(+) 97.20
1988-89	D 182.00	(+) 49.18	208.47	(+)23.16	(+)14.54
	A 400.00	(+)300.00	466.68	(+)73.78	(+)16.67
	582.00	(+)162.16	675.15	(+)54.22	(+)16.01

Year		Original Targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall (-) with reference to targets
1989-90	D	147.00	(-)19.23	114.90	(-)44.88	(-)21.83
	A	200.00	(-)50.00	136.14	(-)70.83	(-)31.93
		347.00	(-)40.38	251.04	(-)62.81	(-)27.65

D - Direct Sales

A- Sales through Associates.

5.4.2 It is evident from the table that the targets for direct sales were fixed at lower figures compared to the sales through associates during the years 1983-84 & 1984-85 whereas the actual sales through associates during these years were less than direct sales. In the subsequent three years this trend was reversed. In 1988-89 sales by associates were targetted at Rs. 4 crores compared to Rs. 1.82 crores for direct sales, reasons for which were not available. In 1989-90, there was a drastic reduction in total sales (both direct and through associates) for which explanations were not available. The company experienced overall shortfall in handicrafts sales during the years 1983-84 to 1986-87 and 1989-90. The shortfalls in domestic sales and exports are detailed in the subsequent tables.

5.4.3 The table below indicate the domestic sales and exports during the seven years upto 31st March, 1990.

Domestic Sales

Year		Original Targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall (-) with reference to targets
1983-84	D	10.00	(+)81.82	18.57	(+) 80.64	(+) 85.70
	A	--	--	--	--	--
1984-85	D	11.05	(+) 10.50	15.08	(-) 18.79	(+) 36.47
	A	--	--	--	--	--
1985-86	D	1.05	(-) 90.50	14.51	(-) 3.78	(+)1281.90
	A	--	--	--	--	--
1986-87	D	3.60	(+) 242.86	5.20	(-) 64.16	(+) 44.44
	A	--	--	--	--	--
1987-88	D	5.10	(+) 41.67	75.62	(+)1354.23	(+)1382.75
	A	--	--	--	--	--
1988-89	D	155.10	(+)2941.18	139.92	(+) 85.03	(-) 9.78
	A	--	--	--	--	--
1989-90	D	5.10	(-) 96.71	4.47	(-) 96.80	(-) 12.35
	A	--	--	--	--	--

Exports

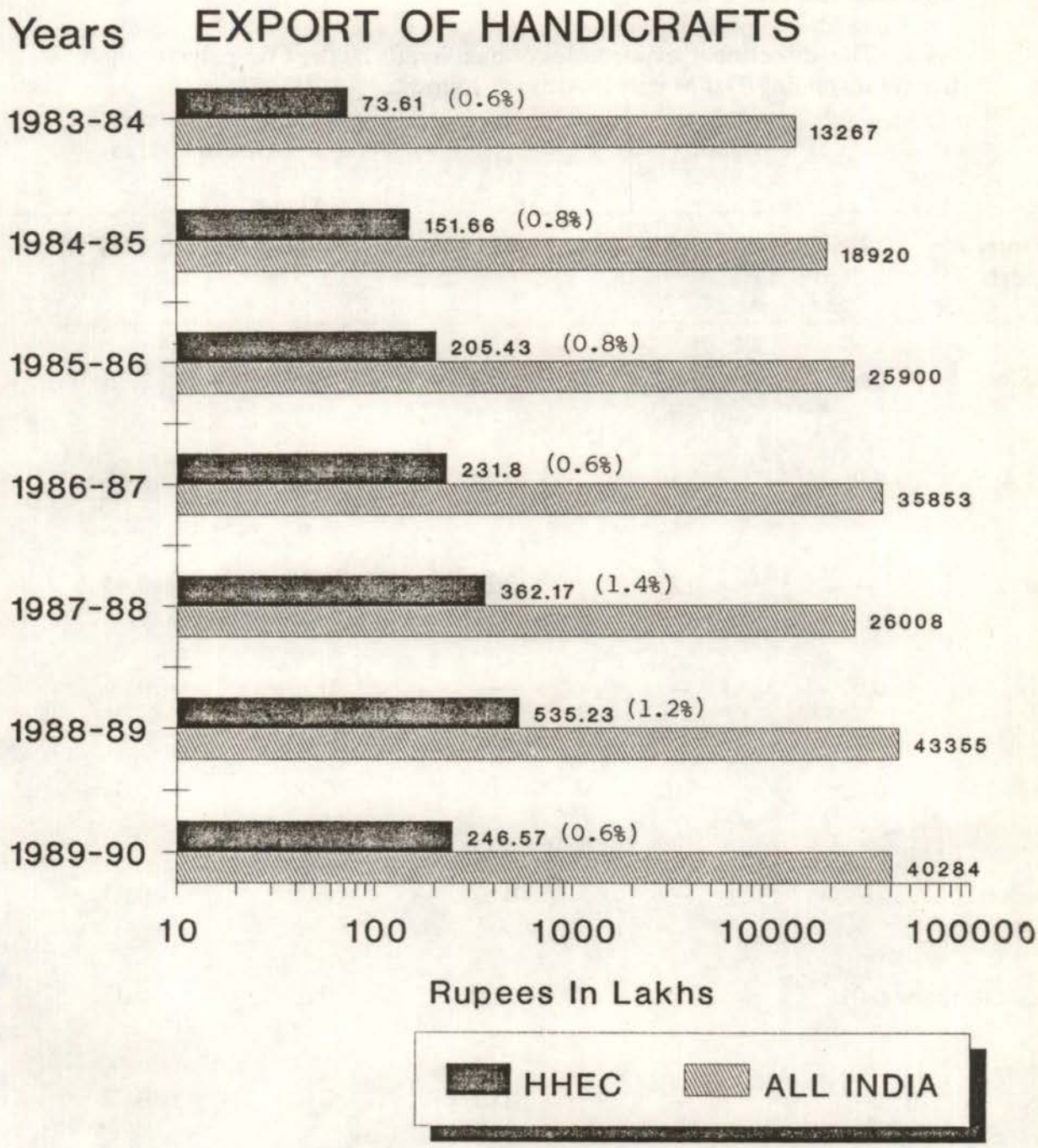
Year		Original Targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall (-) with reference to targets
1983-84	D	70.00		47.56		(-)32.06
	A	300.00		26.05		(-)91.32
		370.00	(-)63.65	73.61	(-)61.28	(-)80.10
1984-85	D	72.95	(+) 4.21	86.36	(+) 81.58	(+) 18.38
	A	150.00	(-) 50.00	65.30	(+)150.67	(-) 56.47
		222.95	(-)39.74	151.66	(+) 106.03	(-) 31.97
1985-86	D	150.95	(+)106.92	137.88	(+)59.66	(-) 8.66
	A	150.00	--	67.55	(+) 3.44	(-)54.97
		300.95	(+) 34.99	205.43	(+)35.45	(-)31.73
1986-87	D	158.40	(+) 4.93	84.51	(+) 38.71	(-) 46.65
	A	88.00	(-) 41.33	147.29	(+)118.04	(+)67.37
		246.40	(-) 18.13	231.80	(+) 12.84	(-) 5.93
1987-88	D	116.90	(-) 26.20	93.63	(+)10.79	(+) 19.90
	A	100.00	(+)13.64	268.54	(+)82.32	(+)168.54
		216.90	(-) 11.97	362.17	(+)56.24	(+) 66.97
1988-89	D	26.90	(-) 76.99	68.55	(-) 26.79	(+)154.83
	A	400.00	(+)300.00	466.68	(+)73.78	(+) 16.67
		426.90	(+) 96.82	535.23	(+)47.78	(+) 25.38
1989-90	D	141.90	(+)427.51	110.43	(+)61.09	(-)22.18
	A	200.00	(-) 50.00	136.14	(-) 70.83	(-)31.93
		341.90	(-) 19.91	246.57	(-) 53.93	(-)27.88

The direct sales of handicrafts registered a sudden and extraordinary improvement in 1985-86 and 1987-88 and reduced drastically in 1988-89 and 1989-90. The fixation of targets each year and the actual sales did not reveal any definite trend as in the case of handlooms. Specific reasons for these widely varying trends were not analysed by the Management.

Exports

The exports of handicrafts too did not reveal any definite trend in the fixation of targets and in the actual exports. There was overall shortfall in exports during the years 1983-84 to 1986-87. Exports through associates increased considerably from 1986-87. The Management stated that most of the exporters to the USSR started doing exports direct without passing the required documents to the Company and, therefore, the targets were fixed on the basis of available information. It was, further, stated that if the sales through associates were excluded the variations in achievements would be reduced substantially.

5.4.4 The chart below indicates the exports of the Company in comparison with all India exports:-



The Company's share in all India exports of handicrafts was only 0.6 percent in 1983-84, 0.8 percent in 1984-85, 0.8 percent in 1985-86, 0.6 percent in 1986-87 and 1.4 percent in 1987-88, 1.2 percent in 1988-89 and 0.6 percent in 1989-90.

5.4.5 The directional export sales of handicrafts by the Company for the five years ending 31st March 1990 are as follows:

(Rs. in Crores)

Country of Exports	1985-86	1986-87	1987-88	1988-89	1989-90
USSR	0.69	1.62	2.73	4.67	1.36
U.S.A.	0.98	0.39	0.49	0.52	0.48
France	--	0.25	0.27	0.48	0.44
Italy	0.01	--	--	0.12	0.09
Japan	0.02	0.02	0.04	0.06	0.04
Sweden	--	--	0.05	0.05	0.03
West Germany	0.01	0.02	0.02	0.05	0.03
U.K.	--	--	0.02	0.02	0.02
Spain	--	0.01	--	0.01	0.02

Country of Exports	1985-86	1986-87	1987-88	1988-89	1989-90
Australia	0.34	--	--	--	--
Switzerland	--	0.01	--	--	--
Total:	2.05	2.32	3.62	5.98	2.51

The company had practically no exports to developed countries like West Germany, Japan, the U.K. and even the small share it had in countries like the U.S.A. was declining. There was a drastic decline in 1989-90.

5.4.6 In a study conducted under the aegis of Indian Council for Research on International Economic Relations, New Delhi, (Indian Handicrafts Exports - Constraints and Prospects by Sanjay Kathuria), it was pointed out that the Company had not been able to perform better than any private sector exporters. The study pointed out that, like other merchant exporters,the Company did not possess any manufacturing capability in handicrafts line and, thus,it charged a commission for its middleman's role which, because of high overheads, made its products relatively expensive. The study further commented that in quality and delivery the Company was more lax than the better private traders. The study also observed that handicrafts offered the biggest challenges in terms of design, development and promotion and, therefore, this was an area where the Company should have more involvement.

5.4.7 During discussions with the Audit Board in March, 1990 the Ministry of Textiles intimated that the company would work closely with the organisation of the Development Commissioner (Handicrafts) and the Central Cottage Industries Corporation Limited (CCIC) which was itself a subsidiary of the Company, to develop handicrafts exports.

5.5 CARPETS

5.5.1 The table below indicates the original targets fixed, actual sales by the Company in respect of carpets for the seven years ending 31st March, 1990:-

Year	Original Targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess (+) / Shortfall(-) with reference to targets
1983-84	627.00	(+)109.00	549.82	(+)425.99	(-)12.31
1984-85	690.00	(+) 10.05	610.90	(+) 11.11	(-)11.46
1985-86	737.00	(+) 6.81	592.39	(-) 3.03	(-)19.62
1986-87	775.00	(+) 5.16	579.19	(-) 2.23	(-)25.26
1987-88	936.00	(+) 20.77	392.60	(-) 32.22	(-)58.05
1988-89	666.00	(-) 28.85	523.89	(+) 33.44	(-)21.34
1989-90	583.00	(-) 12.46	512.02	(-) 2.26	(-)12.18

5.5.2 It is evident from the table that the targets and achievements did not indicate any definite trend. The Company did not achieve the targets fixed in any one of the seven years. The shortfall was as high as 58.05 percent in 1987-88.

5.5.3 The tables below indicate the position of domestic sales and exports during the years 1983-84 to 1989-90:

Domestic Sales

Year	Original Targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall(-) with reference to targets
1983-84	27.00	(No target was fixed in 1982-83)	14.31	(+)58.65	(-) 47.00
1984-85	28.00	(+) 3.70	10.08	(-) 29.56	(-) 64.00
1985-86	11.00	(-) 60.71	10.78	(+) 6.94	(-) 2.00
1986-87	10.00	(-) 9.09	6.53	(-) 39.42	(-) 34.70
1987-88	6.00	(-) 40.00	11.20	(+)71.52	(+)86.67
1988-89	11.00	(+)83.33	6.32	(-) 43.57	(+)42.55
1989-90	1.00	(-) 90.90	1.19	(-) 81.17	(+)19.00

Exports

Year	Original Targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall(-) with reference to targets
1983-84	600.00	(+)100.00	535.51	(+)460.68	(-)10.75
1984-85	662.00	(+) 10.33	600.82	(+) 12.20	(-) 9.24
1985-86	726.00	(+) 9.67	581.61	(-) 3.20	(-)19.88
1986-87	765.00	(+) 5.37	572.66	(-) 1.54	(-)25.14
1987-88	930.00	(+) 21.57	381.40	(-) 33.40	(-)58.99
1988-89	655.00	(-) 29.57	517.57	(+) 35.70	(-)20.98
1989-90	582.00	(-) 11.15	510.83	(-) 1.30	(-)12.23

Domestic Sales

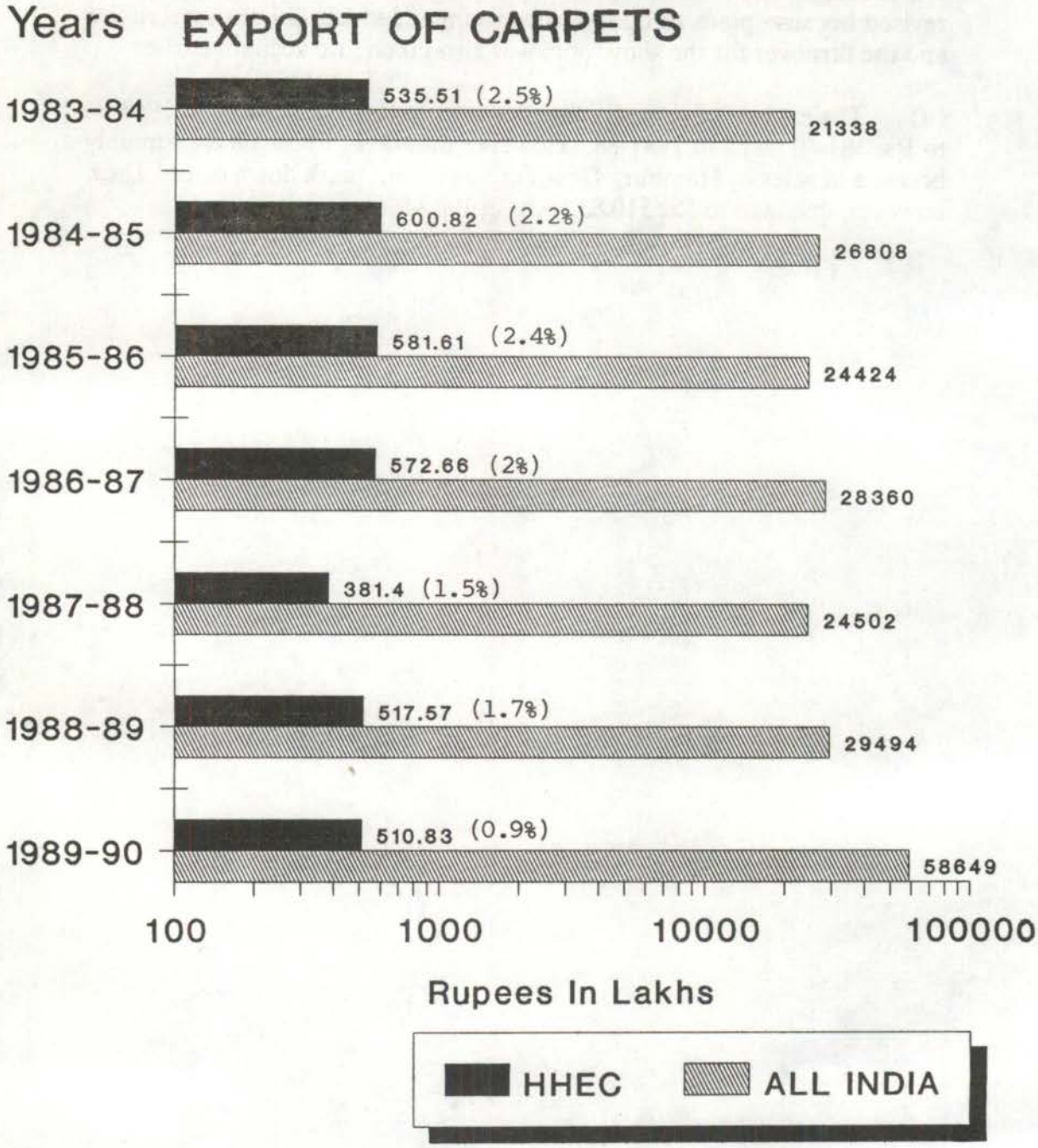
The continuous shortfall in domestic sales from 1983-84 to 1986- 87 suddenly changed into an excess of 86.6 percent in 1987-88 which again got reduced to 42.5 percent in the subsequent year i.e. 1988-89, and further to only 19.0 percent in 1989-90. The reason behind fixing a very low target of Rs. 1 Lakh for 1989-90 was not available. Reasons for wide variation in actual sales each year were not analysed by the Management.

Exports

(i) The targets of exports were not achieved in any of the seven years. the Management stated (April, 1989) that the turnover of carpets was revised because plans to open a showroom at Jeddah did not materialise and the turnover for the showroom was also taken into account earlier.

(ii) The exports of carpets came down from Rs. 535.51 lakhs in 1983-84 to Rs. 381.40 lakhs in 1987-88. However they went up in 1988-89 mainly because of sales by Hamburg Depot at 50 percent mark down price. They, however, declined to Rs. 510.83 lakhs in 1989-90.

5.5.4 The exports of carpets in comparison with all India exports are indicated in the following chart:



The Company's share in all India export of carpets was only 2.5, 2.2, 2.4, 2.0, 1.5, 1.7 and 0.9 percent during the seven years ending 31st March, 1990. The company's export sales of carpets had gone down by 4.6 percent from 1983-84 to 1989-90 whereas the all India exports of carpets had gone up by 174.86 percent during the same period.

5.5.5 The directional export sales of carpets by the Company vis- a-vis all India exports for the five years ending 31st March, 1990 are as follows:-

(Rs. in Crores)

Country of Export	1985-86	1986-87	1987-88	1988-89	1989-90
West Germany	4.97	4.68	2.86	4.10	4.09
Switzerland	0.55	0.94	0.36	0.72	0.66
France(Paris)	0.02	0.01	0.04	0.97	0.17
USA (New York)	0.25	0.09	0.36	0.15	0.15
Canada	--	--	0.09	0.02	0.02
Saudi Arabia	--	--	--	0.02	0.02
Holland	--	--	0.01	--	--
Japan	--	--	0.09	--	--
Belgium	0.03	0.01	--	--	--
Total	5.82	5.73	3.81	5.98	5.11

5.5.6 The Management stated (February, 1989) that they undertook a massive programme of export publicity and trade development not only for their own commercial activities but also for the benefit of the entire carpet industry. They further, explained that to develop export of carpets in Persian designs, they had arranged import of Persian carpets from Hamburg for purpose of reproduction in Mirzapur/Bhadohi belt and Jammu and Kashmir. The work relating to design development was undertaken by them with the help of a number of designers/manufacturers in Mirzapur/Bhadohi belt besides directly with some of the master craftsmen/weavers in Jammu and Kashmir.

5.5.7 The Ministry informed (March, 1990) the Audit Board that in 1987-88, the US imposed a general embargo on all the products from Persia and their carpets were diverted to Europe. There was sharp decline in export of carpets in 1982 when Persian carpets entered the European market. The Ministry also stated that the Company abstained from the market in view of a decision taken by the erstwhile Commerce Ministry nearly two decades ago. It was stated that this decision would be reviewed.

5.6 Ready-to-Wear Garments

5.6.1 The Ready-to-Wear (RTW) garments division is entrusted with the job of procurement of orders for ready-to-wear garments from foreign countries, their designing, production and export. The garments are produced in two factories at Madras and NOIDA near Delhi.

5.6.2 The table below indicates the targets fixed, actual sales by the Company in respect of ready-to-wear garments for the seven years ending 31st March, 1990.

Year	Targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall(-) with reference to targets
1983-84	243.00	(-) 5.35	295.18	(+)443.35	(+)21.47
1984-85	402.00	(+)65.43	434.12	(+) 47.07	(+) 7.99
1985-86	262.90	(-) 34.60	305.79	(-) 29.56	(+)16.31
1986-87	372.50	(+)41.69	546.97	(+) 78.87	(+)46.84
1987-88	675.05	(+)81.22	754.67	(+) 37.97	(+)11.79
1988-89	860.05	(+)27.40	940.56	(+) 24.63	(+) 9.36
1989-90	943.55	(+) 9.70	1235.79	(+) 31.39	(+)30.97

While the targets fixed and the actual sales each year varied widely, the overall performance of the Company in the sale of RTW garments was much better than it was in the case of other products. The overall performance in the sphere of domestic sales as well as exports was good as indicated in the following tables:

Domestic Sales

Year	Targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall(-) with reference to targets
1983-84	3.00	NA	4.92	NA	(+) 64.00
1984-85	2.00	(-) 33.33	10.69	(+)117.28	(+)434.50
1985-86	2.90	(+) 45.00	5.49	(-) 48.64	(+) 89.31
1986-87	7.50	(+)158.62	5.59	(+) 1.82	(-) 25.47
1987-88	2.05	(-) 72.67	6.44	(+) 15.21	(+)214.15
1988-89	4.05	(+) 97.56	4.95	(-) 23.14	(+) 22.22
1989-90	5.55	(+) 37.03	2.14	(-) 56.77	(-) 61.44

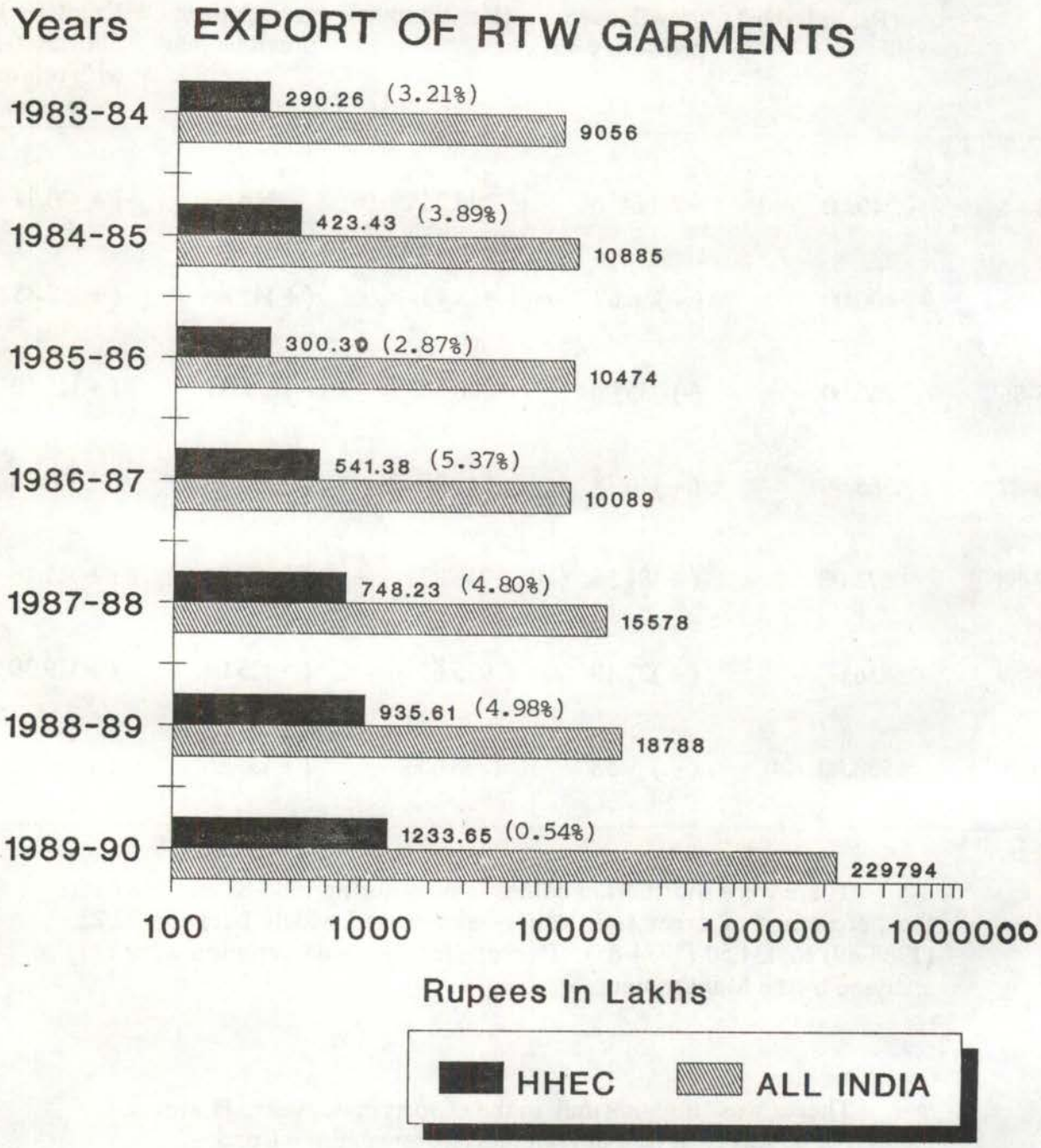
Exports

Year	Targets (Rs. in Lakhs)	Percentage of growth over previous year	Achievements (Rs. in Lakhs)	Percentage of growth over previous year	Percentage of Excess(+)/ Shortfall(-) with reference to targets
1983-84	240.00	NA	290.26	NA	(+)20.94
1984-85	400.00	(+)66.67	423.43	(+)45.88	(+) 5.85
1985-86	260.00	(-) 35.00	300.30	(-) 29.08	(+)15.50
1986-87	365.00	(+)40.38	541.38	(+)80.28	(+)48.32
1987-88	673.00	(+)84.38	748.23	(+)38.21	(+)11.18
1988-89	856.00	(+)27.19	935.61	(+)25.04	(+) 9.30
1989-90	938.00	(+) 9.58	1233.65	(+)31.85	(+)31.52

There were shortfalls in domestic sales during 1986-87 and 1989-90; the percentage of excesses in other years varied widely between 22.22 (1988-89) to 434.50 (1984-85). Reasons for this wide variation were not analysed by the Management.

There was no shortfall in the exports in any year. However, the fixation of targets each year did not indicate any definite trend.

5.6.3 The exports of the Company in comparison with all India exports are indicated in the following Chart:



It may be seen that the Company's share of all India exports of garments ranged from 0.54 percent (1989-90) to 5.4 percent (1986- 87) during the years 1983-84 to 1989-90.

5.6.4 The directional export sales (i.e. countrywise exports) of RTW garments by the Company for the five years ending 31st March, 1990 are indicated in the following statement. Exports to USA have been increasing every year. But exports to other countries remain insignificant.

(Rupees in Crores)

Country of Export	1985-86	1986-87	1987-88	1988-89	1989-90
U.S.A.	2.29	4.12	5.38	7.49	10.30
Japan	0.15	0.23	0.19	0.65	0.72
West Germany	--	0.01	0.64	0.45	0.51
France	0.04	0.03	0.19	0.42	0.47
U.K.	0.07	0.10	0.21	0.19	0.19
Sweden	0.09	0.07	0.10	0.13	0.13
Switzerland	--	--	0.06	0.01	0.01
Holland	--	--	--	0.02	0.01
Italy	0.30	0.75	0.67	--	--

(Rs. in Crores)

Country of Export	1985-86	1986-87	1987-88	1988-89	1989-90
Belgium	--	0.05	0.02	--	--
Norway	0.04	0.04	0.02	--	--
U.S.S.R.	0.02	0.01	--	--	--
Total:	3.00	5.41	7.48	9.36	12.34

5.6.5 The Management stated (April, 1989) that their marketing policy had been to strengthen the existing markets and diversifying into new markets and developing new products. They developed new business in Sweden, France, Italy and Japan and they also planned to associate fashion designers on commission basis to boost sales and increase unit value realisation and also produce and sell garments whose demands were large throughout the year (like dress shirts). They were also trying to identify new markets in non-quota countries like the USSR, Japan and Australia.

5.7 Product design and development

5.7.1 One inherent requirement of export promotion and trade development is product design and development. This is also one of the major objectives for which the Company was set up. The Company had, however, not established any facilities towards achievement of this objective. The Company has a 'design' cell, but according to the Management the cell has been mainly engaged in graphics and designs for outside agencies and was functioning as a cell for specific project work assigned to it by Government Departments and other organisations. The cell also looks after the mounting of exhibitions and display of merchandise. The cell consisted of one Chief Marketing Manager, One Deputy Manager, One Assistant Manager and One Office Manager.

5.7.2 During the five years ending 1987-88 the Company spent Rs. 12.82 lakhs on product development and Rs. 14.64 lakhs on consultants' fees. In this connection, it was observed that the expenditure on the product development or fees of consultants/designers was met out of specific grants from the various agencies or departments of the Government.

5.7.3 Since the Company is dealing with handicrafts and handlooms items where consumer preferences and tastes play a very important role, it appears desirable to develop an effective product design and development cell which may constantly evolve new ideas/designs/products etc., so that the Indian artisans/craftsmen are able to produce goods acceptable abroad.

Indirect trading activities through associates

5.8 Export of Gold and Silver Jewellery

5.8.1 The Company conducts indirect trading through associates on "Account HHEC" basis in respect of gold and silver jewellery and articles. Upto 1985-86, it was doing indirect trading in respect of knit-wear also.

5.8.2 Export of Gold Jewellery

5.8.2.1 The Reserve Bank of India (in exercise of powers conferred under the Foreign Exchange Regulations Act, 1973 and also in terms of Government of India notifications) revised in October, 1980 the scheme of export of gold jewellery against gold supplied by foreign buyers and the company was nominated as the authority to operate the scheme. The scheme is applicable to exports made by the associates of the Company. As on 31st March, 1988 there were 28 associates registered with the Company.

5.8.2.2 The scheme provided for export of gold ornaments and articles against gold supplied free of charge and in advance by the foreign buyer to the extent of the quantity of the gold used in the manufacture of the items to be exported. A minimum value added of 15 percent over the value of gold contents was necessary, the value added being calculated with reference to the value of gold contents at a price notified by the Company.

5.8.2.3 Imported gold was cleared through the customs by the Company after obtaining a general permission from the Gold Control Administration. The Company was required to deposit the imported gold in Government of India mints at Bombay/Calcutta and the corresponding export was allowed by customs on the basis of proof of such deposits. The articles to be exported under the scheme were to be manufactured out of gold procured from domestic market as required under the Gold Control Act, 1968.

5.8.2.4 The role of the Company was merely that of registering the associates and contracts and holding exhibitions as promotional and trade development measures. The percentage of service charges ranged between 1 and 3 during 1981-82 to 1989-90. The rates of service charges were based, according to the Management, on the principle "what the market will bear" and no detailed analysis of the expenses incurred on behalf of the associates was made before fixing the percentage of service charges.

5.8.2.5 The table below gives the value of gold jewellery exported by
the associates (on "Account HHEC" basis) and service charges realised for the period 1983-84 to 1989-90 (other than sales in exhibitions). From the quantity of gold exported as jewellery it is apparent that after 1985-86 there has been a decline in jewellery exports.

Year	Quantity of gold imported (Kg.)	Value of gold imported (Rs.in crores)	Quantity of gold jewellery exported (Kg.)	Value of gold jewellery exported (Rs.in crores)	Amount of service charges realised (Rs.in crores)	Percentage of service charges
1983-84	4238	57.56	4238	81.12	2.32	1,2 & 3
1984-85	3949	53.31	3949	72.24	1.84	1,2 & 3
1985-86	4287	55.73	4287	70.72	1.39	1 & 2
1986-87	2741	45.22	2741	51.35	1.02	1,2 & 3

Year	Quantity of gold imported (kg.)	Value of gold imported (Rs.in crores)	Quantity of gold jewellery exported (Kg.)	Value of gold jewellery exported (Rs.in crores)	Amount of service charges realised (Rs. in crores)	Percentage of service charges
1987-88	1600	32.00	1600	36.13	0.70	1,2 & 3
1988-89	1656	32.25	1656	39.09	0.58	1.5
1989-90	1804	38.07	1804	45.55	0.68	1.5

5.8.2.6 The decline in the export of gold jewellery by the associates has been attributed to introduction of a replenishment scheme operated through the State Bank of India (SBI) independently from 1984-85. A large number of exporters moved away from the Company with the introduction of the SBI scheme as that scheme was more favourable to the jewellers who did not want to operate through the Company on account of the Company's commission structure or other formalities to be followed.

5.8.2.7 During the meeting of Audit Board (March 1990) the Ministry clarified that to meet the competition HHEC has reduced the service charges and this helped in increasing the volume of exports.

5.8.3 Export of Silver Jewellery

5.8.3.1 The scheme for export of silver jewellery and articles (which was akin to the gold jewellery scheme) against silver supplied by the foreign buyers was introduced by the Government of India in December, 1986 and the Company was nominated as the authority to operate the scheme. The Company approved (February 1987) the service charges leviable on exports by associates under the scheme as 9 percent of the value of silver contents in the consignment for consignments upto 10 kgs. and 6 percent for consignments above 10 kgs. For each consignment, the associates gave a bank guarantee at the rate of 140 percent of the CIF value of imports.

5.8.3.2 During the year 1987-88 export of silver jewellery and articles through associates was Rs. 15.86 lakhs only on which the Company earned a sum of Rs. 0.46 lakh as service charges. The Company had incurred an expenditure Rs.1.80 lakhs in connection with the sale. During 1988-89, the sales increased to Rs. 53.69 lakhs (including sales in exhibitions amounting to Rs. 50.92 lakhs) on which service charges of Rs. 0.12 lakh were realised. In 1989-90 sales dipped to Rs. 12.99 lakhs fetching a service charge of Rs. 0.78 lakh.

5.8.4 Gold Jewellery Exhibitions

5.8.4.1 The Company held gold jewellery exhibitions abroad on behalf of the associates in order to popularise jewellery and their sales in these exhibitions. As the major buyers of jewellery from India were the Gulf countries, the company had been holding exhibitions in those countries. The company charged the associates participation fee at a flat rate and a commission at 4% and 5% on the sales of gold and silver jewellery respectively.

5.8.4.2 The table below gives the details of exhibitions held, sales effected, participation fees and service charges realised, profit/loss on these exhibitions during the seven years ending 31st March 1990:

Year	Place	Dates	No. of participants	Sales	Total expenditure incurred	Service charges realised @ 4 percent	Participation fees realised	Profit(+) Loss(-)
1.	2.	3.	4.	5.	6.	7.	8.	9.
				(Amount: Rs. in Lakhs)				
1983-84	Dubai	Aug/Sept. 1983	19	227.00	11.20	9.08	6.65	(+)4.53
	Kuwait	Nov. 1983	16	223.00	10.05	8.92	5.60	(+)4.47
	Doha	Mar. 1984	9	107.00	6.69	4.28	3.15	(+)0.74
1984-85	Kuwait	Apr. 1984	13	205.00	10.75	8.20	4.55	(+)2.00
	Kuwait	Dec. 1984	13	202.00	11.23	8.08	4.55	(+)1.40
	UAE	Feb. 1985	9	140.00	11.70	5.60	3.15	(-) 2.95
	Doha	Mar. 1985	12	98.00	7.32	3.92	4.20	(+)0.80
1985-86	Kuwait	Apr. 1985	14	181.00	11.65	7.25	4.90	(+)0.50
	Malaysia	July 1985	8	38.00	4.65	1.52	0.80	(-) 2.33
	New York	Nov. 1985	10	30.00	16.34	1.20	1.00	(-)14.14
	Kuwait	Nov. 1985	14	153.00	10.47	6.11	4.90	(+)0.54
	Muscat	Feb. 1986	15	40.00	6.48	1.60	5.25	(+)0.37
	Doha	Mar. 1986	11	140.00	6.71	5.60	3.85	(+)2.74

Year	Place	Dates	No. of participants	Sales	Total expenditure incurred	Service charges realised @ 4 percent	Participation fees realised	Profit(+) Loss (-)
1.	2.	3.	4.	5.	6.	7.	8.	9.
				(Amount: Rs. in Lakhs)				
1986-87	Dubai	Dec. 1986	12	85.00	5.90	3.40	4.20	(+)1.70
	Malaysia	Jan. 1987	9	27.00	6.00	1.13	3.15	(-) 1.72
	Doha	Mar. 1987	14	190.00	6.71	7.60	4.90	(+)5.79
1987-88	Kuwait	Apr. 1987	11	144.00	10.81	5.76	4.40	(-) 0.65
	Dubai	Dec. 1987	11	51.00	6.42	2.04	4.40	(+)0.02
	Doha	Mar. 1987	14	152.00	7.70	6.08	6.40	(+)4.78
1988-89	Brunei	June 1988	13	41.25	5.33	1.65	5.20	(+)1.52
	Kuwait	Nov. 1988	14	237.00	13.00	9.48	5.60	(+)2.08
	Doha	Jan. 1989	14	109.00	7.83	4.50	5.25	(+)1.92
	Dubai	Jan. 1989	13	110.00	9.00	4.40	5.20	(+)0.60
1989-90	Kuwait	Nov. 1989	11	96.34	13.03	3.85	4.40	(-) 4.78
	Doha	Mar. 1990	10	94.68	9.15	3.79	4.00	(-) 1.36

5.8.4.3 It may be observed that there was overall loss in exhibitions held in February 1985 (UAE), July 1985 (Malaysia), November 1985 (New York), January 1987 (Malaysia), April 1987 (Kuwait), November 1989 (Kuwait) and March 1990 (Doha).

6. WORKING OF FOREIGN BRANCHES

6.1 As on 31st March, 1989, the Company had five shops/ godowns/ offices at New York, Paris (Sona), Hamburg, Tokyo and Nuess (Dusseldorf). While the 'Sona' shops at New York and Paris were dealing with all the products and selling handlooms, handicrafts, carpets after procuring the same through the Indian branches or divisions, the Hamburg branch was operating as a depot for stocking and selling carpets only. The branches at Tokyo and Nuess, besides selling handlooms, handicrafts etc. were also order-procuring centres. There was an office at Nairobi which was closed down in 1983-84.

6.2 The table below gives the position of sales vis-a-vis profit / loss incurred by the foreign branches for the seven years ending 31st March, 1990:

(Rs. in Lakhs)

	New York	Hamburg	Paris	Tokyo	Nuess	Nairobi	Total
1983-84 Sales/ Income	350.14	481.47	33.31	5.84	--	0.21	870.97
Net Profit(+)/ Loss(-)	(-) 19.31	(-) 52.90	(-)20.50	(-) 6.37	--	(-) 0.94	(-)100.02
1984-85 Sales/ Income	524.60	472.70	34.53	4.59	3.08	--	1039.50
Net Profit (+)/ Loss(-)	(+)14.40	(-) 27.61	(-)32.45	(-) 12.51	(-) 18.81	--	(-) 77.24
1985-86 Sales/ Income	425.17	487.93	65.29	2.56	9.52	--	990.47
Net Profit(+)/ Loss (-)	(-) 14.16	(+)38.14	(-) 8.81	(-)10.46	(-)12.44	--	(-) 7.73
1986-87 Sales/ Income	456.70	471.95	56.09	1.05	48.96	--	1034.65
Net Profit (+)/ Loss (-)	(-) 32.93	(+)76.10	(-)44.68	(-)16.90	(-) 9.98	--	(-)28.39

(Rs. in Lakhs)

	New York	Hamburg	Paris	Tokyo	Nuess	Nairobi	Total
1987-88 Sales/ Income	589.10	266.15	67.94	2.07	74.31	--	999.57
Net Profit (+)/ Loss (-)	(-) 1.94	(-) 34.59	(-) 35.67	(-) 19.59	(-) 19.05	--	(-)110.84
1988-89 Sales/ Income	862.89	365.98	94.68	0.09	106.15	--	1429.79
Net Profit (+)/ Loss (-)	(+) 0.57	(-)144.40	(-)47.82	(-)29.11	(-)25.77	--	(-)246.53
1989-90 Sales/ Income	1137.00	410.73	159.46	1.85	75.64	--	1784.64
Net Profit (+)/ Loss (-)	(-) 56.22	(-) 11.66	(-)24.16	(-)36.82	(-)23.87	--	(-)152.73

6.3 All the foreign branches were incurring losses. The Management stated that the loss incurred by the foreign offices/units was to be seen in the context of the historical background in which they were opened i.e. "to a large extent, the foreign offices of this Corporation were conceived as show windows to the world". They were intended to expose the best of traditional Indian handicrafts items to the global market. "Thus the profit motive was not the prime reason for the starting of these offices". The Management's reply may have been valid at the time the offices were opened during 1964-1967. It cannot be considered to be valid now as the Ministry has itself stated that one of the measures comtemplated by it for increasing exports was opening an office in the West Coast of U.S.A. (vide para 5.3.9.)

6.4 New York and Paris Branches

6.4.1 The New York branch incurred losses continuously since 1985-86 except in 1988-89 even though the sales were increasing. The Paris branch also incurred heavy losses since 1983-84. The main reason for losses was that these branches did not achieve breakeven sales in the face of rising cost of operations.

6.4.2 The Ministry of Textiles informed (December, 1989) that New York branch had not been doing any retail business since 1970.

6.4.3 The table below indicates the position of closing stock in these two branches for the seven years upto 31st March, 1990:

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Sales:							
Paris	33.31	34.53	65.29	55.16	67.84	94.68	148.46
New York	349.88	524.37	424.85	456.59	588.67	860.43	1095.44
Closing Stock:							
Paris	47.19	40.50	65.17	63.02	70.58	63.36	67.40
New York	95.53	56.52	51.30	81.62	72.73	93.58	55.00
Percentage of closing stock to sales:							
Paris	141.7	117.3	99.8	114.2	104.1	66.9	45.4
New York	27.3	10.8	12.1	17.9	12.4	10.9	5.0

6.4.4 The following conclusions emerge from the table:

i) There was heavy accumulation of stock in Paris branch in all the seven years ending 31st March, 1990. An age-wise analysis of the stock held as on 31st March, 1989 revealed that in New York and Paris branches stock valuing Rs. 35.24 lakhs and Rs. 34.30 lakhs respectively was more than one year old and constituted nearly 37 and 54 percent of the total stock held.

ii) In New York, garments valuing Rs. 24.39 lakhs which were imported on sale basis, and not for stocking by that branch, were lying unsold for over one year, out of a total stock of Rs. 24.56 lakhs as on 31st March, 1988. These remained unsold mainly due to cancellation of orders on account of delayed supplies, defective manufacture, etc.

6.5 Working of Hamburg Branch

6.5.1 The Company established a Carpet Warehousing Depot at the Hamburg Free Port (West Germany) in September, 1965, for boosting exports of hand-knitted woollen carpets to West Germany and other countries in West Europe with the help of a consortium of leading manufacturers/exporters of carpets. The Depot assisted the consortium members in booking direct wholesale orders on their behalf and receiving their goods, storing them in the warehouse and selling them on their behalf at prices quoted by them. In the year 1972-73, the Company undertook the responsibility for marketing of carpets and the warehouse was converted into a sales office and actual direct purchase and sale operations were taken up.

Working Results:

6.5.2. The working results of the Depot for the seven years upto 1989-90 are indicated in the table below:

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Sales	472.76	469.55	486.39	468.39	265.66	364.91	382.58
Other Income	8.71	3.15	1.54	3.56	0.49	1.06	0.17
Cost of sales	433.99	444.68	385.30	303.58	180.53	388.92	310.03
Trading Profit(+)/ Loss(-)	(+)47.48	(+)28.02	(+)102.63	(+)168.37	(+)85.62	(-)22.95	(+)72.72
Misc. Income	0.05	22.00	74.18	85.73	15.88	13.08	94.83
(Difference in exchange)	--	(3.49)	(65.82)	(82.99)	(15.88)	(6.56)	(74.91)
Gross Profit(+)/ Loss(-)	(+)47.53	(+)50.02	(+)176.81	(+)254.10	(+)101.50	(-)9.87	(+)167.55
Expenditure	99.91	77.63	138.67	178.00	135.99	134.53	112.37
Net Profit(+)/ Loss(-)	(-)52.38	(-)27.61	(+)38.14	(+) 76.10	(-)34.49	(-)144.40	(+)55.18

6.5.3 The Depot incurred losses in four years out of seven years.The Branch was closed in December, 1989.

Stock of Carpets

6.5.4 The closing stock of carpets (after mark-down) as at the end of the six years ending 31st March, 1989 was as follows:

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Stock-in-hand	237.56	289.16	336.37	339.35	331.66	285.87
Stock-in-transit	36.73	61.03	18.57	6.96	70.59	13.40
Total	274.29	350.19	354.94	346.31	402.25	299.27
Sales	472.76	469.55	486.39	468.39	265.66	364.91
Closing stock in terms of No. of months	6.9	8.9	8.8	8.9	18.2	9.8

Note:There was no closing stock as on 31st March, 1990. Stock valued at Rs. 52.52 lakhs was sent to Jeddah agent/Neuss in December, 1989.

6.5.5 The closing stock in terms of months' sales was in the range of 7 to 9 months' sales till 1986-87. It went up to 18.2 months' sales in 1987-88 and came down to 9.8 months' sales in 1988-89 whereas generally the Company's total stocks were maintained at a level of four months' sales.

Mark-down of stock

6.5.6 The total mark-down on carpets held in stock had been high all along the six years upto 31st March, 1989 as can be seen from the table below:

(Rs. in Lakhs)

Year	Stock of carpets at Hamburg	Mark-down			Percentage of total mark-down to stock
		by Hamburg	by Head office	Total	
1983-84	237.56	28.13	0.28	28.41	11.9
1984-85	289.16	13.63	--	13.63	4.7
1985-86	336.37	18.45	84.09	102.54	30.5
1986-87	339.35	15.02	67.81*	82.83	24.4
1987-88	331.66	18.14	50.11*	68.25	20.6
1988-89	285.87	137.22	8.71	145.93	51.0

* Including Rs. 51.45 lakhs and Rs. 14.98 lakhs respectively representing special mark-down due to fluctuation in exchange rates.

Shortage, excessess and damges

6.5.7 The shortages/excesses of the carpet stock observed as a result of physical verification of stock during the six years upto 31st March, 1989 were as follows:

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Shortages	2.49	0.85	0.51	0.18	2.93	0.53
Excesses	2.10	0.53	0.02	--	0.51	0.29
Net Shortages	0.39	0.32	0.49	0.18	2.42	0.24

6.5.8 The reasons for shortages/excesses were not investigated by the Branch but the shortages/excesses were adjusted at the end of the year in the stocks.

6.5.9 There were also losses suffered by the Depot by way of moth-eaten and damaged stock, the value of which during the six years ending 31st March, 1989 was as follows:

(Rs. in Lakhs)

Year	Total Loss
1983-84	1.65
1984-85	0.47
1985-86	0.67
1986-87	0.28
1987-88	1.26
1988-89	0.30

6.5.10 It was intimated by the Management that the carpets were not made moth-proof unless specifically asked for by a particular buyer and therefore, the carpets despatched to Hamburg Depot were also not moth-proof.

6.5.11 The quantum of local purchases of Indian carpets by Hamburg Office during the six years ending 31st March, 1989 was as follows:

(Amount in DM)

Year	Value of Local Purchases
1983-84	3,99,341
1984-85	2,86,778
1985-86	14,317
1986-87	49,953
1987-88	14,649
1988-89	--NIL--

6.5.12 It was observed that approval of the Head Office to make such purchases was not on record. Further, the reasons why these requirements could not be transmitted to India for timely purchase were also not known. Purchases made locally were generally costlier than the goods despatched from India since local purchases were usually made from Indian dealers/agents in Hamburg.

Sundry Debtors

6.5.13 The position of sundry debtors, doubtful debts and sales relating to the Depot for the seven years upto 31st March, 1990 was as follows:

(Rs. in Lakhs)

Years ending 31st March	Total Sales	Sundry debtors	Doubtful debts	Percentage of debtors to sales	Percentage of doubtful debts to total debtors
1984	472.76	184.20	79.59	39.0	43.2
1985	469.55	171.80	72.81	36.6	42.4
1986	486.39	146.80	69.27	30.2	47.2
1987	468.39	176.06	48.07	37. 6	27.3
1988	265.66	139.25	47.00	52.4	33.7
1989	364.91	152.94	46.96	41.9	30.7
1990	382.58	91.27	59.23	23.9	64.9

6.5.14 The high figure of doubtful debts was at times due to giving large credits without verifying credit -worthiness or supplying goods to parties already in default , not entering into proper agreements, not keeping proper record of delivery of goods and not following up recoveries in time

6.6 Loss due to not enforcing agreement

6.6.1 The Branch Manager of the Hamburg Depot of the Company appointed in April, 1979 an agent for sale of carpets on commission basis through his warehouse at Essen (West Germany). The agency agreement was valid upto December,1982. According to the agreement, the Company was to supply carpets worth DM 750,000 to the agent. The agent had not taken any insurance cover for the stock as required in terms of the agreement and as such the Company obtained a fidelity insurance cover for DM 500,000 only for covering any risks of shortages and losses.

6.6.2 The agents did not render any account of the sales made by him or of stock lying with him from the very beginning. He was also committing various other irregularities in sales like selling below Company's prices, selling from display stock etc. On a surprise visit of agent's premises on 15th April, 1982, it was found that only 4 to 5 carpets belonging to the Company were lying with him when as per Branch records the value of stock of carpets lying with the agent was DM 10,53,864 (as on 31 March, 1982).

6.6.3 The Company filed a suit for recovery of outstanding dues aggregating DM 10,99,015 as well as for misappropriation of stock etc. In November, 1986 the court proposed a compromise (since the agent did not have a sizeable property) under which the agent would pay DM 200,000 by 30th April, 1988 in settlement of all mutual claims or if he paid DM 100,000 by 30th April, 1987 the remaining claim would also be considered as settled. However, the agent did not make any payment.

6.6.4 The total amount outstanding against the agent (DM 801,209.84 or Rs. 32.05 lakhsat the then rate of conversion) was treated as loss by the Board of Directors of the Company. Apparently, the loss occurred due to non-enforcement of the various clauses of the agreement especially in regard to stock limit and commission to obtain the insurance cover of DM 750,000 as per the agreement.

6.6.5 The Ministry of Textiles stated (June, 1988) that it had already initiated action against the then General Manager of the Company at Hamburg for despatch of stocks to the agent in excess of limits specified by the Board.

6.6.6 The Ministry of Textiles informed (March, 1990) the Audit Board that the losses of the foreign branches had been the result of mounting overhead expenditure. They, further, stated that in the case of Paris branch, the concentration had been on retail sales and this was revised subsequently to make the office more involved in wholesale trade; the New York branch was self- supporting and Tokyo and Neuss branches operated sufficient business to justify their continuance.

As regards carpet exports it was stated that Hamburg branch was closed in view of competition faced by it from private exporters and decline in sales apart from general stagnation in the market. It was also stated that carpet trade in India realised the importance of the Company's presence in Hamburg, especially in the context of unification of the European community into a single market in 1992.

6.6.7 The reply overlooked the fact that the New York branch earned a marginal profit of Rs. 0.57 lakh only in 1988-89 during the last four years and, therefore, it cannot be considered as self-supporting.

7. GARMENT PRODUCTION UNITS

7.1 Ready-to-wear Garment Factory, Madras

7.1.1 The establishment of a modern garment manufacturing factory at Guindy, Madras was approved by the Board of Directors in December, 1977. The construction of the factory at a cost of Rs. 90.47 lakhs was completed by the end of December, 1981. Subsequently, in 1986-87 major expansion took place in the factory by purchase of additional machines worth Rs. 9.66 lakhs. The gross value of land, buildings, plant and machinery of the factory as on 31st March, 1988 amounted to Rs. 128.57 lakhs (net value: Rs. 69.22 lakhs)

7.1.2 Installed capacity of Plant and Machinery

The installed capacity as envisaged in the Project Report of 1977 was 3,500 shirts/blouses per working day by 500 machines @ 7 pcs. per machine i.e. 9,27,500 pcs. per annum at 100 percent capacity for 265 working days. This estimate was defective as it assumed 100 percent capacity utilisation of both machines and labour. In July, 1983 the capacity was reassessed at 3.84 lakhs pcs. of garments per annum, keeping in view the actual number of of lock- stitch machines (240) and assuming an output of 8 pieces per machine per eight hour shift. The other machines were stated to be special machines (button hole stitching machines etc.) or ancillary machines. 15 percent of the machines were assumed idle either due to repair/maintenance or absence of workers.

7.1.3 Working results and cost of production

No separate Profit and Loss Account of the factory was prepared by the Management and as such the actual profitability of the factory could not be ascertained .However, an exercise made in Audit to ascertain the profitability of the factory during 1982- 83 to 1987-88 (from data supplied by the Management) revealed the following results:

RTW Garment Factory, Madras **(Rs. in Lakhs)**

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
No. of pieces of garments produced (in Lakhs)	3.62	3.54	4.25	5.73	6.75	6.68	8.03
Cost of Production							
1. Raw materials/Consumables	78.82	105.06	128.29	261.55	356.66	444.78	534.00
2. Labour	36.04	31.95	30.71	67.10	79.58	73.82	93.31
3. Factory overheads and other direct expenses	10.06	9.25	8.60	8.16	12.73	14.42	24.85
4. Total Cost	124.92	146.26	167.60	336.81	448.97	533.02	652.16
5. Administrative overheads	3.32	2.87	9.20	16.49	20.50	25.88	30.35
6. Sales/ trade expenses	2.94	4.90	7.28	6.89	20.11	17.65	17.23

7. Customs duty,freight and other charges	11.60	18.18	10.43	35.97	56.02	142.12	161.18
8. Total cost of production	142.78	172.21	194.51	396.16	545.60	718.67	860.91
9. Average cost per garment (Rs.)	39.44	48.65	45.77	69.14	80.83	107.58	107.21
10. Sales	135.17	155.28	191.06	408.83	543.83	756.90	969.65
11. Gross Profit(+)/ Loss(-)	(-)7.61	(-)16.93	(-)3.45	(+)12.67	(+)1.77	(+)38.23	(+)108.74
12. Interest	0.40	0.70	4.29	5.03	6.07	9.71	11.55
13. Depreciation	5.44	3.55	7.72	9.26	9.54	9.39	9.06
14. Operating Profit(+)/ Loss(-)	(-)13.45	(-)21.18	(-)15.46	(-)1.62	(-)17.38	(+)19.13	(+)88.13
15. Less export incentives received from Govt. of India/ compensation received from contractors	11.54	34.48	22.93	36.66	64.60	95.44	118.75
16. Net Profit(+)/ Loss(-)	(-)1.91	(+)13.30	(+)7.47	(+)35.04	(+)47.22	(+)114.57	(+)206.88

7.1.4 The Company earned operating profit during the years 1988- 89 and 1989-90 whereas net profit was earned in all the years except in 1983-84 if the incentive received from GOI and compensation received from contractors was taken into consideration. The total cost of production has been increasing steadily in all the years. An analysis of the cost trends revealed that while labour cost decreased from 25.24 percent in 1983-84 to 10.84 percent in 1989-90, customs duty, freight and other charges increased from 8.13 percent in 1983-84 to 19.77 percent in 1988-89 and decreased to 18.72 percent in 1989-90. The percentage of factory overheads to total cost of production ranged between 2.01 to 7.04 and that of administrative overheads between 1.67 to 4.73 as indicated below:

(Percentage to total cost of production)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Raw materials	55.21	61.01	65.95	66.02	65.38	61.89	62.03
Labour	25.24	18.55	15.80	16.94	14.58	10.27	10.84
Factory overheads	7.04	5.37	4.42	2.06	2.33	2.01	2.89
Administrative overheads	2.32	1.67	4.73	4.16	3.76	3.60	3.52
Sales/ Trade expenses	2.06	2.84	3.74	1.74	3.68	2.46	2.00
Customs duty, etc.	8.13	10.56	5.36	9.08	10.27	19.77	18.72
Total:	100.00	100.00	100.00	100.00	100.00	100.00	100.00

7.1.5 The following significant features were noticed:

a) The Project Report envisaged employment of about 700 staff including 625 skilled workers but the Company did not engage its own workers. The premises were leased out to four contractors along with the machines installed in the factory to set up three tailoring units and one central finishing, pressing and packing unit on licence basis to fabricate garments according to specific orders of the Company at piece rates. (The designs, details of fabrics to be used, etc., were indicated by the foreign buyers). A minimum production was guaranteed by the contractor which was 5.40 lakh garments per year. The rate of compensation recoverable from the contractors, fixed in 1977, was Rs. 2 per piece of garment fabricated. This has remained unchanged so far. On the basis of the guaranteed minimum production of 5.40 lakh garments, the compensation receivable amounted to Rs. 10.80 lakhs per year, against which the actual compensation received during the three years ending 31st March, 1988 was Rs. 8.50 lakhs, Rs. 8.68 lakhs and Rs. 7.79 lakhs resulting in less realisation of compensation by Rs. 2.30 lakhs, Rs. 2.12 lakhs and Rs. 3.01 lakhs, respectively. Incidentally, more garments than the guaranteed minimum were produced in the factory from 1986-87 onwards.

b) The factory did not adopt any prescribed system of costing even though the production of garments was on the assembly line system i.e. each operator of machine in the tailoring unit finishing a particular item of garment. A system was, however, in vogue whereby a cost sheet was prepared before acceptance of an order for export indicating the quantity and cost of fabric stitching and other charges and 15 percent of direct cost as overheads. The overheads were fixed on adhoc basis. No comparison of actual cost incurred was, however, made after execution of an order.

7.2 Ready-to-wear Garment Factory, NOIDA

7.2.1 The Company established a small garment factory in 1971 in Delhi mainly to produce Ready-To-Wear (RTW) garment samples on an experimental basis. In 1976, a decision was taken to shift the factory to NOIDA by acquiring plots / sheds at a cost of Rs. 10.68 lakhs. Out of the five plots acquired for construction, one plot (that for administrative blocks) was forfeited by NOIDA authorities in 1985-86 as no construction was done on it.

7.2.2 No detailed project report for the new garment factory was drawn up and approved by the Board of Directors. A skeleton project report was prepared for submission to the NOIDA authorities at the time of applying for the plots. The capital investment in the factory as per the skeleton project report was Rs. 9.70 lakhs besides cost of factory and office accommodation. The installed capacity of the factory was to be 2,000 pcs. of garments per day in 2 shifts of 8 hours, for 265 days in a year. A total of 5.30 lakhs pieces of garments were to be produced in the factory annually.

7.2.3 The factory started operation in NOIDA in 1980 with 129 machines (including sewing machines) costing Rs. 3.06 lakhs. During 1985-86, eighty of these machines were sold and the rest being old, were also no longer capable of producing high quality garments at optimum capacity. In June, 1987 the Board of Directors approved the modernisation of the factory at a cost of Rs. 15 lakhs which included purchase of machinery worth Rs. 9 lakhs. By 31st March, 1988, 32 machines were purchased at a cost of Rs. 4.74 lakhs.

System of Production

7.2.4 The system of production adopted in the factory was different from the Madras factory of the Company as each tailor was required to fabricate a complete garment and his productivity measured in terms of total number of garments fabricated during a day. These tailors were not the employees of the Company but were supplied by a contractor who was responsible for the timely and proper fabrication of the garments. Since inception, the Company had not entered into any contract/agreement with the labour contractor for various works regarding fabrication of garments, labour to be employed, guaranteed production etc. The Ministry of Textiles stated (December, 1989) that the absence of formal agreement with the contractor had not affected in any way the production or the working in the factory.

7.2.5 A sum of Re. 1 per garment fabricated was being recovered from the contractor as licence fee or compensation for use of the machinery/premises. The rate was fixed in 1977 by the Company on adhoc basis. It was observed that the compensation received from the contractor had all along been low during the seven years ending 31st March, 1990 vide table below (which was due to low production in the factory).

(Rs. in Lakhs)

Year	Amount of compensation realised
1983-84	0.28
1984-85	0.48
1985-86	0.18
1986-87	0.82
1987-88	0.63
1988-89	0.34
1989-90	0.23

7.2.6 Production in the factory was based on the orders received.After receipt of the orders, the Manager of the factory organised the production to meet the delivery schedule. It was, however, seen that major portion of the garments were got fabricated from outside parties and very little from its own factory even though the capacity of the factory was grossly under-utilised with reference to the projected production of 5.30 lakh pcs. of garments per year.

7.2.7 The table below indicates the comparative position of garments produced at the factory and garments got fabricated from outside parties during the five years upto 31st March, 1986.

Year	Garments fabricated in the factory	Garments got fabricated from outside parties (In numbers)	Total garments fabricated	Percentage of garments got fabricated from outside to total garments fabricated
1981-82	41,995	18,964	60,959	31.1
1982-83	32,968	1,154	34,122	3.4
1983-84	22,063	1,03,956	1,26,019	82.5
1984-85	40,588	87,604	1,28,192	68.3
1985-86	42,806	87,311	1,30,117	67.1

It may be seen that bulk of the production of garments was done outside the factory and most of its productive capacity remained unutilised.

7.2.8 The following points were also noticed while reviewing the working of the factory:

i) No norms for wastage of cloth in cutting were prescribed by the Management. No fabric reconciliation account was prepared linking the various work orders / styles covered, total fabric indented, consumed and the exact wastage of fabric. The Management stated (January 1989) that full cost of the fabric was added to the cost of the garment. While this may be true for the purpose of quoting for orders, the reconciliation of actual fabric consumption with estimated one was necessary to know the actual wastage in order to control cost.

ii) Since the cutting work was done by the contractor, cut wastages and bits of fabric having saleable value were being kept and disposed off by the contractor himself. As no records of these cut wastages were being kept undue financial benefit was being derived by the contractors.

iii) No prescribed costing system was followed by the factory. The Production-in-charge prepared a cost sheet before quoting for an order wherein prescribed overheads and profit margin were included. This estimated cost was, however, not compared and analysed with the actuals after execution of each order to know the variations in cost. The Management stated (January 1989) that as soon as the work was completed the fabric consumed was watched with reference to actual issues and estimates which were approved by the Technical Officer. However, it was seen that no reconciliation of actual cost incurred on other elements involved in the cost of the garments was done with estimates.

iv) In terms of an order dated 15th December, 1983, of the then Chairman- Cum-Managing Director of Company, the unit was required to maintain separate accounts and prepare monthly accounts on the lines of other offices. However, no such accounts were prepared to know the operating results of the factory, cost of production, return on capital employed, etc. in the absence of whichthe management had no idea of the financial performance of this unit.

7.2.9 During the meeting of the Audit Board (March 1990) the representatives of the Ministry of Textiles agreed that there was need for reviewing rates of compensation being paid by contractors for fabrication of garments at Madras and NOIDA and the approach in this regard had to be commercial. It was also agreed that separate unit accounts of Madras and NOIDA factories be drawn so that a true appreciation of their financial performance could be made.

8. LOSSES IN BUSINESS DEALS AND AGENCY AGREEMENTS

8.1 Losses in Business Deals

A review of some contracts/business deals in respect of garments and other commodities handled by the Company revealed cases where: (a) the Company had entered into contract with an unreliable party due to which the deal went sour; (b) supplies were made which did not meet the specifications of the buyer or there were delays in supply due to which deals were cancelled; and (c) advance payments were made without adequate justifications.

8.2 Loss due to entering into agreement with unreliable party

8.2.1 In August, 1983 the New York branch of the Company entered into a collaboration arrangement with a US firm for designing and sale of garments to be produced by the Company under the firm's supervision. A formal agreement was signed by the Branch only in Febuary, 1984. The terms of agreement with the firm, inter alia, provided that the firm was to be responsible for booking orders from customers and for the timely production and its quality. All the garments produced in India against orders of the firm were to be exported (even after delivery dates as the firm was responsible for their timely production) and sold by the firm within 6 months and in the event of failure to do so the firm was liable for payment of full landed duty-paid price of the Company. The firm was to be paid the entire difference between Company's basic selling price in New York and the actual selling price (sales invoice value) as fixed by the firm. (Eighty percent was to be made to the firm within four days after shipment/invoicing to the customers and the remaining twenty percent on receipt of payment from customers / factors or within 90 days after shipment by the Company, whichever was earlier).

8.2.2 The work of fabrication of garments commenced in August, 1982 and 1,55,409 garments were fabricated by October, 1984 (mainly through outside agencies) and of these 98,072 garments were exported to New York branch. Certain consignments were returned by a buyer to the US firm and since they had to bear the losses under the terms of agreements they backed out of the deal (September, 1984) fearing further losses. The Management had stated, that the problems arose in the case when the firm started having misunderstanding about pricing of garments and held back garments returned by the buyer.

8.2.3 At the time when the US firm backed out,49560 garments were lying in India unexported which were later sold locally for Rs. 4,05,070 (as against export value of Rs. 36,84,577). Further 10718 pcs. of garments were also lying with the fabricators which could not be received from them. The Company lodged two claims in a Court of Law for recovery of Rs. 7.28 lakhs from these fabricators.

8.2.4 The expenditure incurred and sales realisations on the deal were as follows:

EXPENSES		AMOUNT (Rs.)
1.	Fabrication cost in India (including cost of fabrics, dyeing charges, printing and stitching charges, sample cost and freight etc.)	1,13,77,203
2.	Amount paid for quota	10,61,250
3.	Commissions, other expenses on behalf of US firm (after adjusting balance of Rs. 11,14,363)	36,36,282
4.	Customs duty paid by New York branch	17,71,729
(A)	Total Expenditure	1,78,46,464
SALES REALISATION		
1.	Sales in New York Rs. 91,86,052 Less goods returned Rs. 48,19,523 by customers.	43,66,529
2.	Sales in India of non-exported garments	4,05,070
3.	Cash incentive received	53,535
(B)	Total Receipts	48,25,134
	Total Loss suffered (A - B)	1,30,21,330

8.2.5 Thus the Company incurred loss of Rs. 130.21 lakhs on the deal. The Company filed a suit against the US firm for recovery of the loss.

8.2.6 The Ministry of Textiles stated (May, 1989) that losses in the deal had occurred mainly due to backing out by the firm in September, 1984 when the execution of the contract was at peak. The Ministry also stated that the Company was satisfied about the credentials and marketing ability of this firm and hence they were justified in entering into this agreement.

8.2.7 The Ministry of Textiles further informed Audit Board (March, 1990)that a court decree had been obtained in this case but the decree could not be executed as the party was declared insolvent and they were thinking of the possibility of proceeding against the personal assets of the party.

8.3 Losses due to cancellation of order

8.3.1 In June,1980 the Madras Branch of the Company recceived an order for supply of 1,07,345 gents and ladies shirts of three designs from an Italian firm. The initial delivery date was end of July, 1980 and the letter of credit was opened by the buyer on 17th June, 1980 and extended from time to time upto 5th September, 1980.

8.3.2 The first lot of 41997 shirts was supplied to the buyer in time and payments were also received.

8.3.3 The second lot of 54,742 shirts valuing Rs. 22.99 lakhs was exported in one consignment on 5th September, 1980. The buyer, however, did not take delivery of the shirts on the ground that these were supplied late The shirts were ultimately brought back (to Bombay) in November, 1980 and were sent to the Madras Branch in Febuary, 1981.

8.3.4 These shirts cost the Company Rs. 28.05 lakhs including both ways freight and demurrage / clearing charges. The total sale proceeds received by the Company amounted to Rs. 8.23 lakhs (Rs. 2.61 lakhs realised on sale of 23,688 shirts to a London firm at Rs. 11 per piece and Rs. 5.62 lakhs on sale of balance quantity at Rs. 18.10 per piece as intimated by the Management). The consequent loss, therefore, amounted to Rs. 19.82 lakhs.

8.3.5 The Company filed a suit against the Italian buyer in 1981. The suit was still not decided. In reply to audit observations, the Ministry of Textiles explained (May, 1989) that the Company had complied with all the conditions of the contract but the buyer did not obtain the import licence from Italian authorities in time as required. Further, when the buyer failed to produce licence and make the letter of credit (LC) operative in spite of repeated requests, the goods were brought back and sold by various branches in India.

It was, however, seen that the Company did not ensure that the import licence had been obtained and delivered to the Bankers before L/C was made operative as required under the terms of contracts before sending the consignment of shirts to Italy on the last day of expiry of the order/L/C.

8.4 Defective Supply of Garments

8.4.1 The Company accepted an order in November, 1983 for supply of 4,500 pcs. of ladies garments to a West German buyer, to be supplied by end of February, 1984. Subsequently the supply date was extended to 30th April, 1984. Prior to despatch of the garments (on 14th May,1984) the garments had been inspected at random on 24th April, 1984 and were found satisfactory by the buyer's agent, subject to ultimate responsibility being with Comapny. A sum of Rs.4.31 lakhs (less Rs. 0.03 lakh bank charges) was credited to the Company's account on 18th May, 1984. On arrival of the consignment the buyer pointed out defects in stitching, quality etc. of the garments and subsequently returned 3,620 pcs. to the Nuess Branch and claimed DM 120733.37 (Rs. 4.84 lakhs) (cost of goods returned DM 94376.33), Customs duty (DM 14590.47) & Freight Bank and storage charges paid (DM 11766.57). This was adjusted by the foreign buyer in March, 1985 against dues for purchase of carpets. The garments returned could be sold for Rs. 0.72 lakh in West Germany in August, 1984 resulting in a loss of Rs. 3.72 lakhs.

8.5 Loss due to supplies made without adequate safeguards.

8.5.1 A London firm to whom the Company had been supplying hand-loom goods (silks) had been defaulting in payment in respect of all the shipments of goods made from July, 1982 onwards. Upto July, 1983 the Company had sent to the firm goods valuing Rs. 6.14 lakhs against which the firm paid a sum of Rs. 1 lakh only on 9th September, 1983. In September, 1983 the firm was asked to clear dues and remit bank drafts for further supplies.

8.5.2 The Company, however, without receiving any further payments, supplied further material valuing Rs. 3.22 lakhs from September, 1983 to February, 1984. The firm paid only a sum of Rs. 1 lakh in December, 1983. On 6th June, 1984 the Company demanded immediate payment of 20,000 (Pounds) and asked the firm to clear the balance of 27,000 (Pounds) within 6 months and insisted on opening of letter of credit for further orders. (A consignment of goods valuing Rs. 1.10 lakhs was despatched on 21st January, 1985 against L/C even when the firm did not pay anything against the oustanding amount). The Company filed a suit against the firm on 14th December, 1984 in a Court in London for recovery of the outstanding amount plus interest thereon amounting to Rs. 9.10 lakhs. The Court on 13th May, 1985 passed orders for winding up the firm. The Company received a sum of Rs. 52,520 from the official liquidator, after adjustment of solicitor's charges. Thus the Company suffered a loss of over Rs. 9.00 lakhs due to non-realisation of the outstanding dues.

8.5.3 The Ministry of Textiles stated (May, 1989) that it was not a case of negligence but business risk undertaken by the Company for furtherance of exports. They further explained that when the financial difficulties of the firm came to the knowledge of the Company it was felt that the best course of reviving the party was to continue supplies as stoppage of trade at that time would have meant write-off of the previous outstandings. It was, however, noticed by Audit that the Company was making repeated credit supplies even after they were fully aware of the financial difficulties of the party.

8.6 Loss due to non-refund of advance

8.6.1 On 14th January, 1984 a firm of Delhi offered to arrange certain categories of quotas for USA for 15,000 garments and requested for necessary payment. The firm was paid an advance of Rs. 3,32,500 against this offer on 16th January, 1984. Further advances of Rs. 1,76,250 (16th January, 1984) Rs. 1,02,500 (18th January, 1984) and Rs. 450,000 (21st January, 1984) were paid for "transfer and arrange/ purchase" of further quotas. No agreement was, however, entered into nor were necessary guarantees obtained to secure Company's interest.

8.6.2 By 21st January, 1984 the firm had trnasferred quotas for a total 23,154 garments at a cost of Rs, 5,19,783 (some of the quotas were transferred at higher rates than agreed to). Since the firm could not arrange/transfer any further quotas at the rate agreed to, the Company demanded (30th March, 1984) refund of the balance advance of Rs. 5,41,466. The firm did not refund the amount. Therefore, a suit for recovery of the advance including interest was instituted in a court of law in September, 1984. The case was pending (May, 1989).

8.6.3 The Ministry of Textiles stated that quotas had to be purchased through agents who bought them on behalf of their clients from quota-holders and as the agents insisted on advance payment it became essential to make advance payment to the agents to enable them to buy and make spot payment to the quota sellers. It was, however, noticed that advance was paid to the firm without safeguarding Company's interest by obtaining a Bank guarantee.

8.7 Agency Agreements

8.7.1 The Company has been appointing agents in some foreign countries for procuring supply orders on their behalf. Agency agreements with these agents are discussed below.

8.7.2 Agency agreement with an Italian firm

8.7.2.1 An agency agreement with an Italian firm was entered into in 1968 for sale of handloom products in Italy. Payment of commission at 5 percent of f.o.b. value of invoices for all business, both direct and indirect, transacted in that country was to be paid to the Agent. In 1982, while renewing the agency agreement for three years with effect from 1st September, 1982, the Company increased the commission from 5 percent to 6.5 percent. The agency agreement was subsequently renewed in 1985 and again in 1988 for three years on the existing terms and conditions.

8.7.2.2 The business transacted through the agent in 1979-80 was Rs. 310.72 lakhs which had been declining thereafter. The business done through the Agent during the three years ending 31st March, 1988 was as follows:

(Rs. in Lakhs)

Year	Value of business
1985-86	120.45
1986-87	200.27
1987-88	242.70

8.7.2.3 It was also noticed that the agents were not required to give any minimum guaranteed business and that they were to be paid commission on all sales made in Italy even if the business was not secured through them.

8.7.2.4 The Ministry of Textiles informed Audit Board (March, 1990) that they would review the agency agreements in the light of suggestions made by Audit.

9. EXPORT INSURANCE

9.1 The Company took insurance cover for its entire exports through the Export Credit Guarantee Corporation Limited (ECGC) under the Shipments(Comprehensive Risks) Policy (Supply Contract) Scheme to cover risks against payments from foreign buyers. The policy covered both political (i.e. payment in case of war between buyer country and India) and commercial (90 percent payment of loss sustained due to buyer becoming insolvent or bankrupt) risks involved in export. Under the scheme, premium had to be calculated/paid as a percentage on the FOB value depending on the countries to which the goods were exported. Even for the exports on letter of credit basis the premium had to be paid.

9.2 The Company paid Rs. 10.20 lakhs as premium from 1979-80 to January, 1989 under this scheme. The insurance coverage scheme was discontinued by the Company from February, 1989.

9.3 The raising of claims for non-payment by foreign buyer was subject to fulfilment of certain conditions which inter alia were as follows:-

i) Export value should not exceed the credit limit prescribed by the ECGC in respect of supplies to foreign buyer on Cash Against Documents/Documents Against Payment terms (no credit limit was prescribed for exports backed up by letters of credit).

ii) The buyer had not already dishonoured any of the earlier bills by non-payment/non-acceptance.

iii) When payments in respect of earlier shipments were pending, no fresh shipments should be made.

iv) Shipments under the policy were governed by whole turnover principle and as such all the shipments had to be declared in order to have continuity of the policy. Premium paid on all shipments, to which this policy applied, was on the gross invoice value of such shipments.

v) When there was a time lag of a year between one shipment and another, fresh credit limit had to be applied for.

9.4 Non-Payment of claims

9.4.1 An analysis of 24 cases involving eight buyers upto the period ending March, 1984 revealed that claims amounting to Rs. 15.18 lakhs were not lodged with the ECGC.

9.4.2 In another 14 cases (amount involved : Rs. 4.05 lakhs), the claims lodged were not paid by ECGC on the grounds that the Company had been deviating from the rules and regulations governing the insurance policy. The main reasons for rejection of claims in these cases were:

(i) delay in lodging claims

(ii) Shipments mostly exceeded the credit limits prescribed by the ECGC

(iii) Shipments were declared late to the ECGC after due dates

(iv) Goods were taken delivery by parties without payment even when the shipments were on CAD terms and

(v) Fresh shipments were made even when payments in regard to earlier shipments were pending.

9.4.3 The Company informed Audit (July, 1989) that no fresh claims were preferred relating to shipments made from January, 1984 as none of the claims filed prior to December, 1983 were settled by ECGC.

9.4.4 The Company stopped taking ECGC insurance cover from February, 1989. The Company further informed Audit (December, 1989) that the question of settling old claims had again been taken up with ECGC and, if a satisfactory solution was found, they would again review export risk policy.

9.4.5 As export insurance cover is an integral part of export promotion drive whereby the exporter can protect himself against unforeseen losses, it is important that the Company works out a satisfactory arrangement with ECGC to see that its export consignments get insurance cover and the legitimate claims lodged by it are duly paid.

10. PURCHASE AND PRICING POLICIES

10.1 Purchase Policy

10.1.1 The Company had no systematic purchase policy relating to export products. Powers to purchase goods at the best prices were delegated to divisional heads. It was observed that in making purchases of handlooms, handicrafts and carpets, the items were selected through negotiations by the officers authorised to buy goods on the basis of the quality of merchandise and its acceptability in foreign offices.

10.1.2 It was noticed that the Company was making purchases of handicrafts not directly from artisans but generally through agents/middlemen. It may be mentioned that the subsidiary of this Company viz. the Central Cottage Industries Corporation of India Limited (CCIC) was making its purchases from actual sources of production when its buyers' team visited these places and procured the handicrafts etc. from the artisans and craftsmen, thereby avoiding middlemen. The company stated that it was not always practicable to obtain the goods from the artisans or weavers since their individual production capacities were small. Further, the cost and effort involved in collecting the goods from the individual artisans might become unremunerative for the purpose of export.

10.1.3 During the meeting with the Audit Board (March, 1990) the Ministry further clarified that it was not possible to make purchases directly from artisans as this would require payment of advances to artisans who were large in number and scattered in different parts of the country.

10.1.4 Examination of the Purchase Day Book of the Handicrafts Division of Delhi (one of the largest buyers of handicrafts for the company) indicated that during the three years ending 31st March, 1988 major purchases were made from art dealers/emporia rather than from artisans, village co-operatives etc.as detailed below:

(Rs. in Lakhs)

	1985-86	1986-87	1987-88
1)Total purchases of handicrafts by the Company.	144.19	180.88	373.40
2) Total purchases by Delhi handicrafts division	137.65	176.75	297.33
3) Total purchases made directly by Delhi handicrafts division.	70.77	30.94	34.03
a) Purchases From			
i) Govt. Emporia	0.68	1.14	1.73
ii) Art dealers/ Export House	48.01	19.01	30.95
iii) Co-operative Societies	1.48	0.20	0.06
iv) Other Sources	20.60	10.59	1.29
b) Purchases booked by the division in respect of export to NOVO Export (USSR) through Associates.	66.88	145.81	263.30

10.1.5 It may be seen from the table that (i) the quantum of purchases made directly by Delhi Handicrafts Division from art dealers/export house etc., went up from 68 percent in 1985-86 to 91 percent in 1987-88 whereas percentage of purchases made from co-operative societies went down from 3 in 1985-86 to 0.2 in 1987-88 and from other sources from 29 percent in 1985-86 to 4 percent in 1987-88; and (ii) the purchases made by Delhi Handicrafts Division were confined to eight dealers.

10.1.6 While the total purchases of the Division from art dealers and export houses amounted to Rs. 97.97 lakhs the value of purchases from these eight suppliers alone amounted to Rs. 66.93 lakhs (i.e. 68 percent) during the three years upto 1987-88. The basis of selection of art dealers from whom purchases were made is not known.

10.2 Pricing Policy

10.2.1 No fixed pricing policy was laid down by the Company for various products handled by it. As per delegation of powers, the various divisions/authorities were empowered to enter into contracts, provided there was a margin. However, no fixed percentage of gross margins was laid down for the products handled as had been done by other trading companies/emporia. The actual margin varied from product to product and the kinds of customers dealt with i.e. wholesalers, retailers etc. The Central Cottage Industries Corporation of India Limited, a subsidiary of this Company and dealing with similar products had a fixed pricing policy and a fixed margin of profit in respect of each product. The CCIC laid down a fixed percentage of mark-up for products dealt with by each department viz. crafts, brass, furnishing, RTW garments, imitation jewelleries, carpets, art objects etc., which ranged from 42 percent (sarees) to 100 percent (pottery) at present.

10.2.2 The Ministry of Textiles stated (December, 1989) that being mainly an exporter, the Company had to operate on the principle of what the market could bear as the nature of export trade was different from retail operation and as a general practice no fixed margins could be adhered to.

11. Financial Position and Working Results

11.1 The table below summarises the financial position of the Company for the seven years ending 31st March, 1990:

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Liabilities							
Paid-up Capital	500.00	500.00	500.00	500.00	750.00	750.00	750.00
Reserves & Surplus	21.86	29.75	--	--	--	--	--
Borrow-ings							
From STC	295.55	267.12	256.85	250.00	--	--	--
From others	1.83	0.76	0.21	0.11	10.00	9.78	43.76
Cash Credit etc.	115.33	339.80	459.14	466.67	656.43	813.69	674.27
Trade dues and current liabilites	512.48	671.41	519.56	603.16	605.33	595.22	738.57
Total:	1447.05	1808.84	1735.76	1819.94	2021.76	2168.69	2206.60

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Assets							
Gross Block	174.71	193.75	220.81	245.41	257.52	266.05	276.18
Less: Depreciation	69.46	60.49	69.47	77.30	93.54	107.20	119.48
Net fixed assets	105.25	133.26	151.34	168.11	163.98	158.85	156.70
Investment	50.05	75.05	75.05	75.05	75.06	75.06	75.06
Current Assets:							
Loans & Advances	1291.75	1600.53	1456.22	1538.45	1758.29	1770.40	1821.89
Plant & Machinery-in-transit	--	--	--	--	2.77	--	--
Renovation work-in- progress	--	--	--	--	3.34	--	--
Intangible Assets:							
Misc. Expenses	--	--	13.73	6.86	--	--	--
Accummulated losses	--	--	39.42	31.47	18.32	164.38	152.95
Total:	1447.05	1808.84	1735.76	1819.94	2021.76	2168.69	2206.60

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Capital employed	884.52	1062.38	1088.76	1103.40	1323.05	1397.80	1315.82
Net worth	521.86	529.75	446.85	461.67	731.68	585.62	597.05

Notes: 1) Capital employed represents net fixed assets plus working capital.
2) Net worth represents paid-up capital plus reserves and surplus less intangible assets.

11.2 Profitability Analysis:

11.2.1 The following table indicates the comparative position of the turnover, trading profit and profit/loss of the Company during the seven years ending 31st March, 1990:

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
INCOME							
Export Sales Direct Sales							
a)Handi-crafts	73.61	151.66	205.43	231.79	362.17	597.79	251.04
b) Hand-looms	565.15	651.86	609.69	550.42	780.61	979.52	968.02
c)RTW garments	290.26	423.43	300.30	541.39	748.23	935.61	1233.65
d)Carpets	535.51	600.82	581.61	572.66	381.40	517.58	510.83
Total Direct Sales	1464.53	1827.77	1697.03	1896.26	2272.41	3030.50	2963.54
Through Associates							
a) Gold and silver jewellery	8667.72	7876.81	7656.75	5257.36	4196.48	4512.94	4871.75

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
b)Knitwear	2691.41	3222.00	122.31	--	--	--	--
Total sales by Associates	11359.13	11098.81	7779.06	5257.36	4196.48	4512.94	4871.75
Total export sales	12823.66	12926.58	9476.09	7153.62	6468.89	7543.44	7835.29
Domestic sales	142.78	64.83	47.89	83.54	106.16	184.18	64.25
Total sales	12966.44	12991.41	9523.98	7237.16	6575.05	7727.62	7899.54
Other Income	79.69	111.91	103.83	120.77	170.17	272.77	370.30
Cost of sales	12492.41	12566.58	9033.79	6711.87	6100.12	7290.63	7343.50
Trading profit	553.72	536.74	594.02	646.06	645.10	709.76	926.35
Grant from STC	25.00	25.00	--	--	--	--	--
Other receipts	43.32	94.15	73.05	65.43	49.39	109.81	98.78
Adjustments relating to prior period	--	17.16	13.34	47.23	129.80	69.91	10.36
Gross Profit	622.04	673.05	680.41	758.72	824.29	889.48	1035.49

EXPENDITURE

(Rs. in Lakhs)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
a)Personnel	181.24	218.11	243.61	272.25	314.05	405.99	410.61
b)Administration	144.11	156.64	168.41	184.58	245.28	277.33	277.31
c) Trade	192.37	211.90	187.80	163.69	159.64	172.14	169.20
d) Interest	33.16	65.40	83.86	80.28	54.65	76.45	83.93
e)Depreciation	10.72	9.37	11.87	13.76	18.78	14.60	14.37
f) Others	20.62	3.74	54.02	36.21	18.75	89.02	68.64
Total Expenditure	582.22	665.16	749.57	750.77	811.15	1035.53	1024.06
Net profit(+)/ loss(-)	(+)39.82	(+)7.89	(-)69.16	(+)7.95	(+)13.14	(-)146.05	(+)11.43

Note: Cost of sales represents opening stock plus purchases and direct expenses of fabrication, customs duty, freight and others minus closing stock.

11.2.2 The Company incurred losses in its direct trading activities in all the seven years ending 31st March, 1990 vide table below. It was largely due to commission earned on export of gold jewellery that the Company earned overall profit.

(Rs. in Lakhs)

Year	Direct Trading Turnover	Loss	Indirect Trading Turnover	Profit
1983-84	1607.31	176.25	11359.13	216.07
1984-85	1892.60	144.31	11098.81	152.20
1985-86	1744.92	160.40	7779.06	91.24
1986-87	1979.80	64.86	5257.36	72.81
1987-88	2378.57	36.62	4196.48	49.76
1988-89	3030.50	176.93	4461.96	30.88
1989-90	2963.54	7.34	4871.75	18.87

11.2.3 The working of Indian branches except that of Madras, was unsatisfactory in all the years upto 31st March, 1990. The working of Bombay Branch showed net losses of Rs. 13.44 lakhs, Rs. 4.75 lakhs, Rs. 9.01 lakhs, Rs. 2.80 lakhs and Rs. 7.64 lakhs respectively during the five years ending 31st March, 1988 but marginal profits of Rs. 2.58 lakhs and Rs. 8.51 lakhs was made in 1988-89 and 1989-90 respectively (after excluding business conducted through associates). Similarly, Calcutta Branch also incurred losses of Rs. 0.56 lakh, Rs. 3.83 lakhs, Rs. 5.42 lakhs during the three years upto 31st March, 1986 and of Rs. 2.57 lakhs in 1987-88 but earned marginal profits of Rs. 1.42 lakhs in 1986-87 and of Rs. 12.11 lakhs in 1988-89. The profit increased to Rs. 22.88 lakhs in 1989-90. The losses were mainly because of high operational costs and lack of business. The company did not have any branch at Delhi but working results of each product division were determined separately the net results of which revealed losses of Rs. 43.74 lakhs, Rs. 47.54 lakhs, Rs. 8.70 lakhs, Rs. 13.20 lakhs and Rs. 1.19 lakhs in the five years ending 1987-88 respectively (separate results were, however, not determined from 1988-89 onwards).

11.3 Borrowings

11.3.1 The Company had not availed of any long term loans from banks but utilised other term loans and cash credits to meet its working capital requirements. The outstanding balance of these loans on 31st March of seven years ending 1990 were as follows:

(Rs. in Lakhs)

As on 31st March	General Cash Credit	Cash credit in respect of Price support scheme	Total cash credits	Other loans from Banks/ Financial Institutions	Total borrowings
1984	83.73	24.96	108.69	6.20	114.89
1985	194.80	50.00	244.80	95.00	339.80
1986	162.20	50.00	212.20	246.39	458.59
1987	237.43	--	237.43	229.24	466.67
1988	331.18	--	331.18	335.35	666.53

(Rs. in Lakhs)

As on 31st March	General cash credit	Cash credit in respect of Price support scheme	Total cash credits	Other loans from Banks/ Financial Institutions	Total borrowings
1989	373.82	--	373.82	449.65	823.47
1990	305.66	--	305.66	412.38	718.04

11.3.2 The Company had to bear interest aggregating Rs. 288.28 lakhs on borrowings from the Bank during the last seven years upto 31st March, 1990.

11.3.3 The Company had been resorting to heavy borrowings in all these years to meet its working capital requirements. The steady increase in the borrowings was mainly due to the fact that working capital of the Company was locked up in unsold stock of goods and sundry debtors as shown in the table below:-

(Rs. in Lakhs)

As on 31st March	Closing Stock (excluding stores)	Trade Debtors	Total
1984	591.88	534.72	1126.60
1985	607.20	594.03	1201.23
1986	610.10	569.58	1179.68
1987	636.78	571.85	1208.63
1988	704.95	687.76	1392.71
1989	736.82	667.19	1404.01
1990	457.09	741.96	1199.05

11.3.4 Had the Company taken steps for realisation of the trade debtors, most of which were more than 6 months old, or to liquidate the huge stocks held, there would have been little need to resort to such large cash credit and other borrowings.

11.4 Sundry Debtors

11.4.1 The position of the outstanding trade debtors vis-a-vis direct sales of the Company (i.e. excluding sales of gold jewellery and knitwear for which there were no debtors) for the seven years upto 31st March, 1990 was as follows:-

(Rs. in Lakhs)

Year	Total sales directly made	Total debtors	Total doubtful debts	Percentage of total debtors to direct sales (Col.3 to 2)	Percentage of doubtful debts to total debtors (Col. 4 to 3)
1.	2.	3.	4.	5.	6.
1983-84	1607.31	534.72	138.79	33.3	26.0
1984-85	1892.60	594.03	133.09	31.4	22.4
1985-86	1744.92	569.58	153.50	32.6	27.0
1986-87	1979.81	571.85	177.76	28.9	31.1
1987-88	2378.57	687.76	178.72	28.9	26.0
1988-89	3214.67	667.19	212.74	20.8	31.9
1989-90	2963.59	741.96	240.56	25.0	32.4

11.4.2 It may be seen that the total debtors of the Company ranged from 20.8 percent to 33.3 percent of total direct sales and about 32 percent of debtors were considered doubtful as on 31st March, 1990 on account of being old.

11.4.3 The age-wise analysis of sundry debtors as on 31st March, 1990 was as follows:-

Sundry debtors outstanding for		Amount (Rs. in Lakhs)
a)	Less than six months old	379.96
b)	Six months to one year	84.17
c)	One to two years	34.33
d)	Two to three years	24.10
e)	Three years & above	219.40
	Total:	741.96

The debts outstanding for over three years constituted about 29 percent of total sundry debtors on 31st March, 1990.

11.4.4 The table below indicates the Indian/foreign branchwise position of amounts of outstanding trade debts as on 31st March, 1990:

Indian Branches	Less than 3 months	3-6 months	6-12 months	1-2 years	2-3 years	3 years & above	Total
Delhi	41.92	29.76	33.31	3.72	1.29	13.78	123.78
Srinagar	--	--	--	2.08	0.49	0.66	3.23
Bombay	42.87	--	--	0.19	0.01	1.16	44.23
Madras	120.99	25.70	20.20	11.37	13.62	32.83	224.71
Calcutta	9.23	--	0.51	0.06	0.76	1.69	12.25
Foreign Branches							
New York	76.02	0.37	--	6.68	0.79	103.09	186.95
Hamburg	--	4.32	27.69	0.03	--	59.23	91.27
Paris	25.43	0.94	0.39	0.11	--	6.97	33.84
Neuss	2.40	--	2.07	10.08	7.15	--	21.70
Total:	318.86	61.09	84.17	34.32	24.11	219.41	741.96

11.4.5 The amount of debts in respect of Delhi, Madras, Hamburg and New York were more than those in other branches. Debts outstanding for more than 3 months (normal credit period) in respect of Delhi and Madras branches accounted for 66.13 percent and 46.15 percent of their total debts; the position was even worse in Hamburg and New York where these debts were 100.0 percent and 59.34 percent of their total debts.

11.4.6 From a detailed analysis of the debtors position in 1989- 90 of two of these offices viz. Madras and New York, the following observations are made:

a) In Madras, the percentage of total export debts (of RTW Division) to total export sales was consistently high, ranging between 42.4 percent and 65.9 percent during 1983-84 to 1989-90. Total debts amounted to Rs. 92.42 lakhs in 1989-90 compared to total sales of Rs. 140.28 lakhs. In the Handicrafts division, the percentage of debts to sales was high ranging between 115.1 percent and 309 percent during 1983-84 to 1986-87. However, during 1987-88, 1988-89 and 1989-90 it was 77.7, 75.2 and 77.3 percent respectively which was largely due to slight increase in total export sales.

b) A test check of New York Branch showed that the entire amount of Rs. 103.09 lakhs outstanding for more than 3 years as on 31st March, 1990 was doubtful of recovery as no favourable reaction of the debtors was available on record.

11.4.7 The large outstanding debts at the end of each year were directly attributed to the defective credit system followed by the various Indian/foreign branches of the Company and non- pursuance of debtors. The Company did not prescribe any detailed credit policy for sales effected in domestic and foreign markets.

12. INVENTORY

12.1 The table below indicates the position of the closing stock in-trade vis-a-vis sales at the end of seven years upto 31st March, 1990:-

Year	*Sales (Rs. in Lakhs)	Closing Stock (including goods-in-transit) as on 31st March	Percentage to Sales
1983-84	1464.51	591.88	40.4
1984-85	1827.77	607.20	33.2
1985-86	1697.03	610.10	36.0
1986-87	1876.27	636.78	33.9
1987-88	2272.41	704.95	31.0
1988-89	3030.50	736.02	24.3
1989-90	2963.59	457.09	15.4

* Sales excluding gold jewellery, knitwear and domestic sales.

12.2 The closing stock in terms of months' sales ranged between nearly 3 to 5 months' sales in all the seven years from 1983-84 to 1989-90.

12.3 The table below indicates the age-wise analysis of the closing stock (excluding goods-in-transit) held by the Company (total value: Rs. 390.58 lakhs) as on 31st March, 1990. **(Rs. in Lakhs)**

	Less than 1 year	1 to 2 years	2 to 3 years	More than 3 years	Total
Indian Branches	182.41	44.86	14.45	15.78	257.50
Foreign Branches	48.96	28.08	26.75	29.29	133.08
Total:	231.37	72.94	41.20	45.07	390.58

12.4 It may be seen that out of the total stock held on 31st March, 1990, 40.8 percent (i.e. stock worth Rs. 159.21 lakhs) was more than one year old. Out of this, the foreign branches held sotck amounting to Rs. 84.12 lakhs which was nearly 52.8 percent of the total of such stock held.

12.5 The following observations are also made:

a) No maximum, minimum and re-ordering levels of the trading stock were fixed in order to achieve proper inventory control.

b) The receipts or issues of stock were not accounted and vouchers not prepared immediately on the actual movement of the stocks.

c) Confirmation for the balance lying with processors/fabricators for the stores issued to them was not obtained.

d) The Company did not maintain separate accounts of clearance sales of marked down goods and as such loss of their sale could not be known.

12.6 Valuation and mark-down of stock:

12.6.1 The closing stock at all the foreign and Indian Offices was valued at estimated cost or realisable value whichever was less after mark-down on the basis of proposal from the concerned division/branches.

12.6.2 The handloom and ready-to-wear stocks in India were, however, marked down according to their age i.e. 25 percent for goods 1 and 2 years' old, 50 percent for goods 2 and 3 years' old and 70 percent for goods older than 3 years.

12.6.3 The table below indicates the mark-down each year and the value of closing stock-in-trade before mark-down as at the end of each of the seven years upto 31st March, 1990.

(Rs. in Lakhs)

Year	Value of closing stock (excluding goods-in-transit)	Total mark-down for the Year
1983-84	506.51	76.61
1984-85	516.36	77.73
1985-86	566.59	160.02
1986-87	589.52	162.89
1987-88	604.02	140.72
1988-89	654.00	246.35
1989-90	390.58	96.55

12.6.4 The total mark-down in respect of foreign offices alone worked out to Rs. 124.11 lakhs in 1988-89 in respect of stock worth Rs. 395.22 lakhs. The mark-down each year was increasing which was indicative of the fact that there were more old stocks with the Company.

12.7. Physical Verification

12.7.1 Physical verification of stocks was carried out by firms of Chartered Accountants during the last months of the year at Head Office and the branches at Bombay, Calcutta and Madras and by the Company's officials for stock at other units and all the foreign offices.

12.7.2 The following table indicates the value of excesses, shortages and damages noticed in physical verification of the stock in Indian and Foreign offices during the seven years ending 31st March, 1990:

(Rs. in Lakhs)

	Excesses	Shortages	Damages
1983-84			
Foreign Offices	2.19	3.03	6.04
Indian Branches	3.12	7.36	0.21
Total:	5.31	10.39	6.25
1984-85			
Foreign Offices	0.71	2.84	2.96
Indian Branches	14.93	14.88	0.41
Total:	15.64	17.72	3.37
1985-86			
Foreign Offices	0.04	0.78	3.20
Indian Branches	16.31	16.45	1.34
Total:	16.35	17.23	4.54

(Rs. in Lakhs)

	Excesses	Shortages	Damages
1986-87			
Foreign Offices	1.56	1.83	1.16
Indian Branches	5.07	5.79	1.47
Total:	6.63	7.62	2.63
1987-88			
Foreign Offices	0.53	3.11	2.63
Indian Branches	4.00	4.49	0.96
Total:	4.53	7.60	3.59
1988-89			
Foreign Offices	0.29	0.80	2.09
Indian Branches	2.10	3.30	1.97
Total:	2.39	4.10	4.06
1989-90			
Foreign Offices	--	1.89	0.15
Indian Branches	6.47	6.93	0.53
Total:	6.47	8.82	0.68

12.7.3 The stock was not segregated into non-moving, obsolete or unsaleable at the time of physical verification. Shortages and damages were adjusted against the excesses without reconciliation or investigation.

13. Accounting System and Internal Audit

13.1 Accounting System

The Company has not laid down any accounting manual for its head office or branches/units in India. The accounting is undertaken on the basis of general accounting principles/instructions issued by the Management from time to time. The Company has, however, an accounting manual for guidance of its foreign offices.

13.1.1 Some of the deficiencies noticed in the accounting system by the Statutory Auditors (vide Supplementary Report under Section 619 (3) of the Companies Act, 1956 for the year 1987-88) are as follows:

a) Confirmation of stock transfer between Indian Offices were not being received in time.

b) Daily Receipt vouchers and Daily Issue vouchers were not prepared on actual movement of stocks.

c) No effect was given in the books of account to permit financial control on stocks issued to fabricators or processors. Confirmation of balance lying with them was not obtained/received at the year end from such parties.

d) In a number of cases, purchase orders were issued after receipt of goods from suppliers.

e) Reconciliation of inter-office accounts, inter-office stock transfer and other inter-unit reconciliations were not being done at regular intervals.

f) Accounts with the subsidiary of the Company (CCIC ofIndia Limited) remained unreconciled for the last three years.

13.2 Internal Audit

13.2.1 In December, 1982 the Board of Directors of the Company decided to introduce for the first time Company's own internal audit system on experimental basis at Delhi from the year 1982- 83. Subsequently, it was extended to other branches. Internal Audit (conducted by firms of Chartered Accountants) was also introduced in the foreign branches in 1985-86 but was discontinued at the Paris and New York branch offices during 1986-87 as the reports were of routine nature only. However, due to local reasons, audit at Hamburg branch by the local auditors was continued and that of other branches done through Company's staff.

13.2.2 A brief manual outlining the scope and programme of internal audit has been framed by the Company. At present there is only skeleton staff in the Internal Audit wing of the Company, consisting of one officer of Deputy Manager's level at Head-quarters and one officer (also of Deputy Manager's level) and two other staff at Madras Branch.

13.2.3 It was observed that Internal Audit wing was not working as per provisions in the Internal Audit Manual. No regular audit was undertaken of the various departments of the Company after drawing up an annual audit programme. Observations of the Internal Audit wing were issued from time to time but these were not in the form of Reports and were also not submitted to the Chairman-cum-Managing Director and the Board of Directors.

13.2.4 The Statutory Auditors in the Supplementary Report for the year 1987-88 reported that the "Internal Audit carried out at Head Office was restricted to only staff advances and debtors ledger, no other areas were covered". They have further reported that "Internal Audit carried out by the Internal Audit Department is inadequate".

13.2.5 The Ministry of Textiles stated (December 1989) that steps were being taken to strengthen the internal audit.

13.2.6 The Secretary, Department of Textiles informed the Audit Board (March, 1990) that the system of financial control would need to be reviewed with a view to improving financial management and better control over the Company's finances.

14 Data Bank and Management Information System

14.1 The Company had not made any efforts to build up data bank of information on various products and market profiles based on market research or market studies etc. The Company had also not evolved an effective system of feed-back from its foreign offices to ascertain the trends in trade, products and design preferences of foreign buyers, marketability, import potential etc.

14.2 The Management informed (April, 1989) that a formal market study had been conducted in respect of Australia. It was also stated that market intelligence was collected during the visits of their officers abroad, visits of buyers from foreign countries and catalogues/magazines. The foreign offices also kept themselves in touch with the market for new developments and market conditions. The Ministry of Textiles stated (December, 1989) that their foreign offices supplied information on market trends and design preference of buyers, marketability and export potential.

14.3 The Company thus did not have a systematic approach to ascertain the requirement of foreign buyers, changes in the fashions etc. to enable it to make necessary changes in its procurement and production programmes in India to meet the requirements/tastes of foreign buyers.

14.4 During the meeting of the Audit Board (March,1990) the Secretary, Ministry of Textiles stated that the role of the Company as a store house of information would be assessed and in case the Company was entrusted this role, the mode of its financing would have to be worked out.

P.K. Sarkar

(P.K. SARKAR)

New Delhi
The

Deputy Comptroller and Auditor General
(Commercial) -cum-Chairman, Audit Board

3 APR 1992

Countersigned

(C. G. SOMIAH)

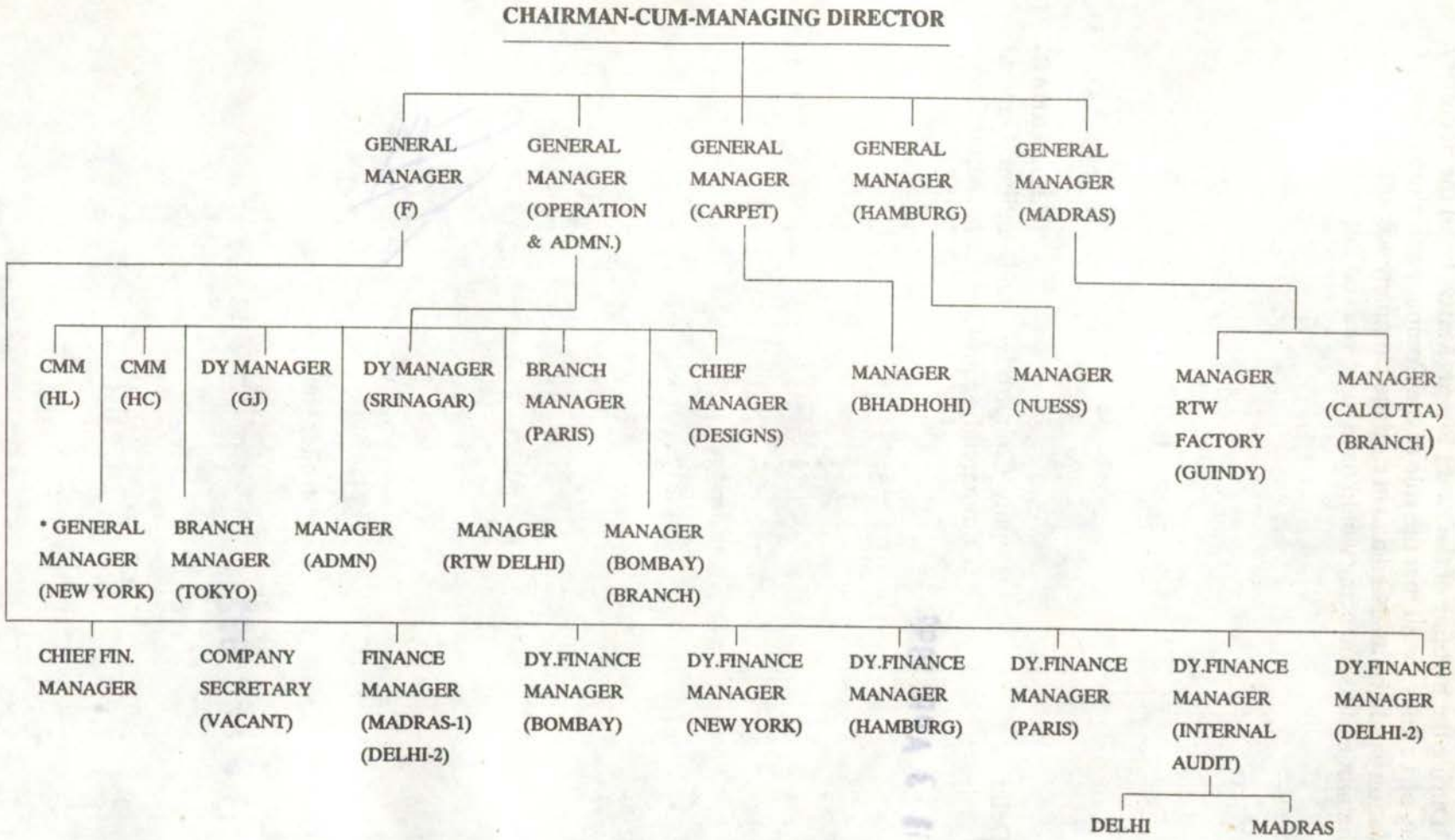
New Delhi
The

Comptroller and Auditor General of India

3 APR 1992

ANNEXURE (REF. PARA 3.3)

ORGANISATIONAL CHART



* GENERAL MANAGER (NEW YORK) IS OF THE C.M.M RANK