# Section-2D

## Haryana State Small Industries and Export Corporation Limited

### Highlights

**The Company was incorporated on 19 July 1967 with the objective of assisting small and medium scale industries in the State.**

*(Paragraph 2D.1)*

**During the last five years up to 2000-01, of the 16 raw material depots, two earned profits and 10 incurred losses every year whereas the remaining four depots incurred losses in four out of five years.**

*(Paragraph 2D.7.1.2)*

**Poor planning of procurement and distribution of iron and steel during 2000-01 resulted in a loss of revenue of Rs 0.45 crore to the Company.**

*(Paragraph 2D.7.1.4)*

**Decrease in counter sales and increase in expenditure on manpower led to losses in operation of emporia which aggregated to Rs 1.95 crore during five years up to 2000-01.**

*(Paragraph 2D.7.2.1)*

**In spite of increase in the number of registered and assisted SSI units with the Company under Marketing Assistance Scheme, the value of assistance provided to them decreased from Rs 7.10 crore in 1995-96 to Rs 2.49 crore in 1999-2000.**

*(Paragraph 2D.7.4.1)*

**Of the 15 District Marketing Offices (DMOs), only one DMO earned profit (Rs 0.24 crore) continuously since its inception in 1997-98 and 13 DMOs suffered loss of Rs 1.92 crore during five years up to 1999-2000. One DMO earned meagre profits.**

*(Paragraph 2D.7.4.2)*

**Despite the recommendations of the Committee on Public Undertakings that expenditure under Rural Industries Scheme should be strictly regulated as per grants, the Company spent Rs 4.46 crore in excess of the grants received during last five years up to 2000-01.**

*(Paragraph 2D.7.5.1)*

**Delay in taking action either to gainfully utilise the services of 158 surplus employees or retrench them led to incurring of unfruitful expenditure of Rs 2.70 crore during three years up to 1999-2000.**

*(Paragraph 2D.10)*

## 2D.1 Introduction

The Company was incorporated on 19 July 1967 as a Government Company with a view to assist the small and medium scale industries in the State.

## 2D.2 Objectives

The main objects of the Company are to:

- establish, promote or otherwise assist and protect the interest of small and medium scale industries within the State;
- develop, establish, run industrial estates and emporia within the State;
- carry on the business of export and import of goods which may be required for industrial development of the State; and
- carry on and execute all kinds of financial, commercial, trading or other operations.

In pursuance of the above objects the Company undertook the following activities from time to time:

- Procurement and distribution of raw material.
- Setting up of emporia for sale of handloom, handicraft and other goods.
- Export promotion.
- Marketing assistance to small-scale industrial (SSI) units.
- Promotion of rural industries (RI).
- Development of handlooms and handicrafts through training-cum-production centres.

## 2D.3 Organisational set-up

The Articles of Association envisaged management of the Company by a Board of Directors consisting of minimum three and maximum 12 directors. Against this, the Board as at the end of March 2001, comprised 11 directors including a Chairman, a Managing Director (MD) and one nominee of Small Industrial Development Bank of India. MD functions as Chief Executive of the Company and is assisted by three General Managers in day-to-day work.

Contrary to the recommendations (March 1983) of Committee on Public Undertakings (COPU) contained in the 11th Report that Chief Executives of Public Undertakings/Boards should be given a minimum tenure preferably of three years or more, 11 incumbents held the post of the MD of the Company for a period ranging between 11 days and 377 days during a span of 78 months from October 1994 to April 2001. This deprived the Company of the services of continuous experienced leadership.

## 2D.4 Scope of Audit

The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1994-95 (Commercial) – Government of Haryana. The review was discussed by the COPU and their recommendations are contained in the 43rd Report presented to the State Legislature in January 1998. The cases where recommendations of COPU were not complied with by the Company are discussed in paragraphs 2D.7.1.2 and 2D.7.5.1 (*infra*).

The present review, conducted during November 2000 to March 2001, covers the working of the Company during the five years up to 2000-01.

## 2D.5 Funding

### *A. Share capital*

Against the authorised capital of Rs 5 crore, paid-up capital of the Company as on 31 March 2001 was Rs 1.91 crore (State Government: Rs 1.81 crore and Central Government-All India Handicrafts Board: Rs 0.10 crore).

### *B. Borrowings*

For working capital requirements, the Company had cash credit arrangements with commercial banks against hypothecation of stocks of raw material and land at Faridabad and building at Jhajjar and outstanding balance as on 31 March 2001 was Rs 3.85 crore. Interest paid each year on cash credit during the five years up to 2000-01 ranged between Rs 6.52 lakh and Rs 52.25 lakh. Besides, loans of Rs 2.44 crore from the State Government were outstanding as on 31 March 2001. The Company also received a grant of Rs 1.32 crore from State Government (Rs 74.30 lakh), Central Government (Rs 1.19 lakh) and International Fund for Agriculture Development (Rs 56.55 lakh) for the development of rural industries, running of emporia and to provide training to landless labourers, respectively during the last five years ending 2000-01.

## 2D.6 Financial position and working results

The financial position and working results of the Company for the last five years up to 1999-2000 are summarised in Annexures 15 and 16, respectively.

It would be observed from the Annexure-16 that the Company earned marginal profits during the first four years but incurred a heavy loss (Rs 1.35 crore) during the year 1999-2000, which was due to sharp decline in sales.

It was seen in audit that activities of Export Promotion and Rural Industries suffered losses continuously during the five years up to 1999-2000 (amount of loss: Rs 4.07 crore) whereas operation of emporia suffered losses during the last four years. Only raw material activity had earned profit in all the five years. The losses were attributable to the following:

(1) Increase in employees' remuneration and other benefits.

(2) Incurring of expenditure in excess of grants for rural industries scheme (paragraph 2D.7.5.1 *infra*).

(3) Surplus manpower (paragraph 2D.10 *infra*).

(4) Decrease in turnover and increase in concessions.

## 2D.7 Appraisal of activities

***2D.7.1 Procurement and distribution of raw materials***

The Company mainly procures iron and steel from producers/manufacturers and distributes these items to SSI units registered with it through its raw material depots spread throughout the State at a price fixed by the manufacturers. The Company gets a rebate of Rs 500 (Rs 400 up to January 1996) per MT on iron and steel towards handling, transportation, administrative charges and profit margin.

**Percentage of assisted units to units registered with the Company for supply of raw material decreased from 13.58 in 1995-96 to 7.53 in 1999-2000**

The table below indicates number of units registered with the Company and extent of assistance provided to the units during five years up to 1999-2000:

| Year | No. of SSIs registered with the Company for supply of iron & steel | No. of SSIs to whom iron and steel was supplied | Percentage of (iii) to (ii) | Qty. of iron and steel sold (In MTs) |
|---|---|---|---|---|
| (i) | (ii) | (iii) | (iv) | (v) |
| 1995-96 | 3159 | 429 | 13.58 | 62,665 |
| 1996-97 | 3136 | 294 | 9.38 | 94,997 |
| 1997-98 | 3114 | 286 | 9.18 | 68,360 |
| 1998-99 | 3091 | 317 | 10.26 | 84,093 |
| 1999-2000 | 3080 | 232 | 7.53 | 67,006 |

It would be seen from the above table that number of assisted units and percentage thereof to SSIs registered with the Company had declined during the last five years up to 1999-2000 from 429 to 232 and 13.58 to 7.53 *per cent* respectively. The decline is indicative of the fact that the Company had failed to achieve its main object of supplying raw material to SSIs.

### *2D.7.1.1 Iron and steel*

The Company is required to procure iron and steel according to the requirement of SSI units. The table given below indicates the quantity of iron and steel indented, earmarked by Joint Plant Committee and lifted by the Company during five years up to 1999-2000:

| Year | Quantity | | | | | Percentage of quantity | |
|---|---|---|---|---|---|---|---|
| | Indented | Allocated | Lifted | Short lifted | Sold to SSI | Allocated to quantity indented | Lifted to quantity allocated |
| | (In thousand metric tonnes) | | | | | | |
| 1995-96 | 93 | 74 | 66 | 8 | 63 | 80 | 89 |
| 1996-97 | 111 | 105 | 101 | 4 | 95 | 95 | 96 |
| 1997-98 | 113 | 83 | 67 | 16 | 68 | 73 | 81 |
| 1998-99 | 114 | 86 | 81 | 5 | 84 | 75 | 94 |
| 1999-2000 | 130 | 104 | 72 | 32 | 67 | 80 | 69 |
| **Total** | **561** | **452** | **387** | **65** | **377** | **81** | **86** |

From the above table, it would be seen that allocated quantity each year ranged between 73 and 95 *per cent* of the quantity indented and the Company was able to lift 69 to 96 *per cent* of the allocated quantities. As such the requirement of 561 MT of SSI units was met to the extent of only 387 MT. The reasons for shortfall in lifting of allocated quantities, though called for (July 2001) from the Company, were not furnished to Audit (September 2001).

### *2D.7.1.2 Working of raw material depots*

In order to receive and distribute raw materials to SSIs, the Company was operating 16 raw materials depots all over the State including one at Chandigarh. The following table indicates the operational results of the depots for the five years up to 2000-01:

| Year | No. of depots which earned profit | Amount of profit | No. of depots which incurred loss | Amount of loss | Overall profit |
|---|---|---|---|---|---|
| | | (Amount in lakh of rupees) | | | |
| 1996-97 | 4 | 358.56 | 12 | 44.19 | 314.37 |
| 1997-98 | 2 | 337.96 | 14 | 59.79 | 278.17 |
| 1998-99 | 3 | 456.20 | 13 | 55.66 | 400.54 |
| 1999-2000 | 2 | 352.01 | 14 | 82.84 | 269.17 |
| 2000-01 (Provisional) | 3 | 413.54 | 13 | 64.43 | 349.11 |

Depot wise profitability is given in Annexure-17. Perusal of the Annexure-17 would reveal that only two depots viz. Faridabad and Chandigarh earned profit continuously aggregating to Rs 19.15 crore during last five years up to 2000-01. Ten depots had incurred losses in all the five years from 1996-97 to 2000-01 and the remaining four were in loss in four out of five years.

It was also noticed in audit that after allocating head office overheads, etc., the overall profitability of the raw material depots would decline to Rs 1.23 crore, Rs 83.07 lakh, Rs 1.79 crore, Rs 48.75 lakh and Rs 99.41 lakh during the years 1996-97, 1997-98, 1998-99, 1999-2000 and 2000-01 respectively.

**Belated decision to close seven loss incurring depots resulted in loss of Rs 0.57 crore**

During discussion of the last review on the working of the Company, which appeared in the Report of the Comptroller and Auditor General of India for the year 1994-95 (Commercial), the Company/Government had informed (November 1997) COPU that it was contemplating to critically review the functioning of the depots and taking remedial steps to make them viable. Neither any review was ever conducted nor any steps taken to make the loss making depots viable. COPU, however, recommended (January 1998) that the depots incurring heavy losses and not achieving promotional objective should be closed down immediately. Decision to close seven depots (Kurukshetra, Mandi Dabwali, Sonepat, Bahadurgarh, Jind, Rewari and Yamunanagar) was, however, taken belatedly in August 2000 and January 2001 after incurring a loss of Rs 57.33 lakh during 1998-99 and 1999-2000. No action has, however, been taken to close down the five depots (Ambala, Karnal, Panipat, Rohtak and Bhiwani) which had incurred losses in all the five years up to 2000-01.

### *2D.7.1.3 Operation of handling agencies*

**Jagadhari agency was continuously in losses**

The Company was working as a handling agent for non-ferrous metal manufacturers viz. M/s Minerals & Metal Trading Corporation Limited, M/s Hindustan Zinc Limited, M/s National Aluminium Company Limited and M/s Hindustan Copper Limited at Jagadhari, Faridabad, Chandigarh and Hisar (w.e.f. 2000-01). The Company earned a commission of Rs 2.63 crore (Chandigarh: Rs 0.62 crore, Faridabad: Rs 1.67 crore, Jagadhari: Rs 0.24 crore and Hisar: Rs 0.10 crore) from this operation during five years up to 2000-01. Agency at Jagadhari sustained continuous losses amounting to Rs 17.50 lakh during five years up to 2000-01. It was observed in audit that the commission earned by this agency was insufficient to cover even their direct expenses during the five years. The Management had not taken any steps either to make the agency viable or to close it down.

### *2D.7.1.4 Loss of revenue due to poor planning*

In order to enter into Memoranda of Understanding (MOUs) for supply of iron and steel during 2000-01, the Company invited (30 March 2000) offers through press. In response, the Company received a demand for 6.76 lakh tonnes of iron and steel from 18 units at Faridabad up to 7 April 2000 stating that the quantity was negotiable according to the policy benefits and they sought time for discussion. It was noticed in audit that after meeting with the representatives of Faridabad units on 15 May 2000 and those of Chandigarh on 16 May 2000, the Company formulated its Iron and Steel distribution policy detailing various terms and conditions for supply of Iron and Steel during 2000-01 to these units. The following points were noticed in this regard:

**(a)** The policy for sale in Chandigarh was finalised without keeping in view the policy of Chandigarh Industrial and Tourism Development Corporation Limited (CITCO), the Company's competitor in Chandigarh territory, the policy of which was more favourable to the units. In view of the representations received (10 June 2000 and 12 June 2000) from two units, the Company decided (13 July 2000) to modify certain terms and conditions of the policy viz. reduction of earnest money from Rs 2 lakh to Rs 1 lakh (CITCO did not charge earnest money), lowering of interest for storage period from 20 to 18 *per cent* (CITCO charged interest at 17 *per cent*) and creating a new slab for passing on SSI rebate at Rs 275 per MT on lifting beyond 750 MTs (as existing in CITCO). Resultantly, MOUs with Chandigarh parties for lifting of 26100 MTs of iron and steel could only be signed in July 2000.

**(b)** Though during discussion, Faridabad units had pointed out insufficiency of concessions in comparison to those allowed by Steel Authority of India Limited (SAIL) to its direct customers, these factors were not kept in view while finalising the policy. As no unit signed MOU with the Company, it allowed (June 2000) certain concessions viz. lowering the quantum of lifting for availing the rebate of Rs 200 per MT, passing of rebate on CR Coils, extension of interest free period, etc. on combined lifting from Faridabad and Chandigarh. Resultantly, the MOUs could be signed with parties for lifting 64600 MT of iron and steel only in July 2000.

**Delayed signing of MOUs with customers resulted in loss of Rs 0.45 crore due to short lifting of iron and steel**

**(c)** The Company short lifted 0.11 lakh MT of iron and steel during the quarter ending June 2000 which is indicative of poor planning. A committee of officers of the Company headed by its Chief General Manager, worked out (July 2000) the loss of revenue on this account to the extent of Rs 44.50 lakh.

### *2D.7.1.5 Non-disposal of old stocks*

At the end of December 2000, depots at Rohtak, Faridabad and Hisar held old stocks of iron and steel valuing Rs 21.21 lakh (Rohtak: Rs 16.20 lakh, Faridabad: Rs 3.49 lakh and Hisar: Rs 1.52 lakh) which were lying since March 1995 to June 1998. The material was rusty and defective. The following important points were noticed in this regard:

**(i)** Though a committee of officers had recommended (April 2000) disposal of 39.470 MT G.P. Sheets (value: Rs 11.34 lakh) lying at Rohtak since July 1997 to the highest bidder in auction for Rs 9.22 lakh, the proposal was not approved by the MD on the plea that the rates seemed to be on the lower side. As a result the material was still lying undisposed of (June 2001).

**(ii)** 22.030 MT wire rods (value: Rs 3.78 lakh) was lying undisposed of since March 1998 though there had been no requirement for this material at Rohtak; the material had not been shifted so far (June 2001) to Karnal/Panipat/Faridabad where requirement existed for the material.

**(iii)** 15.595 MT defective MS plates (value: Rs 2.91 lakh) transferred (October 1995) from Chandigarh to Faridabad without ascertaining its saleability there, was awaiting disposal (June 2001).

As the Company was operating on cash credit, it had to bear interest burden of Rs 13.50 lakh (June 2001) due to carrying over of the above inventory of Rs 21.21 lakh.

### *2D.7.2 Emporia for sale of handloom, handicraft and other goods*

The Company has been selling handloom and handicraft goods through its network of eight emporia (two in the State at Ambala and Hisar and six outside the State at Chandigarh, Delhi, Lucknow, Agra, Kolkata and Mumbai). However, the emporium at Agra was closed in December 1996 on account of security restrictions imposed by the Archaeological Survey of India. Sales at emporia comprise counter/consignment sales and direct sales to Government agencies.

#### *2D.7.2.1 Operational performance of emporia*

The following table indicates the operational results of the emporia during five years ending on 31 March 2001:

| Sl. No | Year | No. of emporia | No. of emporia making profit | Operational profit | No. of emporia making loss | Operational loss | Overall operational profit(+)/ loss (-) of emporia | Head office expenses | Net profit(+)/ loss (-) |
|---|---|---|---|---|---|---|---|---|---|
| (Amount Rupees in lakh) | | | | | | | | | |
| 1 | 1996-97 | 8 | 5 | 30.83 | 3 | 3.55 | 27.28 | 38.15 | (-) 10.87 |
| 2 | 1997-98 | 7 | 4 | 14.22 | 3 | 3.60 | 10.62 | 34.50 | (-) 23.88 |
| 3 | 1998-99 | 7 | 3 | 10.17 | 4 | 15.47 | (-) 5.30 | 38.73 | (-) 44.03 |
| 4 | 1999-2000 | 7 | 2 | 2.38 | 5 | 10.10 | (-) 7.72 | 42.37 | (-) 50.09 |
| 5 | 2000-01 | 7 | 0 | - | 7 | 23.45 | (-) 23.45 | 42.40 | (-) 65.85 |
| | **TOTAL** | | | **57.60** | | **56.17** | **(+) 1.43** | **196.15** | **(-) 194.72** |

**All the seven emporia suffered operational loss of Rs 0.23 crore during 2000-01**

The profitability of emporia dwindled constantly and net loss increased from Rs 10.87 lakh in 1996-97 to Rs 65.85 lakh in 2000-01. Operational profit/loss of each emporium is given in Annexure-18. A perusal of the Annexure reveals that no emporium earned operational profit constantly during the above period. Hisar emporium suffered losses of Rs 18.51 lakh during all the five years, while two emporia at Mumbai and Delhi sustained continuous losses of Rs 17.47 lakh during the last four years up to 2000-01. All the seven emporia incurred loss aggregating Rs 23.45 lakh during 2000-01.

The Management submitted (September 1996) to the Board of Directors of the Company that critical review of the working of each emporium was being done to find ways and means to improve their working. No such review was, however, submitted to the Board (June 2001).

Audit analysis revealed that the loss in emporia activity was attributable to:

- decrease in counter sales and increase in salaries and allowances; and

- non-deployment of staff especially recruited for sales promotion at emporia.

The Management, however, attributed (March 2001) the decrease in counter sales to general slump in market and frequent changes in the taste of customers leading to obsolescence of stocks. It further stated that right officer/official would be posted at the right place.

### *2D.7.2.2 Sales performance of emporia*

The following table indicates the volume of sales transacted by emporia vis-a-vis targets fixed during the five years up to 2000-01:

| Particulars | 1996-97 | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | Total |
|---|---|---|---|---|---|---|
| | (Rupees in lakh) | | | | | |
| **Counter-Sales** | | | | | | |
| Targets | 163.00 | 194.00 | 274.00 | 183.00 | 216.00 | 1030.00 |
| Achievements | 92.61 | 83.36 | 69.02 | 48.10 | 44.49 | 337.58 |
| **Consignment Sales** | | | | | | |
| Targets | 86.00 | 73.00 | 105.00 | 47.00 | 75.00 | 386.00 |
| Achievements | 54.71 | 35.59 | 21.00 | 28.05 | 45.76 | 185.11 |
| **Sales to Government agencies** | | | | | | |
| Targets | 1205.00 | 1233.00 | 1404.00 | 1508.00 | 1225.00 | 6575.00 |
| Achievements | 862.12 | 711.31 | 756.02 | 678.93 | 663.39 | 3671.77 |
| **Expo/exhibition sales** | | | | | | |
| Targets | 105.00 | 200.00 | - | - | - | 305.00 |
| Achievements | 185.41 | 35.48 | 3.01 | 2.12 | 4.05 | 230.07 |
| **Total** | | | | | | |
| Targets | 1559.00 | 1700.00 | 1783.00 | 1738.00 | 1516.00 | 8296.00 |
| Achievements | 1194.85 | 865.74 | 849.05 | 757.20 | 757.69 | 4424.53 |

The sales at emporia recorded a declining trend as these went down from Rs 11.95 crore in 1996-97 to Rs 7.58 crore in 2000-01. Of the total sales of Rs 44.25 crore, sales to Government departments (at a margin of 5 *per cent*) amounted to Rs 36.72 crore representing 82.99 *per cent* of the total sales. Counter sales which forms the basis for assessing the viability of any emporium were just Rs 3.38 crore (7.63 *per cent*) of the total sales during these five years. The following points were observed in audit:

**(a)** The Management fixed the targets without correlating the actual sale performance of the past years. As such the Company could not achieve the targets in any of the five years.

**(b)** At three emporia (Hisar, Mumbai and Delhi), expenditure on employees remuneration exceeded the counter sales continuously during the last four years up to 2000-01. Further, the number of such emporia increased to six during 2000-01. The excess of the remuneration over counter sales in these six emporia (Mumbai, Chandigarh, Delhi, Hisar, Lucknow and Ambala) worked out to Rs 29.54 lakh during 2000-01.

**(c)** The activity of the Company was overlapping with that of another Government company viz. Haryana State Handloom and Handicrafts Corporation Limited (HSHHC). Both the companies had been operating emporia at five places (Hisar, Ambala, Chandigarh, Delhi and Kolkata). During the last five years up to 1999-2000, counter sales of these emporia of the Company ranged between Rs 45.54 lakh and Rs 86.14 lakh and those of HSHHC ranged between Rs 26.47 lakh and Rs 45.60 lakh. Had both the companies operated one emporium at one place, unhealthy competition between their emporia could have been eliminated besides effecting savings in expenditure. The State Government belatedly discontinued the operations of the above five emporia of HSHHC in January 2001.

### *2D.7.2.3 Inventory control at emporia*

With a view to improve the financial position of the emporia, the Company fixed (August 1998) the minimum and maximum inventory levels at three and four months counter sales respectively. The table below indicates the position of inventory at the end of five years and sales during that period up to 2000-01:

| Year | Counter sales | Closing stock | Closing stock in terms of months' sales |
|---|---|---|---|
| | (Rupees in lakh) | | |
| 1996-97 | 92.61 | 37.61 | 4.87 |
| 1997-98 | 83.36 | 39.20 | 5.64 |
| 1998-99 | 69.02 | 40.72 | 7.08 |
| 1999-2000 | 48.10 | 33.22 | 8.29 |
| 2000-01 | 44.49 | 27.33 | 7.37 |

The closing stock remained always above the limit of four months. The excessive inventory was attributable to less counter sales due to non-achievement of sales targets and lesser acceptability of Company's merchandise in the market. It was further noticed in audit that average inventory held by Mumbai (Rs 2.16 lakh), Hisar (Rs 3.55 lakh), Lucknow (Rs 2.03 lakh) and Chandigarh (Rs 9.97 lakh) emporia during these five years represented 30.83 months', 11.66 months', 9.06 months' and 9.67 months' counter sales, respectively. Closing stocks of Rs 27.33 lakh as on 31 March 2001 at the emporia included old/obsolete stock valuing Rs 11.08 lakh (Ambala: Rs 0.90 lakh, Chandigarh: Rs 0.90 lakh, Kolkata: Rs 1.68 lakh, Delhi: Rs 4.80 lakh, Hisar: Rs 0.60 lakh, Lucknow: Rs 1.40 lakh and Mumbai: Rs 0.80 lakh) representing 40.54 *per cent* of the total stocks. Locking up of funds in the stocks in excess of maximum level of inventory resulted in loss of interest of Rs 10.77 lakh (calculated at the rate of 15.50 to 18.25 *per cent* per annum being the rate at which cash credit was availed by the Company) during these years.

### *2D.7.3 Export promotion*

The Company was appointed as the nodal agency for development of exports in the State. During the five years up to 2000-01, the Company exported readymade garments under its entitlement quota allotted by Apparel Export Promotion Council. No other goods were exported. The table below indicates the export performance of the Company for the five years up to 2000-01:

| Year | Targets | Value of exports | Operational income | Operational expenditure | Operational loss |
|---|---|---|---|---|---|
| | (Rupees in lakh) | | | | |
| 1996-97 | 319.00 | 44.29 | 1.73 | 9.23 | 7.50 |
| 1997-98 | 145.00 | 91.61 | 4.69 | 9.19 | 4.50 |
| 1998-99 | 50.00 | 56.45 | 3.09 | 9.78 | 6.69 |
| 1999-2000 | 100.00 | 80.69 | 7.69 | 8.21 | 0.52 |
| 2000-01 | Not fixed | 39.54 | 2.35 | 7.85 | 5.50 |
| **Total** | | **312.58** | **19.55** | **44.26** | **24.71** |

**Exports channelised by the Company were just 0.02 *per cent* of total exports from the State**

The Company could not achieve targets in any year except 1998-99 when the targets were drastically reduced. The basis for fixation of targets, though asked for (January 2001), was not furnished to Audit by the Management. The operational loss of Rs 24.71 lakh of the export activity during the five years up to 2000-01 would further increase to Rs 55.15 lakh after adding Head Office overheads. It was seen in audit that exports channelised by the Company amounted to just 0.02 *per cent* of the total exports from the State during five years up to 1999-2000. The Company, however, made no efforts to increase its exports and make this activity viable. Though the Company promised (September 1996) the Board to critically review the activity so as to make it viable, no such review had yet been conducted (June 2001). In January 1998, the State Government desired that the export activities might be kept in abeyance until it was profitable to take them up for any particular item. The Company, however, continued to export garments and sustained losses aggregating Rs 12.71 lakh during three years from 1998-99 to 2000-01. Thus, the Company failed to achieve its objective of export promotion.

### *2D.7.4 Marketing assistance to SSI units*

#### *2D.7.4.1 Marketing Assistance Scheme*

The Company operates a Marketing Assistance Scheme (MAS) for rendering marketing assistance to SSI units of the State. Under the Scheme, it participates in various tenders floated by the Government/Semi-Government agencies on behalf of SSIs after adding 2 to 5 *per cent* service charges on the rates offered by SSIs.

The table below indicates the number of SSI units registered and extent of marketing assistance provided by the Company during the five years up to

1999-2000:

| Sl. No. | Particulars | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-2000 |
|---|---|---|---|---|---|---|
| 1. | No. of SSI units in the State | 132758 | 138251 | 92501 | 71852 | 73190 |
| 2. | No. of SSI units registered with the Company for assistance | 811 | 905 | 982 | 1055 | 1150 |
| 3. | No. of units and value of assistance (Rupees in lakh) provided by the Company | 35<br>(709.71) | 37<br>(660.78) | 65<br>(182.17) | 77<br>(248.37) | 115<br>(248.90) |
| 4. | Percentage of units assisted to total units registered with the Company | 4.32 | 4.09 | 6.62 | 7.30 | 10.00 |

Though the number of units registered and assisted by the Company had increased from 1995-96 to 1999-2000, the value of assistance provided to them had declined from Rs 7.10 crore in 1995-96 to Rs 2.49 crore in 1999-2000.

**The role of the Company in providing marketing assistance was negligible**

It was observed in audit that the decline was mainly due to negative publicity of the Company in press in 1997-98 on account of supply of dhoties/sarees not conforming to specifications and supply of sub-standard bandages to hospitals. Due to its negligible role in providing marketing assistance to SSIs, the Company suffered a loss of Rs 25.58 lakh in this activity during the five years ending March 2000.

***2D.7.4.2 Working of District Marketing Offices (DMOs)***

The Company provides assistance to rural industries and SSIs in marketing their products. For this purpose, the Company had set up 15 DMOs at headquarter of 15 districts to arrange supply of products of SSIs/RIs to needy Government departments. Commission of 5 *per cent* was being charged by the Company on the items supplied through it.

**Out of 15 DMOs, 13 suffered continuous losses aggregating Rs 1.92 crore**

It was seen in audit that 13 DMOs had continuously been in losses during the five years up to 1999-2000 and the loss suffered by them aggregated to Rs 1.92 crore during this period. Only one DMO at Panchkula had earned profit of Rs 23.87 lakh since its inception in 1997-98. DMO at Narnaul (over all loss during five years up to 1999-2000 : Rs 2.16 lakh) had earned a meagre profit of Rs 1.56 lakh during 1997-98 and 1998-99. The losses in DMOs were attributable to poor sales. On the receipt of decision of a committee headed by the State Chief Minister in December 2000, the Company decided (January 2001) to close seven DMOs (Ambala, Hisar, Jind, Karnal, Rohtak, Panipat and Sonepat). It was further noticed that DMO Sirsa which had incurred a loss of Rs 20.31 lakh for five years up to 1999-2000, was allowed to continue.

### *2D.7.5 Promotion of rural industries*

#### *2D.7.5.1 Rural Industries Scheme*

Rural Industries Scheme (RIS) was entrusted to the Company by the State Industries Department in 1978 for conducting various activities of training etc. for which grant-in-aid was received from the State Government for revenue as well as capital expenses. COPU, while discussing the earlier reviews on the working of the Company had recommended (March 1994 and January 1998) that expenditure should be strictly regulated as per grants in future. While noting the recommendations, the Company stated (September 1999) that the services of surplus staff were being gainfully utilised in the other units of the Company.

**An amount of Rs 4.46 crore was incurred in excess of grants received under Rural Industries Scheme**

It was, however, noticed in audit that despite the recommendations of COPU, the Company did not take effective steps to keep the expenditure within the grants. Against the receipt of grants of Rs 74.30 lakh during the five years up to 2000-01, the Company spent Rs 5.20 crore resulting in excess expenditure of Rs 4.46 crore. The excess expenditure was attributable mainly to surplus staff. Also the surplus staff had not been gainfully utilised elsewhere.

#### *2D.7.5.2 Loss in running of Artistic Pottery Centre, Jhajjar*

After the stoppage of release of funds by Central Government for Artistic Pottery Centre, Jhajjar, in May 1993, the Company tried to run it on commercial lines. However, it continued to suffer losses continuously which aggregated to Rs 31.23 lakh during the last five years up to 1995-96. The Board of Directors of the Company decided (January 1997) to examine the feasibility of handing it over to Khadi and Village Industries Board Haryana or Haryana State Handloom and Handicrafts Corporation or District Rural Development Agency, Rohtak. As this also did not materialise, the Board finally decided (September 2000) to dispose of the stores having assessed value of Rs 5.81 lakh (book value: Rs 10.94 lakh). Further developments were awaited (June 2001).

It was observed in audit that the Centre was continued despite the stoppage of grant, in contravention of the recommendations of COPU (March 1994) that expenditure should be strictly regulated as per grants. Thus, unnecessary operation of the Centre had resulted in a loss of Rs 43.55 lakh to the Company during 1994-95 to 2000-01. It was further noticed that portions of the office block of the Centre stood occupied unauthorisedly by the State Election Department and the State Animal Husbandry Department since February 1998 and July 1998, respectively. The Company had not got the rent assessed and therefore, could not file a claim for rent from these departments.

## 2D.8 'Off Farm Micro Enterprises' project

With a view to supplement the sources of income of landless labourers and non-agriculturists of Mewat Area, the Company was entrusted (September 1995) a project viz. 'Off Farm Micro Enterprises' by the Mewat Development Authority (MDA) for a period of seven years (1995-96 to 2001-02) sponsored by the International Fund for Agricultural Development, Rome (IFAD). The Company identified different trades for imparting training to young persons in the age group of 15 and 45 years of Mewat Area. Under the Scheme, three to seven centres were set up for imparting training in football stitching, mudha making, steel fabrication, welding, electric fitting and repair etc. During five years ending 31 March 2000, the Company received Rs 59.60 lakh, incurred Rs 73.87 lakh and provided training to 784 persons against the target of 1140. The Company attributed (August 1999) the slow progress of the project to the absence of awareness about the scheme, inadequate information of prospective trainees, lack of coordination amongst related agencies etc.

The project report envisaged that potential beneficiaries would be assisted by the Company to submit project reports to banks during last six to eight weeks of the training for securing loan-cum-subsidy for setting up of micro enterprises. No such assistance was provided by the Company.

Thus, the object of the project to supplement the income of landless labourers/non-agriculturist remained confined to imparting training only.

## 2D.9 Non-disposal of assets of closed centre

In view of the closure of training-cum-common facility centre at Murthal in 1988-89, the Company decided (July1992) to sell the administrative block and common facility centre building of this centre. After assessing the value at Rs 60.43 lakh in February 1994, an advertisement given in May 1994 brought no response. The Board directed (March 1997) to explore the possibility of evaluation of cost of administration block, workshop and open space from Haryana State Industrial Development Corporation Limited (HSIDC)/private valuer. The Company had not got the assessment done from HSIDC or the private valuer so far (June 2001). As such the Company neither gainfully utilised the building nor disposed it off to mobilise its resources.

## 2D.10 Manpower analysis

The table given below indicates the position of number of employees, expenditure on salaries and other benefits, turnover per employee during five years up to 1999-2000:

| Year | Number of employees | Employees remuneration and other benefits | Average remuneration per employee | Turnover of the Company |
|---|---|---|---|---|
| | | (Rupees in lakh) | | |
| 1995-96 | 536 | 350.36 | 0.65 | 13619.84 |
| 1996-97 | 525 | 452.07 | 0.86 | 18703.37 |
| 1997-98 | 500 | 492.10 | 0.98 | 14248.23 |
| 1998-99 | 497 | 560.42 | 1.13 | 16406.36 |
| 1999-2000 | 494 | 609.74 | 1.23 | 13453.80 |

From the above table, it would be observed that remuneration per employee increased by 89.23 *per cent* between 1995-96 and 1999-2000, whereas turnover per employee increased by only 7.16 *per cent* during this period.

**An amount of Rs 2.70 crore was spent on surplus manpower during three years up to 1999-2000**

Due to closure of some schemes viz. Nutan Stove Project, Panchkula (February 1991) and Sewing Machine Project, Panchkula (March 1993) and decontrol of iron and steel (January 1992), the level of activities of the Company had gone down significantly. Hence the Company identified (June 1993) 174 posts as surplus which were to be retrenched on the principle, of "last come first go". The Company sent (August 1993) a list of 117 surplus employees for their possible absorption in other departments/agencies of the State Government. Only 37 employees could, however, be adjusted up to June 1996. Of the surplus posts, 51 posts of the closed centres were of technical nature which could not be adjusted anywhere and annual expenditure of Rs 48 lakh was being incurred on them. The Company did not take any action either to retrench them or to utilise their services gainfully. It was only after a committee headed by the State Chief Minister decided (December 2000) to retrench 175 surplus employees identified afresh by the Company as surplus, the Company retrenched the services of 158 employees including 48 technical personnel of the closed projects in March 2001. Meanwhile, the Company had incurred unfruitful expenditure of Rs 2.70 crore on surplus manpower during three years up to 1999-2000 (including Rs 1.20 crore on surplus technical staff between September 1998 and February 2001).

## Conclusion

The Company, established for providing assistance to SSI units, by arranging raw material at reasonable rates, marketing their products, promoting exports and running of emporia to boost the sales of handloom and handicrafts, has failed to achieve its objectives. The assistance provided to SSI units by the Company had decreased drastically and its contribution in exports from the State has been negligible. Most of the emporia and depots of the Company were incurring losses mainly due to declining sales, increase in establishment cost, inferior quality of material and inadequate profit margin. The expenditure under Rural Industries Scheme was also not kept within the grants received which led to increase in losses.

The Company needs to review all its activities with a view to make them viable and immediately discontinue those which can not be revived economically.

The matter was referred to the Company and the Government in May 2001; their replies had not been received (September 2001).