Chapter-II

2 Reviews relating to Government companies

2A Haryana Seeds Development Corporation Limited

Highlights

The Company was incorporated in September 1974 with a view to provide quality seeds at reasonable prices to the farmers in Haryana.

(Paragraph 2A.1)

The accumulated profit (Rs 1.40 crore) of the Company for the year ending March 2001 is to be viewed in the light of non-provision of Rs 2.27 crore towards leave encashment (Rs 1.94 crore) and penal interest payable to State Government (Rs 33 lakh). Further, the Company enjoyed the benefit of waiver of dividend of Rs 1.15 crore (State Government: Rs 0.62 crore and National Seeds Corporation Limited: Rs 0.53 crore) on preference shares and penal interest of Rs 45.26 lakh on short term loan from State Government.

(Paragraph 2A.6(a))

The capacity utilisation of seed processing plants declined substantially to 36 *per cent* in 2001-02 due to lower production programme given to growers.

(Paragraph 2A.9)

The action plan under National Seeds Project-Phase-III envisaged (January 1995) an increase in volume of sale from 65 to 75 *per cent* through Company's own sale outlets. But the sale through its own outlets ranged between 64 and 68 *per cent* during five years up to 2000-01 (except 1998-99).

(Paragraph 2A.10.1)

Contribution of the Company as a percentage of total sales in the State during five years up to 2001-02 declined constantly from 63 to 36 *per cent* for wheat and ranged between 47 and 32 *per cent* and 3 and 11 *per cent* in case of paddy and cotton respectively.

(Paragraph 2A.10.2)

As against one of the main objectives of the Company to provide certified seeds at reasonable rates, the selling price of seed was higher due to excess loading of the cost by processing charges of seeds, interest on carrying cost of unsold seeds and dealer's commission. The excess charging from the farmers in respect of wheat seed alone worked out to Rs 3.60 crore during 1999-2001.

(Paragraph 2A.10.4)

Imprudent decision of the Company to sell wheat seed outside the State at cheaper rates had resulted in loss of Rs 0.79 crore to the Company.

(Paragraph 2A.10.6.2)

As the sale of seeds was confined to two crop seasons only, the personnel posted in the field remained idle for 6 months and the Company had not evolved any scheme for their alternative use. As a result, the Company paid Rs 2.47 crore as salary and allowances to them for idle period during five years up to 2000-01.

(Paragraph 2A.11.1)

2A.1 Introduction

The Company was incorporated in September 1974 with a view to provide quality seeds of various agricultural products viz. wheat, paddy, gram, pulses, oil seeds and vegetables at reasonable prices to the farmers in Haryana.

2A.2 Objectives

The main objectives of the Company, *inter alia*, were to:

- make arrangement for supply of foundation seeds to grower-shareholders for varieties of all India and regional importance and through other agencies for other local varieties;

- carry on production of certified seeds of all those kinds and varieties coming under the purview of the Seeds Act, 1966 and quality seeds of other kinds or varieties;

- carry on business as seed merchants including export and import and make available at reasonable prices sufficient quantities of certified seeds to support agricultural production programme;

- enter into contract with individuals, co-operative societies, corporations and Government agencies in the growing, processing, drying, storing, distributing, transporting, buying and selling of agricultural seeds; and

- implement State Seed Project forming part of National Seeds Programme as formulated, and as modified from time to time.

The Company had, however, confined its activities to organising production, procurement, processing and marketing of seeds.

2A.3 Organisational set-up

The management of the Company is vested in a Board of Directors (Board) comprising of not more than 11 directors. As on 31 March 2002, there were 11 directors on the Board, six nominated by the State Government (Chairman, Managing Director, one Director from Haryana Agricultural University (HAU) and three ex-officio directors), three by National Seeds Corporation Limited (NSC), one each by Government of India and the growers. Nominees of the NSC and HAU were experts. Except Managing Director who was a bureaucrat, all the directors were on part time basis.

The Managing Director was the Chief Executive of the Company and was assisted by five departmental heads viz. Chief Manager (Marketing), Chief Manager (Production), Chief Manager (Personnel & Administration), Chief Engineer and Chief Finance & Accounts Officer in day to day affairs of the Company. Besides, there were six Regional/Branch Managers in the field to look after the six* seed processing plants and marketing of seeds.

As per Memorandum of Understanding (MOU) entered (May 1996) amongst Government of India, State Government and the Company for implementation of the National Seeds Project-Phase III (NSP-III) for making the State Seed Corporations viable on sustainable basis, it was envisaged to appoint Managing Director for a tenure of three years for ensuring commitment and continuity of management. The Committee on Public Undertakings (COPU) had also recommended (March 1983) in its 11th Report that the Chief Executive of Public Sector Undertaking/Board should be given a minimum tenure preferably three years or more. Contrary to the recommendations of COPU and MOU, 10 Managing Directors were appointed during the last five

* Umri, Yamunanagar, Hisar, Sirsa, Tohana and Pataudi.

years up to March 2002 and their tenure remained between one and 18 months.

2A.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 ended 31 March 1996, No. 2 (Commercial)- Government of Haryana. The review was discussed by COPU and their recommendations are contained in the 48th Report presented to the State Legislature on 15 March 2001. The cases where recommendations of the COPU/assurance given by the Company to COPU were not complied with by the Company are discussed in paragraphs 2A.9.2 and 2A.10.3 *infra*.

The present review conducted during November 2001 to February 2002 covers the performance of the Company during the last five years ended 31 March 2002. Out of six processing plants, five* plants were visited and records of 43 out of 70 sales counters were test-checked during audit besides the head office of the Company.

2A.5 Funding

2A.5.1 Capital structure

As per the Action Plan agreed (January 1995) between the Government of India, State Government and the Company under NSP-III, the existing preference shares held by the State Government (46,805) and NSC (32,228) were to be converted into equity shares and the accumulated dividend of Rs 1.15 crore up to March 1994 (State Government: Rs 0.62 crore, NSC: Rs 0.53 crore) on these shares was to be waived.

The preference shares held by the State Government were converted into equity shares (March 1996) and the Government waived the accumulated dividend of Rs 0.62 crore thereon. Although the NSC neither waived the dividend nor returned the share certificates for conversion into equity shares, the Company after seeking approval of the shareholders (December 1999) issued (April 2000) equity shares in lieu of preference shares to the NSC.

As on 31 March 2001, the paid-up capital of the Company was Rs 4.81 crore, subscribed by the State Government (Rs 2.76 crore), NSC (Rs 1.12 crore) and growers (Rs 0.93 crore).

2A.5.2 Borrowings

The Company had borrowed funds (term loans) from banks, State Government and Haryana State Agricultural Marketing Board (HSAMB). As on 31 March 2001, total loans outstanding amounted to Rs 4.19 crore from State

* Umri, Yamunanagar, Hisar, Sirsa and Tohana

Government (principal: Rs 2 crore, interest: Rs 1.55 crore), banks (principal: Rs 10.30 lakh, interest: Rs 15.64 lakh), and HSAMB (principal: Rs 35 lakh, interest: Rs 3.40 lakh).

For working capital requirement, the Company had made cash credit arrangements with a commercial bank against hypothecation of inventories and seeds. There was an outstanding amount of Rs 4.44 crore under such arrangement as on 31 March 2001.

A review of cases involving borrowings revealed the following points:

(a) Excess payment of interest

The Company obtained (1981-85) term loans of Rs 3.37 crore from New Bank of India (NBI), now merged with Punjab National Bank, under refinance scheme of National Bank for Agriculture and Rural Development (NABARD).

The Bank charged excess interest of Rs 0.88 crore by increasing rate of interest arbitrarily.

The NBI in its agreements with the Company agreed to charge fixed rate of interest of 12.5 *per cent* with no variation clause. However, the bank started (September 1990) charging rate of interest arbitrarily varying from 14 to 17.75 *per cent* and the Company paid excess interest from 1990-91 onwards**.** The excess payment as worked out by the Company/bank amounted to Rs 0.88 crore.

The management stated (January 2002) that the bank had charged higher rate of interest based on revision in rates by NABARD and the matter was taken up from time to time with the bank for charging interest as per the terms of the agreement. The reply of the management was not tenable as the Company should have initiated legal action restraining the bank from charging interest rates higher than the rate prescribed in the agreement. The management further stated (June 2002) that the legal opinion in this case was being taken separately.

(b) Avoidable payment of guarantee fee

There was no condition for providing State Government guarantee against the loans of Rs 3.37 crore obtained from NBI. However, the bank debited (June 1996) arbitrarily the Company's account with Rs 14.65 lakh (Rs 6.55 lakh guarantee fee up to 1991 and Rs 8.10 lakh interest thereon till March 1996). The fact of non-existence of guarantee clause in the original agreement was never brought to the notice of the bank. On being pointed out in audit, the management stated (June 2002) that the matter had been taken up at higher level for refund of the amount.

2A.6 Financial position and working results*

(a) Financial position

The following table summarises the financial position of the Company for the five years ending March 2001:

	Particulars	1996-97	1997-98	1998-99	1999-2000	2000-01
A.	**Liabilities**	**(Rupees in lakh)**				
(i)	Paid-up capital	463.82	471.97	473.87	476.89	480.66
(ii)	Reserve & surplus					
a)	Free reserves and surplus	157.54	93.31	94.16	163.46	141.17
b)	Capital reserve	584.66	575.73	572.90	571.21	570.18
(iii)	Borrowings (including cash credit)	390.85	372.08	299.94	275.29	688.90
(iv)	Current liabilities & provisions	311.66	454.61	316.30	337.87	359.26
	Total A	**1908.53**	**1967.70**	**1757.17**	**1824.72**	**2240.17**
B.	**Assets**					
(v)	Gross block	993.55	1195.11	1228.53	1223.25	1241.28
(vi)	Less: depreciation	645.90	691.63	739.03	764.17	801.59
(vii)	Net fixed assets	347.65	503.48	489.50	459.08	439.69
(viii)	Capital works-in-progress	123.88	0.53	4.21	0.09	0.09
(ix)	Current assets, loans & advances	1428.57	1457.42	1256.92	1362.39	1799.90
(x)	Miscellaneous expenditure to the extent not written off	8.43	6.27	6.54	3.16	0.49
	Total B	**1908.53**	**1967.70**	**1757.17**	**1824.72**	**2240.17**
C.	**Capital employed****	**1588.44**	**1506.82**	**1434.33**	**1483.69**	**1880.42**
D.	**Net worth*****	**612.93**	**559.01**	**561.49**	**637.19**	**621.34**

An analysis of the above table revealed the following points:

(i) Due to non-liquidation of seeds, the inventory of the Company had increased during 2000-01 which resulted in increase in current assets, loans and advances and capital employed.

The accumulated profit of Rs 1.40 crore at the end of March 2001 was subject to non-provision of expenditure of Rs 2.27 crore.

(ii) The accumulated profit (Rs 1.40 crore) of the Company at the end of March 2001 was to be viewed in light of non-provision of Rs 2.27 crore toward leave encashment (Rs 1.94 crore) and penal interest payable to State Government (Rs 33 lakh). Further, the Company had enjoyed the benefit of waiver of dividend of Rs 1.15 crore (State Government: Rs 0.62 crore and NSC: Rs 0.53 crore) on preference shares and penal interest of Rs 45.26 lakh on short term loan from State Government.

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* Financial position and working results were analysed up to 2000-01 due to non-finalisation of the accounts for the year 2001-02.

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

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

(b) Working results

The table given below summarises the working results of the Company for five years ending 31 March 2001:

	Particulars	**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**
A.	**Income**	**(Rupees in lakh)**				
(i)	Sales	2623.40	2000.93	2503.37	2660.25	1968.63
(ii)	Subsidy from State Government on sale of seeds	255.84	117.19	188.42	196.06	189.27
(iii)	Other income	57.75	25.59	62.81	35.50	69.86
(iv)	Accretion (+)/decretion (-) in stock	(-)505.59	(+)540.16	(-)729.73	(+)213.12	(+)906.07
	Total A	**2431.40**	**2683.87**	**2024.87**	**3104.93**	**3133.83**
B.	**Expenditure**					
(v)	Purchases	1623.14	1881.38	1223.22	2056.81	2180.45
(vi)	Administrative, selling and distribution expenses	593.15	666.55	683.03	795.72	830.72
(vii)	Interest	88.26	82.83	79.97	78.23	110.56
(viii)	Depreciation	39.51	47.43	48.56	45.19	42.30
	Total B	**2344.06**	**2678.19**	**2034.77**	**2975.95**	**3164.03**
(ix)	Profit (+)/loss (-) for the year	(+) 87.34	(+) 5.68	(-) 9.91	(+) 128.98	(-) 30.20
(x)	Prior period adjustments	(-) 6.19	(-) 41.76	(+) 10.75	(-) 51.89	(+) 7.90
(xi)	Less provision for income tax	11.27	-	-	7.79	-
	Net profit(+)/loss (-)	**(+) 69.88**	**(-) 36.08**	**(+) 0.84**	**(+) 69.30**	**(-) 22.30**

The Company's profit of Rs 1.29 crore for the year 1999-2000 turned into loss of Rs 30.20 lakh in 2000-01 despite receipt of revenue grant of Rs 23.76 lakh from Government of India under Seed Bank Scheme. Loss during 2000-01 was attributable to:

- decrease in sale and increase in interest component on borrowings/inventory holdings;
- increase in expenses on inter unit transfers (discussed in para 2A.10.3 *infra*); and
- increase in administrative expenses (discussed in para 2A.11 *infra*).

2A.7 National Seeds Project- Phase-III

In order to make the Seed Corporations financially viable on sustainable basis and to restructure them on commercial lines, the Government of India formulated National Seeds Project Phase-III (NSP-III). In January 1992, the State Government approved participation in the project. Based on the diagnostic study (November 1994 and January 1995) conducted by the operating consultant* appointed by the Government of India, following key action plan was agreed to (January 1995):

- Contribution of margin money of Rs 4.20 crore by the Government of India (Rs 2.70 crore) and State Government (Rs 1.50 crore) for working capital;
- Waiving penal interest (Rs 45.26 lakh) on short term loan of Rs 5 crore obtained from the State Government;
- Contribution of rupee one crore by the Government of India for repayment of the loan, ibid;
- Charging of 6 *per cent* simple interest on repayment of the whole outstanding loan and repayment of the entire loan by 31 March 1998;
- Contribution of capital grant of Rs 19.50 lakh each by the Government of India and State Government for capital investment;
- Grant of Rs 16 lakh for Electronic Data Processing (EDP) equipments by the Government of India; and
- Introduction of recommended measures of cost reduction by surrendering excess load of power in the plants, rationalisation of manpower, increase in sale through own outlets from 65 to 75 *per cent* and to increase the Company's market share in the sale of seeds in the State to 75 *per cent*.

2A.7.1 Implementation of the NSP-III

The State Government did not release its share of matching contribution of Rs 19.50 lakh for capital investment.

The Government of India disbursed (May 1995) Rs 3.86 crore towards margin money for working capital (Rs 2.70 crore), grant for electronic data processing equipment (Rs 16 lakh) and repayment of loan to the State Government (rupee one crore). Further, the Government of India released (March 1996) Rs 19.50 lakh being its share for capital investment. The State Government did not release the matching contribution of Rs 19.50 lakh for capital grant but released (August 1995) Rs 1.50 crore towards margin money for working capital.

A scrutiny of the records relating to implementation of NSP-III revealed the following points:

(i) State Government waived (March 1996) penal interest (Rs 45.26 lakh) on short term loan of Rs 5 crore and agreed for 6 *per cent* simple interest on outstanding loan. The Company repaid only Rs 3 crore during 1995-96 (Rs 1.50 crore) and 1996-97 (Rs 1.50 crore). As on 31 March 2001, Rs 3.55 crore (including interest of Rs 1.55 crore at the rate of 6 *per cent* per annum) was outstanding.

* M/s K. Lal Goel & Company, New Delhi

EDP equipment purchased for Rs 15.24 lakh under the scheme was not put to use.

(ii) The Company purchased computer hardware out of the grant for EDP equipment for Rs 15.24 lakh during 1995-97. However, computerisation of Head Office, processing plants and marketing units had not been completed in the absence of which MIS reports, profit centre reports, inter-plant comparison report etc had not been generated. The management stated (June 2002) that the equipment had become obsolete and computerisation could not be completed due to financial constraints.

(iii) The Company could not achieve the target of 75 *per cent* sale through its own outlets and the same ranged between 64 and 68 *per cent* during the last five years up to 2000-01 (except in 1998-99).

(iv) Against the envisaged 75 *per cent* share of the Company in the total sale of seed in the State, the actual share during the last five years up to 2001-02 ranged between 36 and 63 *per cent* for wheat, 32 and 47 *per cent* for paddy and 3 and 11 *per cent* for cotton (discussed in paragraph 2A.10.2 *infra*).

2A.8 Production performance

2A.8.1 Seed development process

Breeder seed constitutes the basis of all further seed production and is used in production of foundation seed. Breeder seed was provided by the Government of India which was used in the production of foundation seed. The foundation seed of marked genetic purity and other physical characteristics was used for multiplication/ production of certified seed, which was sold to the farmers for raising crops on a large scale.

The seed development process is narrated below:

Procurement of breeder seed from Government of India
I
Multiplication to foundation seed
I
Distribution of foundation seed to growers
I
Receipt of raw seed from growers
I
Processing of raw seed in seed processing plants
I
Certification of processed seed for sale to farmers

The Company procured foundation seed from Haryana Agriculture University (HAU) and the growers by giving them production programme. The foundation seed so obtained was distributed amongst individual grower shareholders and other farmers for multiplication/production of raw seed on their land holdings. The entire raw seed was procured from these growers at the rates fixed each year by the Company by adding some premium on minimum support price fixed by the Government of India. The raw seed was then processed in processing plants of the Company. The processed seed was tested by Haryana State Seed Certification Agency (HSSCA) in its seed testing laboratory and the seed labelled as certified seed by the HSSCA was sold to the farmers.

2A.8.2 Foundation seed

The requirement of foundation seed was assessed by the Company on the basis of targeted coverage of total cultivable area as per crop production programme of each season prepared by the Seed Production Committee. The foundation seeds were sold to growers for production of raw seed.

Excess payment of rupee one crore was made on procurement of foundation seed from HAU.

It was observed in audit that during the last five years up to 2000-01, 20,362.60 quintals foundation seed of wheat valuing Rs 2.51 crore was purchased from HAU at a rate ranging between Rs 1,108 and Rs 1,369 per quintal, though the Company procured foundation seed (from growers and Government seed farms) through its own production programme at rates ranging between Rs 611 and Rs 832 per quintal. This had resulted in excess payment of Rs 1.0 crore to HAU.

The management stated (June 2002) that it had followed the policy for production of foundation seed since its inception and preferred to get maximum quantity of seed produced from HAU farm followed by Government Seed Farms/ Haryana Land Reclamation and Development Corporation Limited (HLRDC) farm and Central State Farm (CSF), Hisar. The Company further stated that it went for production programme through private growers only under special circumstances and under strict and close supervision of technical staff.

The management's reply was not tenable as the foundation seed procured through its own production programme was cheaper as compared to the foundation seed procured from HAU, and the Company should have procured maximum quantity of foundation seed from Government agencies and private growers through its own production programme.

2A.8.3 Fixation of targets

The State Government constituted (May 1997) a Seed Production Committee comprising of 14 members representing State/Central Government and technical institutions. The Committee draws production programme of certified seed for each season (Rabi and Kharif) on the basis of the demand received from field offices, projection given by the Agriculture Department and targets suggested under NSP-III. The production programme so decided by the Committee was then considered by the Board of the Company. The implementation of seed production programme was reviewed periodically by the Managing Director of the Company.

The table below indicates the targeted area for production of certified seed vis-à-vis actual area sown for the last five years up to 2000-01:

Crop season	Year	Target fixed	Area sown	Shortfall	Percentage of shortfall
		(Figures in acres)			
Rabi					
	1996-97	25577	21484	4093	16
	1997-98	20455	18759	1696	8
	1998-99	19346	18290	1056	5
	1999-2000	20142	19269	873	4
	2000-2001	16052	15350	702	4
Kharif					
	1996-97	8198	4483	3715	45
	1997-98	9306	8230	1076	12
	1998-99	4358	3187	1171	27
	1999-2000	3819	3067	752	20
	2000-2001	3976	3631	345	9

The Company had not been able to sow the targeted area in any of the crops.

An analysis of the above table would reveal that the Company had not been able to sow the targeted area in any of the crops i.e. Rabi and Kharif during the last five years though it continued to reduce the targets year after year.

The management stated (June 2002) that production programme underwent change based on the response from growers received during the previous years and also keeping in view the stocks of unsold seed available.

2A.8.4 Production of certified seed

The table below indicates the targets and actual production of certified seeds of wheat, paddy and cotton during the last five years up to 2000-01:

Crop	Year	Target for production	Actual production	Percentage of achievement
		(quintals)		
Wheat				
	1996-97	267000	202232	76
	1997-98	261650	119987	46
	1998-99	208650	186085	89
	1999-2000	220000	205532	93
	2000-2001	167560	95549	57
Paddy				
	1996-97	17500	10172	58
	1997-98	20400	11423	56
	1998-99	15000	6400	43
	1999-2000	16000	11241	70
	2000-2001	17550	13082	75
Cotton				
	1996-97	15000	4769	32
	1997-98	18000	1145	6
	1998-99	7850	206	3
	1999-2000	4800	3065	64
	2000-2001	7350	4455	61

Source:- Data taken from seed production registers maintained by the Company.

NSP-III envisaged progressive increase in sale of wheat seed from 2.22 lakh quintals to 2.85 lakh quintals, paddy seed from 10,736 quintals to 21,000 quintals and cotton seed from 5,444 quintals to 20,000 quintals during 1994-2000. An analysis of the above table would reveal that Company fixed targets lower than those envisaged in NSP-III and was not able to achieve even the reduced targets. The management stated (June 2002) that due to marketing problems, the lower targets were fixed and even the reduced produce could not be sold. The reply was not tenable as by adopting proper marketing strategy, the sale could have been increased.

2A.9 Processing of seed

The raw seed procured from the farmers was processed in the six processing plants of the Company. It would be seen from the Annexure-10 that the capacity utilisation of the processing plants declined substantially to 36 *per cent* in 2001-02 which was the lowest during five years, the highest being 78 *per cent* in 1999-2000.

The management stated (June 2002) that low production of seeds and resultant under utilisation of capacities were due to carry over of stock from the previous years and fluctuation in weather conditions.

The reply was not tenable as carry over of stock was due to poor marketing and fixation of higher rates in comparison with rates of private traders. Moreover, fluctuation in weather condition had no impact as the total sales of wheat seed in the State increased from 2.14 lakh quintals during 1997-98 to 4.16 lakh quintals during 2001-02.

It was further seen that the capacity utilisation of Umri and Yamunanagar plants ranged between 25 and 68 *per cent* and 19 and 46 *per cent* respectively during the last five years up to 2001-02. As the capacity utilisation at Yamunanagar was lower as compared to Umri, the processing cost at Yamunanagar was Rs 292.99, Rs 110.33 and Rs 89.45 per quintal as against processing cost of Rs 56.93, Rs 51.87 and Rs 22.55 per quintal at Umri during the last 3 years up to 1999-2000. As both the plants were located at close proximity to each other, the processing of entire seeds at Umri would have not only increased its capacity utilisation but also reduced the processing cost. The management stated (June 2002) that it was planning to reduce the installed capacity at Yamunanagar.

2A.9.1 Cotton ginning and bale pressing plant, Hisar

The Company procured raw cotton (*Kapas*) from the growers which was ginned and seed was separated from cotton. The cotton was pressed in cotton ginning and bale pressing plant. The installed capacity of the plant was 11,200 bales per working season of 100 days in a year.

The table below summarises the capacity utilisation of the plant for the last five years up to 2000-01:

Year	Installed capacity in number of bales	No. of cotton bales ginned & pressed	Percentage utilisation of installed capacity
1996-97	11200	1153	10.29
1997-98	11200	Nil	Nil
1998-99	11200	27	0.24
1999-2000	11200	444	3.96
2000-2001	11200	1317	11.76

The capacity utilisation of the plant ranged between nil and 11.76 *per cent* during five years up to 2000-01.

Low capacity utilisation was attributed to less production programme given as the target area for cotton was reduced from 6,461 acres during Kharif 1997 to 2,197 acres during Kharif 2000. Further, the Company could not obtain work of ginning from Government agencies viz. HAFED, Cotton Corporation of India (CCI) and private parties. NSP-III envisaged (January 1995) to dispose of the cotton ginning plant and replace it with smaller plants. However, no action had been taken (March 2002) in this regard.

The management admitted (June 2002) that installed capacity of the plant was much higher than the requirement and the Company could not get work from private parties, HAFED and CCI in spite of their earnest efforts.

2A.9.2 Cotton delinting plants

The Company had three delinting* plants (two machine delinting plants at Hisar and Sirsa and one acid delinting plant at Hisar) with total installed capacity of 23,000 quintals per season.

The capacity utilisation ranged between one and 23 *per cent* during 1996-2001.

The capacity utilisation of the plants ranged between one and 23 *per cent* which was due to low production programme given to growers and non-procuring of work from private parties. Though the COPU recommended (March 2001) constitution of a committee of officers to take effective steps for improving the capacity utilisation of plants, no such committee had been constituted so far (March 2002).

The management stated (June 2002) that it had closed the acid delinting plant and work of improving the capacity utilisation of machine delinting plants was under consideration.

Some of the important points on the working of plants are discussed below:

Unfruitful expenditure of Rs 12.11 lakh was incurred on repair of the acid delinting plant.

(a) The utilisation of acid delinting plant at Hisar decreased from 2,641.10 quintals during Kharif 1993 to 752.50 quintals during Kharif 1997 due to high cost and increased risk to seed quality. Despite this, the Company incurred an expenditure of Rs 12.11 lakh on replacement of its dryer and wash machine (Rs 10.41 lakh) and procurement of new acid storage tank (Rs 1.70 lakh) in

* Delinting is a process of removing cotton attached with the cotton seed.

1997. Thereafter, only 550 quintals of seed was delinted during Kharif 1998 and since then it was lying idle. Expenditure of Rs 12.11 lakh had, thus, proved to be unfruitful. Although the management decided to dispose of the plant in March 2001, the plant had not been disposed of so far (June 2002).

(b) Avoidable payment of minimum electricity charges

Non-surrendering of excess power/load resulted in excess payment of Rs 10.45 lakh.

The Hisar plant was sanctioned (1986) power load of 509.327 KW with the contract demand of 550 KVA for its cotton ginning, bale pressing and acid delinting plant. The Company continued to avail sanctioned load despite low capacity utilisation of the plant for the last 10 years. On being pointed out in audit (July 2000), the Company reduced (March 2002) the load to 174.32 KW with contract demand of 194 KVA. Had the Company reduced the load earlier, it could have saved Rs 10.45 lakh paid as minimum charges during April 2000 to February 2002.

2A.9.3 Short packing of wheat seed

The raw seed received by the Company from seed growers are processed and quality seed retained and packed by the Company for sale to the farmers. Payment to the seed growers was made on the basis of quantity of seeds packed.

At Umri plant, the Company was having 49,937.20 quintals and 8,888.80 quintals of packed wheat seed of PBW-343 and UP-2338 varieties respectively for sale during 2000-01. The Company could sell 31,113.20 quintals of these varieties and was left with unsold stock of 27,712.80 quintals. The left over stock of seed was put to revalidation before sale during Rabi 2001. While revalidating the left over stock of seed, shortage of 525.80 quintals of wheat seed, being the difference between the quantity offered for revalidation and quantity actually revalidated, was noticed.

The Committee constituted to enquire into the shortages found (January 2002) that non-certification of weights/scales vis-a-vis calibration before/during processing of Rabi seed (1999-2000) resulted in under weight filling i.e. short packing of seed. Resultantly, wheat seed sold during 2000-01 was also under weight.

Thus, negligence in monitoring the actual weight at the packing stage had resulted in short packing of 525.80 quintals of wheat seed valuing Rs 6.70 lakh against unsold stocks of 27,712.80 quintals. The management stated (June 2002) that responsibility of concerned staff was being fixed and recovery of losses being made.

2A.10 Marketing

To ensure timely availability of certified seed at the doorsteps of the farmers, the Company had created its own network of 70 regular sale counters. Besides regular sale counters, about 20 to 30 temporary sale counters were opened during sale season. Certified seed was also sold through institutional agencies viz. Mini Banks, Haryana Agricultural Marketing Federation Co-operative Limited (HAFED), HLRDC and Haryana Agro Industries Corporation Limited (HAIC) etc. The sale performance of certified seed during the last five years up to 2001-02 is detailed below:

Crop Season	**Year**	**Availability of seed**	**Sale**	**Percentage of sale to availability**
		(quintals)		
Rabi				
	1997-98	208386	138250	66
	1998-99	192592	186404	97
	1999-2000	199691	180329	90
	2000-2001	227016	142102	63
	2001-2002	184760	182060	99
Kharif				
	1997-98	21452	17531	82
	1998-99	18242	15638	86
	1999-2000	17884	17046	95
	2000-2001	19482	17679	91
	2001-2002	22688	18262	80

The availability of Rabi seeds declined from 2.08 lakh quintals in 1997-98 to 1.85 lakh quintals in 2001-02.

The availability of Rabi seed declined from 2.08 lakh quintals in 1997-98 to 1.85 lakh quintals in 2001-02 and of Kharif seed declined in the first four years and increased marginally during 2001-02. Even this seed could not be sold in all the five years (except Rabi crop during 2001-02).

The management stated (June 2002) that the change in the preference of the farmers for certain varieties of seeds, entry of a large number of private seed producers and unfavorable weather conditions were the factors responsible for decline in sale of certified seeds. It was, however, noticed in audit that poor marketing, higher selling rates and failure of the Company to ascertain the farmers' preferences were responsible for poor sales.

2A.10.1 Commission to institutional agencies

The action plan under NSP-III envisaged (January 1995) an increase in volume of sale from 65 to 75 *per cent* through Company's own sale outlets. However, the sale through its own outlets ranged between 64 and 68 *per cent* during five years up to 2000-01 (except in 1998-99). During the last five years up to 2000-01, the Company paid commission of Rs 2.55 crore to the institutional agencies for sale of seed on 10 *per cent* commission basis.

The management stated (February 2002) that from 2001-02 Rabi crops, the Company was allowing 7.5 *per cent* commission instead of 10 *per cent* to the agencies. However, the fact remained that the Company could not increase the quantum of sale through its own outlets.

2A.10.2 Contribution of the Company towards meeting the demand of major seeds in the State

The table below indicates contribution of the Company towards distribution of major seeds in the State during five years up to 2001-02.

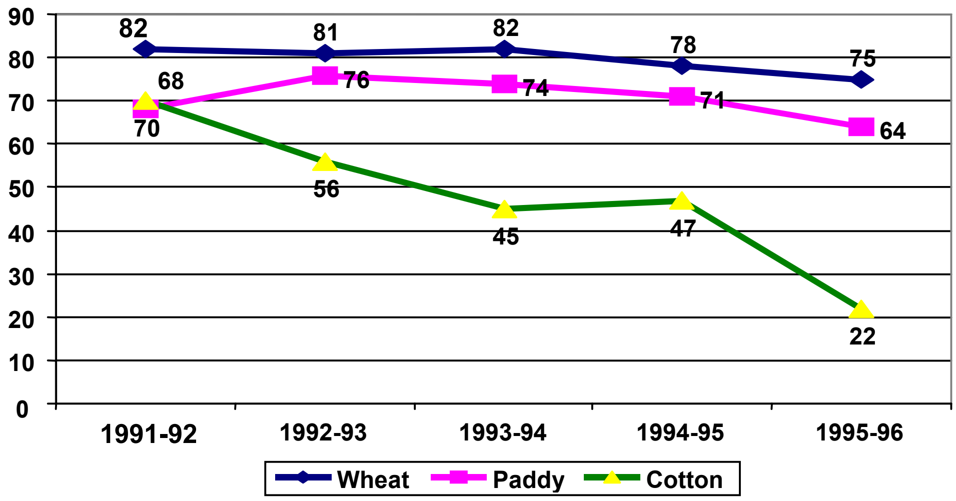
Crop	Year	Total sale of seeds in the State (quintals)	Contribution of the Company (quintals)	Percentage of contribution
Wheat	1997-98	214333	134005	63
	1998-99	313230	173449	55
	1999-2000	354689	175822	50
	2000-2001	335430	137740	41
	2001-2002	415932	149435	36
Paddy	1997-98	25988	9049	35
	1998-99	33867	10760	32
	1999-2000	32332	11899	37
	2000-2001	29618	11420	39
	2001-2002	23112	10962	47
Cotton	1997-98	44942	4821	11
	1998-99	50737	1754	3
	1999-2000	33746	1334	4
	2000-2001	41117	2552	6
	2001-2002	43860	4606	11

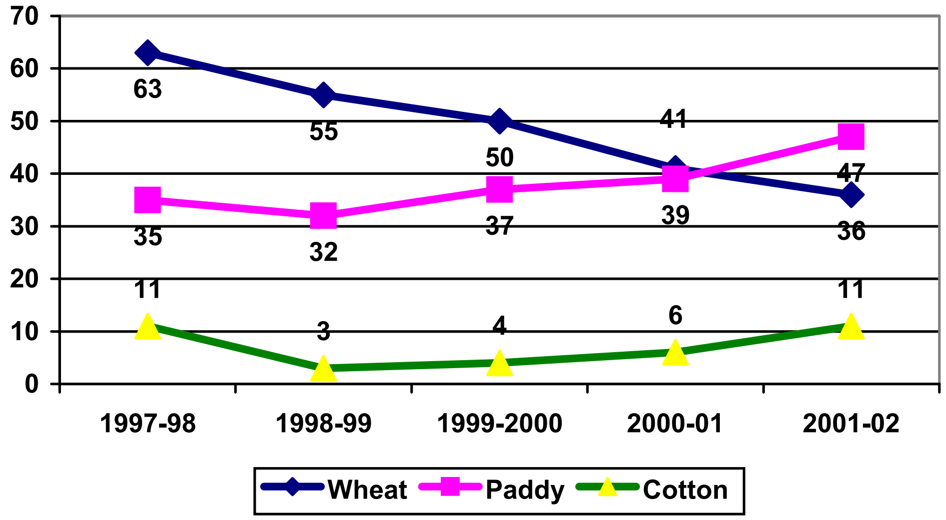
The contribution of the Company in the State dropped from 63 *per cent* in 1997-98 to 36 *per cent* in 2001-02 in respect of wheat seed.

From the above table, it would be seen that there was substantial increase in sale of wheat seed in the State from 2.14 lakh quintals to 4.16 lakh quintals during 1997-2002. The contribution of the Company, however, dropped from 63 *per cent* to 36 *per cent* during the same period.

Interestingly, during the preceding block of 5 years of 1991-96, the Company's contribution of wheat, paddy and cotton ranged between 75 and 82, 64 and 76 and 22 and 70 *per cent* respectively whereas the contribution of wheat, paddy and cotton during 1997-2002 ranged between 36 and 63, 32 and 47 and 3 and 11 *per cent* respectively.

The graphical presentation indicating the Company's contribution (in terms of percentage) in the total sale of seed in the State for the block years 1991-96 and 1997-2002 was as under:





The management stated (June 2002) that decline in sale was due to entry of private seed producers, change in the preference of the farmers, non-lifting of allocated wheat seed by the institutional agencies and taking of seeds by the farmers from adjoining areas of other States like Punjab and Rajasthan. The reply was, however, not tenable as with substantial subsidy from the Government, the Company could have maintained its contribution by providing seed at competitive rates keeping in view the preference of the farmers.

2A.10.3 Expenditure on inter unit transfers

While discussing Para 2A.11 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1996, No. 2 Commercial Government of Haryana, regarding excess expenditure of transportation on inter-unit transfer of seed, the management intimated (August 1999) the COPU that the expenditure had decreased from Rs 25.71 lakh during 1995-96 to Rs 14.79 lakh during 1998-99 and further assured to minimise the expenditure. However, it was noticed that the expenditure incurred on inter-unit transfer had again increased to Rs 21.88 lakh and Rs 24.57 lakh during the years 1999-2000 and 2000-01 respectively. The increasing trend in inter-unit transfers was due to non-assessment of production programme properly.

The management stated (June 2002) that higher expenditure was attributable to hike in transportation and labour rates. However, efforts were constantly being made to minimise the expenditure.

2A.10.4 Fixation of sale price

One of the main objectives of the Company was to make available certified seed to the farmers at reasonable rates. With this in view, the State Government provided subsidy to the Company on the seeds sold to the farmers within the State. The Board authorised (December 1995) the Managing Director to fix the sale rates of various seeds produced during Rabi and Kharif crops. While fixing the sale rates, the Company added various elements of cost viz. processing cost, packing cost, interest on inventory carrying, dealers commission, overheads etc. in the procurement price of seeds.

The table below indicates the rates at which the Company procured seed of various crops and their sale rates fixed by the Company after processing during one year test checked in audit.

Crop	**Year**	**Procurement rate**	**Sale rate**	**Percentage addition over procurement rate**
		(Rate in Rupees per quintal)		
Wheat	2001-02	710	1275	80
Paddy	2001-02	665	1350	103
Mustard	2001-02	1485	2750	85
Arhar	2000-01	1950	4000	105
Toria	2001-02	1190	2700	127

From the above it would be seen that the addition over procurement rate of the Company ranged between 80 and 127 *per cent*. Due to abnormal processing charges and other overheads, the sale rates of the Company were higher than the prevailing market rates even after providing for subsidy by the State Government.

A test-check in audit revealed that the Company fixed higher prices for wheat seed during the years1999-2000 and 2000-01 on account of excess loading of seed processing charges, interest on carrying cost of unsold seeds and dealers commission causing excess charging of Rs 3.60 crore from the farmers as discussed below:

Inclusion of excess processing cost in cost sheet resulted in overcharging of Rs 0.59 crore during 1999-2001 in wheat seed.

(i) As per policy of the Company for working out the processing cost in a year, the actual processing cost incurred during the previous year was increased by 10 *per cent* being general cost escalation. Accordingly, the Company had included Rs 101.11 and Rs 80.83 per quintal during the years 1999-2000 and 2000-01 for wheat seed against the actual processing cost of Rs 73.48 and

Rs 73.59 per quintal respectively resulting in excess charging of Rs 0.59 crore during these years.

(ii) The Company charged interest component for six months at the rate of 18 *per cent* per annum on fresh stocks as inventory carrying cost while working out the sale rates, as against actual interest rate of 14.25 *per cent* paid by it. The excess interest charged on wheat alone comes to Rs 45.35 lakh during these two years.

Inclusion of dealer's commission on sales effected through Company's own outlets resulted in excess charging of Rs 2.56 crore.

(iii) The Company charged dealer's commission at 10 *per cent* on whole of the quantity to be sold while working out the sale price whereas only 22 to 34 *per cent* of sale was effected through dealers. As against Rs 1.11 crore paid to dealers as commission on all the seeds sold, Rs 3.67 crore was charged on wheat seed alone during these years which resulted in excess charging of Rs 2.56 crore.

Thus, the Company could have improved quantum of sales and profit by fixing realistic prices.

2A.10.4.1 Avoidable extra expenditure on the purchase of bajra seed

Procurement of bajra seed at higher rates resulted in avoidable extra payment of Rs 37.31 lakh.

The Company purchased 4,107 quintals, 1,487 quintals, 1,251 quintals and 93 quintals of bajra certified seed (Hybrid-67) from NSC during 1996, 1997, 1998 and 1999 at the rate of Rs 2,430, Rs 2,408, Rs 2,322, and Rs 2,200 per quintal respectively. At the same time, it purchased the same variety of seed from Andhra Pradesh State Seeds Corporation Limited/Maharashtra State Seeds Corporation Limited (APSSC/MSSC) at the rate of Rs 1,800, Rs 1,900 and Rs 2,100 per quintal during 1996, 1998 and 1999. Further, the Company was having offer from APSSC to supply seed at Rs 2,000 per quintal during 1997 which was ignored. The Company did not make any efforts to negotiate with NSC for charging the rates at par with other agencies which resulted in avoidable extra expenditure of Rs 37.31 lakh on above purchases.

The management stated (June 2002) that after 1997, preference was given to other agencies in comparison to NSC for major supply and seeds which were not available with them, were purchased from NSC. The reply was not tenable as the varieties pointed out in the para were available at cheaper rates with other agencies.

2A.10.5 Loss on revalidation of seed

The seeds which could not be sold during the current sowing season were carried over for sale during the next sowing season. Before sale, the seeds were revalidated and that part of the seed which did not contain the minimum required germination was rejected and sold as grain.

The table below indicates the details of stock of seed put to revalidation, stock failed in germination test, seeds sold as commercial grain and loss suffered by the Company:

Sl No.	Production Year	Seed	Stock put to revalidation (quintal)	Stock failed in germination test (quintal)	Year of sale as grain	Loss suffered (Rupees in lakh)
1	1993 and 1994	Cotton	686.26	685.66	1996 and 1997	7.02
2	1995 and 1996	Cotton	2814.11	2608.17	1998	24.75
3	1999	Wheat	17643	3657	2001	19.59
4	1994 and 1996	Paddy	2567.90	959.80	1997 and 1999	8.13
					Total	**59.49**

Failure of seed during revalidation resulted in loss of Rs 0.59 crore.

Thus, failure of seeds during revalidation test resulted in loss of Rs 0.59 crore to the Company.

The management stated (February 2002) that certified seed lost its vigour/germination during long period of storage and nobody was responsible for failure of seed. However, the fact remained that abnormal time gap between production of seed and its disposal as grain resulted in deterioration of stocks.

2A.10.6 Inter-state sale

The action plan under NSP-III envisaged increase in inter-state sales so as to make State Seeds corporations commercially viable. Table below indicates the inter-state sales during the last five years up to 2001-02:

Year	Total sale	Inter-state sale	Percentage of inter-state sale to total sale
	(quintals)		
1997-98	155779	440	0.28
1998-99	202041	8391	4.15
1999-2000	197374	1166	0.59
2000-01	159781	20	0.01
2001-02	200325	28810	14.4

The management stated (June 2002) that due to higher cost of seeds, the Company was unable to sell their seeds in other states. However, it was observed in audit that poor inter-state sale was also due to lack of marketing policy and late fixation of selling rates.

2A.10.6.1 Failure to sell wheat seed to a private party outside the State

Failure to sell wheat in the inter-state market resulted in inventory holding and avoidable expenditure of Rs 0.75 crore on storage

For sale season 2000-01, the Company had 2,20,087 quintals of wheat seed. To liquidate this stock, the Company decided (September 2000) to explore possibilities of inter-state marketing at the rate of Rs 1,085 per quintal. One party viz. Tarai Seed Syndicate, Udham Singh Nagar (UP) consented to purchase 30,000 quintals of seed at the rate of Uttar Pradesh Seed and Tarai Development Corporation Limited/NSC for sale in Uttar Pradesh and Bihar and also offered to be a distributor of the Company for these States. It also offered advance payments for 30,000 quintals of seed and earnest money for dealership. Representative of the firm visited (October 2000) the office of the Company at Panchkula to finalise the purchase proposal. The Company insisted upon the rate of Rs 1,085 per quintal and held no negotiations with the party. At the end of the season, huge stocks of 82,347 quintals remained unsold. The Managing Director observed (July 2001) that the manner in which the offer of 30,000 quintals of seeds was unceremoniously buried was very intriguing and the Company could have reduced its margins to prevent blockade of funds.

Thus, had the negotiations been conducted at higher level, the Company could have not only saved carry over charges of about Rs 0.75 crore as worked out by the management but also given a boost to the inter-state sale by accepting the offer of the party to be distributor for inter-state sale.

The Company has, however, not investigated the matter further and fixed any responsibility for not pursuing the matter at an appropriate level.

2A.10.6.2 Loss due to injudicious inter-state sale

Injudicious decision to sell wheat seed outside the State resulted in loss of Rs 0.79 crore.

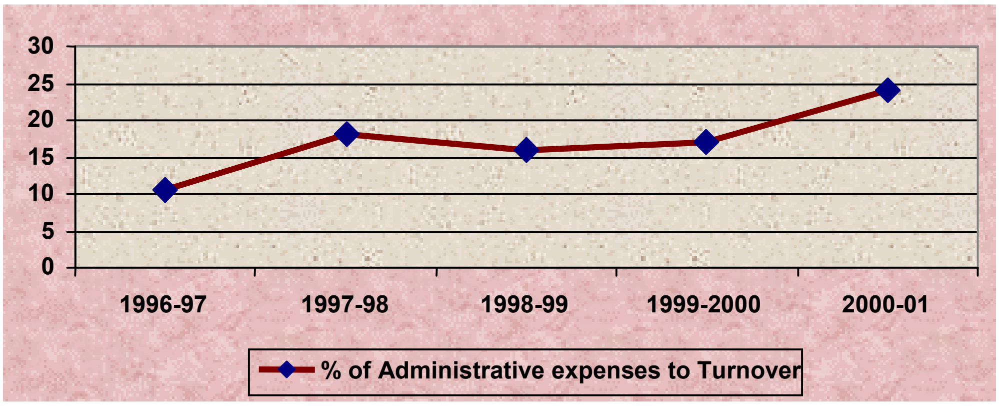
As per production programme given (5 October 2000) for the year 2000-01 (sale season 2001-02), 1,90,500 quintals wheat seed was to be procured. During mid season review, the target was reduced to 1,67,500 quintals due to carry over stocks. The Company could, however, procure only 96,190 quintals due to untimely rains even by relaxing luster factor. Thus, total availability of seed with the Company for sale for the crop season 2001-02 was 1,77,053 quintals, including 80,863 quintals of carry over stock. However, overlooking the aspect of low availability of seed, the Company sold 27,600 quintals of wheat seed to Himachal Pradesh (23,600 quintal) and Jammu & Kashmir (4,000 quintal) during September to November 2001 at the rate of Rs 990 per quintal against its sale rate of Rs 1,275 per quintal in the State. Thus, imprudent decision of the Company to sell wheat seed outside the State at cheaper rates had resulted in loss of Rs 0.79 crore to the Company.

The management stated (June 2002) that to avoid the last year’s bad precedence of having left over of approximately 82,000 quintals of stock this quantity was sold. The reply was not tenable as the decision to sell seed at reduced rates particularly when there was large demand at higher rates within the State lacked commercial prudence.

2A.11 Manpower analysis

The Company was having six processing plants with a total processing capacity of 2.90 lakh quintals graded seeds besides corporate office at Panchkula. For undertaking this activity, the Company had deployed regular manpower ranging between 435 and 441 during the last five years up to 2000-01.

The salary bill shot up from Rs 3.03 crore during 1996-97 to Rs 5.16 crore in 2000-01 (excluding payment to daily wagers) which ranged between 10.5 and 24 *per cent* of the total turnover during these years as given in the following graph:



The Company deputed (May 2001) a team of officers for examining the working of Rajasthan State Seeds Corporation (RSSC). Based on their study, it was observed that RSSC had 13 plants with processing capacity of 3.34 lakh quintals and was having manpower of only 225 and its wage bill was about Rs 2.50 crore per annum. Therefore, the Company continued to deploy excess manpower in comparison to RSSC.

A further scrutiny of major wings (Marketing, Production and Engineering) with reference to deployment of manpower revealed following points:

2A.11.1 Payment of idle wages to marketing staff

The Company deployed 140 regular persons in the Marketing wing out of which 102 persons were directly involved in marketing. As the sale of seed was confined to two crop seasons only, the personnel in the field remained idle for a considerable time.

Idle manpower in marketing wing resulted in the payment of Rs 2.47 crore as salary and allowances for the idle period.

The management stated (June 2002) that the manpower remained idle for six months. As a result of idle manpower, the Company had paid about Rs 2.47 crore as salary and allowances to the staff directly involved with the sale of seed during the last five years up to 2000-01 for the period they remained idle (i.e. six months per year). No effective steps were taken for gainful deployment of idle manpower.

2A.11.2 Deployment of excess staff in Engineering Wing

The Engineering wing was headed by a Chief Engineer with the assistance of one Executive Engineer and one Assistant Engineer at head office of the Company as against deployment of only one Assistant Engineer at head office of RSSC. For operation of 6 plants, the Company had deployed 36 persons as against deployment of 13 persons for operation of 13 plants by RSSC. The expenditure of the Company on repair and maintenance/capital works was only Rs 1.03 crore during the five years up to 2000-01, against the administrative expenditure of Rs 1.89 crore of Engineering Wing. Thus, the Company incurred expenditure of Rs 1.83 on manpower for every Rs 1 spent on repairs and maintenance.

The management stated (June 2002) that staffing pattern of RSSC was not workable as the Company was generally operating the plants in three shifts. The reply was not tenable as the staff deployment was far in excess of requirements in view of lower capacity utilisation.

Conclusion

The Company was formed to make quality seed available to the farmers at reasonable rates. However, the Company has not been able to fully achieve this objective as its share of sale in the State has been decreasing consistently. Main reasons for the decrease in market share were un-competitive prices of seeds, poor marketing and excessive overheads/manpower.

The Company should make all out efforts to improve its marketing by fixing the rates of seeds realistically and by reducing overheads to become competitive in the changed economic scenario. The Company should study the practices adopted by other seed corporations for meaningful deployment of the marketing staff during lean season.

The matter was referred to the Government in April 2002; the reply had not been received (September 2002).