

THE STATE TRADING CORPORATION OF INDIA LIMITED
(A Government of India Enterprise)
(CIN L74899DL1956GOI002674)

COMMENTS OF
THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
ON
THE COSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2015
AND
MANAGEMENT REPLIES THERETO

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गोपनीय

संख्या / No. 25/9/2015

भारतीय लेखा तथा लेखापरीक्षा विभाग,
कार्यालय प्रधान निदेशक वाणिज्यिक लेखापरीक्षा
एवं पदेन सदस्य लेखापरीक्षा बोर्ड-1
INDIAN AUDIT & ACCOUNTS DEPARTMENT,
OFFICE OF THE PRINCIPAL DIRECTOR OF COMMERCIAL
AUDIT & EX-OFFICIO MEMBER, AUDIT BOARD-1

दिनांक/Dated 25/9/2015

सेवा में,

अध्यक्ष एवं प्रबन्ध निदेशक,
स्टेट ट्रेडिंग कॉर्पोरेशन ऑफ इंडिया लिमिटेड,
जवाहर व्यापार भवन, टॉलस्टाय मार्ग,
नई दिल्ली 110 001

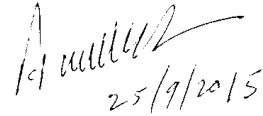
विषय : 31 मार्च 2015 को समाप्त वर्ष हेतु स्टेट ट्रेडिंग कॉर्पोरेशन ऑफ इंडिया लिमिटेड के वार्षिक लेखों पर कंपनी अधिनियम 2013 की धारा 143(6)(b) एवं 129(4) के अन्तर्गत भारत के नियंत्रक महालेखा परीक्षक की टिप्पणियाँ ।

महोदय,

में इस पत्र के साथ 31 मार्च 2015 को समाप्त वर्ष के लिए स्टेट ट्रेडिंग कॉर्पोरेशन ऑफ इंडिया लिमिटेड के वार्षिक लेखों पर कंपनी अधिनियम 2013 की धारा 143(6)(b) एवं 129(4) के अन्तर्गत प्राप्त किए गए टिप्पणियाँ अंग्रेजित की जाती हैं । इन टिप्पणियों को कंपनी की वार्षिक रिपोर्ट में प्रकाशित किया जाए और कंपनी की वार्षिक आम सभा में उर्मा प्रकार रखा जाए जिस प्रकार सांविधिक लेखा परीक्षकों की लेखा परीक्षा रिपोर्ट रखी जाती है।

संलग्न : टिप्पणियाँ

भवदीय,


25/9/2015

(विमलेन्द्र पटवर्धन)
प्रधान निदेशक

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) READ WITH SECTION 129(4) OF THE COMPANIES ACT, 2013 ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE STATE TRADING CORPORATION OF INDIA LIMITED FOR THE YEAR ENDED 31 MARCH 2015.

The preparation of consolidated financial statements of **THE STATE TRADING CORPORATION OF INDIA LIMITED** for the year ended 31 March 2015 in accordance with the financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the company. The statutory auditors appointed by the Comptroller and Auditor General of India under section 139(5) read with section 129(4) of the Act are responsible for expressing opinion on the financial statements under section 143 read with section 129(4) of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143(6) of the Act. This is stated to have been done by them vide their Audit Report dated 18th September 2015.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 143(6)(a) read with section 129(4) of the Act on the consolidated financial statements of **THE STATE TRADING CORPORATION OF INDIA LIMITED** for the year ended 31 March 2015. We conducted a supplementary audit of the financial statements of S T C T limited, subsidiary, but did not conduct supplementary audit of the financial statements of NSS Satpura Agro Development Co. Ltd.(N) and associates (as per the list annexed) for the year ended on the same date. This supplementary audit has been carried out independently without access to the working papers of the statutory auditor and is limited primarily to inquiries of the statutory auditor and company personnel and a selective examination of some of the accounting records.

Based on my supplementary audit, I would like to highlight the following significant matters under section 143(6)(b) read with section 129(4) of the Act which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related audit report:

A. Comments on Profitability

**Statement of Profit and Loss
Other Income: ₹ 242.46 crore (Note No. 27)**

The above includes ₹ 203.61 crore as interest income booked during the year 2014-15 on outstanding dues recoverable from M/s. Global Steel Philippines Inc./Global Steel Holdings Limited (GSP/ GSHL) for export of steel slabs during the period 2008-2010. As the recovery of principal amount from GSP/ GSHL is uncertain due to non-adherence to the payment terms as agreed in the conciliation agreement dated 15 November 2011 and further settlement agreement dated 17 May 2012, recognition of the interest income on the outstanding dues is neither prudent nor in consonance with provisions of Accounting Standard 9 (Revenue Recognition). Consequently, 'loss for the year' is understated by ₹ 203.61 crore. On non-recognition of the interest income the Company has incurred a loss of ₹ 890.00 crore during the year. This point was also raised during the audit of standalone financial statements of the Company for the year 2013-14; however, no corrective action has been taken by Management.

B. Comments on Financial Position

Balance Sheet

**I. Equity and Liabilities
Reserves and Surplus (Note 2)
Revaluation Reserve: ₹ 898.72 crore**

The above includes an amount of ₹ 547.29 crore towards revaluation reserve created in respect of leasehold land at Jawahar Vyapar Bhavan and SIT housing colony. However, in absence of clear title to the leasehold land or written consent of the lessor i.e. President of India to sale, transfer etc. in respect of the aforesaid land on the date of balance sheet, revaluation done by SIT is incorrect and misleading and does not present a true and fair picture. Thus, valuation of above properties at fair market value has resulted in overstatement of Reserves and Surplus and Fixed Assets by ₹ 547.29 crore.

2. Assets

Current Assets


Trade Receivables (Note No. 22): ₹ 2425.35 crore

The above includes ₹ 1640.53 crore receivable from M/S GSP/ GSIL, on account of steel slabs supplied during the period 2008-2010. As per Note No. 22.2, the dues are stated to be secured by EMD of ₹ 29.75 crore, Corporate Guarantee of Holding Company and personal Guarantee of Chairman of Holding Company. The associate paid only ₹ 33 crore during 2014-15 dues even after conciliation agreement dated 13 November 2013 and further settlement agreement dated 17 May 2012 for payment of entire dues.

Considering the rate of recovery, lack of adequate security and age of outstanding dues, Audit does not agree with the Management's classification of outstanding dues of ₹ 1640.53 crore as considered good.

This point was also raised during the accounts audit of standalone financial statements of the Company for the year 2013-14; however, no corrective action has been taken by Management.

For and on the behalf of the
Comptroller & Auditor General of India



(Vimalendra Patwardhan)

Principal Director of Commercial Audit
& ex officio Member Audit Board-I,
New Delhi.

Place: New Delhi
Dated: 25 September 2015

Annexure

NAME OF JOINT VENTURES

NSS Satpura Agro Development Co. Ltd.*

NAME OF ASSOCIATE

Richfield Aquatech Ltd.

Huz Martech Ltd.

National Furnery Company Limited **

Indo-phila Gloves Limited*

*Financial Statements for the 2014-15 was not consolidated due to non availability of financial statement

sjd
25/09/2015

MANAGEMENT REPLIES TO THE COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2015.

C & AG Comments	Management Reply
<p>A. Comments on Profitability</p> <p>Statement of Profit and Loss</p> <p>Other Income: Rs. 242.46 crore (Note No. 27)</p> <p>The above includes Rs. 203.61 crore as interest income booked during the year 2014-15 on outstanding dues recoverable from M/s. Global Steel Philippines Inc./Global Steel Holdings Limited (GSPH/GSHL) for export of steel slabs during the period 2008-2010. As the recovery of principal amount from GSPH/GSHL is uncertain due to non-adherence to the payment terms as agreed in the conciliation agreement dated 15th November 2011 and further settlement agreement dated 17th May 2012, recognition of the interest income on the outstanding dues is neither prudent nor in consonance with provisions of Accounting Standard 9 'Revenue Recognition'.</p> <p>Consequently, 'loss for the year' is understated by Rs. 203.61 crore. On non-recognition of the interest income, the Company has incurred a loss of Rs. 590.00 crore during the year.</p> <p>This point was also raised during the audit of the standalone financial statements of Company for the year 2013-14; however, no corrective action has been taken by Management.</p>	<p>By virtue of Conciliation Agreement dated 15.11.2011 and Further Settlement Agreement dated 17.05.2012, the associate has acknowledged, accepted and admitted its full liability including interest.</p> <p>In terms of Clause No. 12(iii) of the Further Settlement Agreement dated 17.5.2012, interest @ 13.50% per annum is payable by the associate till the date of payment.</p> <p>In view of the Further Settlement Agreement being a legally enforceable decree under Indian Arbitration & Conciliation Act 1996, the Company is fully confident of recovery of interest amount from the associate, and as such the recognition of accrued interest as income is in consonance with Accounting Standard (AS)-9.</p> <p>To speed up the process of execution of conciliation awards and recovery, the Company has filed a Special Leave Petition before the Hon'ble Supreme Court, which, in its order dated 15.05.2015 has held the decree to be final.</p> <p>On 19.08.2015, the associate has reaffirmed before the Supreme Court its willingness to pay back the amount. As per the order of the Supreme Court, the Associate made a payment of Rs. 75 crore in the Hon'ble Supreme Court. The Hon'ble Supreme Court has further directed the associate to submit the schedule of payment for balance amount. These developments confirm management's conviction of the interest amount being fully recoverable.</p>
<p>B. Comments on Financial Position</p> <p>Balance Sheet</p> <p>1. Equity and Liabilities</p> <p>Reserves and Surplus (Note 2)</p> <p>Revaluation Reserve: Rs. 898.72 crore</p> <p>The above includes an amount of Rs. 547.29 crore towards revaluation reserve created in respect of leasehold land at Jawahar Vyapar Bhawan and STC housing colony. However, in absence of clear title to the leasehold land or written consent of the lessor i.e. President of India to sale, transfer etc. in respect of the aforesaid land on the date of balance sheet, revaluation done by STC is incorrect and misleading and does not</p>	<p>STC holds clear leasehold rights in respect of land of Jawahar Vyapar Bhawan as also in respect of STC housing colony at Mehrauli, New Delhi. In fact, in respect of the land at Jawahar Vyapar Bhawan, STC had engaged a leading Advocates and Legal Consultants firm to submit a Title – cum – Non-Encumbrance Report. The Report inter-alia states that "The Company has a clear Title".</p> <p>As per Clause 15 of the lease, transfer/ sale of property is permitted subject to prior approval in writing of the lessor. It is thus clear that sale/ transfer of the property is not</p>

present a true and fair picture. Thus, valuation of above properties at fair market value has resulted in overstatement of Reserves and Surplus and Fixed Assets by Rs. 547.29 crore.

prohibited in the lease deed. The only requirement is to take approval of the Lessor. Such approval is granted by local municipal authorities only at the time of transfer or sale after the buyer and consideration amount has been decided. The company shall seek approval in this regard before actually undertaking a sale transaction, as and when required, as per prevailing law.

The revaluation of properties done by STC is on the basis of valuation report by a professional valuer and is neither incorrect nor misleading and there is no over statement of revaluation reserve.

2. Assets

Current Assets

Trade Receivables (Note No. 22): Rs. 2425.35 crore.

The above includes Rs. 1640.53 crore receivable from M/s. GSPI/GSHL on account of steel slabs supplied during the period 2008-2010. As per Note No. 22.2, the dues are stated to be secured by EMD of Rs. 29.73 crore, corporate guarantee of holding Company and personal guarantee of Chairman of the Holding company. The associate paid only Rs. 33 crore during 2014-15 due even after conciliation agreement dated 15 November 2011 and further settlement agreement dated 17 May 2012 for payment of entire dues.

Considering the rate of recovery, lack of adequate security and age of outstanding dues, Audit does not agree with the Management's classification of outstanding dues of Rs. 1640.53 crore as considered good.

This point was also raised during the accounts audit of the standalone financial statements of the Company for the year 2013-14; however, no corrective action has been taken by Management.

The principal amount including interest is covered under the conciliation agreement signed with the party. The associate has paid an amount of Rs. 586.32 crore after signing of the conciliation agreement including Rs. 33 crore during the financial year 2014-15.

STC filed cases under Section 138 of the Negotiable Instrument Act in October 2012 which are being pursued vigorously. STC has also filed Execution Petition against the party for recovery of dues and the matter is being heard in Hon'ble Supreme Court.

On 19.08.2015, the party has given a commitment before the Supreme Court that they are interested to pay back the amount. In compliance of the above commitment made before Hon'ble Supreme Court vide order dated 19.08.2015, the party further deposited an amount of Rs. 75 crore during the current financial year. Hon'ble Supreme Court has directed to party to submit the schedule of payment for balance amount.

Since the entire outstanding amount including interest is covered under conciliation agreement, which has been held to be final by Hon'ble Supreme Court, and the commitment made by the party before the Supreme Court to pay back the entire amount, the dues have been considered good for recovery.

Sd/-
(B.R. Dhawan)
CGM – Finance

Sd/-
(Khaleel Rahim)
Chairman & Managing Director