RESEARCH ARTICLE

FINANCIAL MANAGEMENT IN ZORAM INDUSTRIAL DEVELOPMENT CORPORATION LTD. (ZIDCO)

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Abstract

Zoram Industrial Development Corporation Ltd. (ZIDCO) is the oldest state owned enterprise in Mizoram and was incorporated to develop industrial areas and promote entrepreneurship by providing aid, assistance and finance to industrial undertakings, projects or enterprises in the state of Mizoram. An in-depth financial management scanning shows that it has had failure after failure in project implementations primarily due to poor management, and particularly financial management. Productivity of capital is low and fresh infusion of capital requires funds that are not easily available. Under these circumstances, there is a great need for reformation and restructuring of the enterprise, especially with respect to its financial management in order to check the ongoing drain of resources before it reaches a point of no return. An attempt is made to study the financial management to come up with possible solutions and suggestions for improvement.

Introduction:

The Zoram Industrial Development Corporation Limited (ZIDCO), previously Mizoram Small Industries Development Corporation Limited (MSIDC), was set up under the Companies Act, 1956 on 27th February, 1978. The name Mizoram Small Industries Development Corporation Ltd. (MSIDC) was changed to ZIDCO on 13th September 1985. It was set up primarily as a financing institution to support the State’s effort to bring about an industrial environment. ZIDCO was started as a joint venture of the Government of Mizoram and the Industrial Development Bank of India (IDBI) in the share ratio of 51:49. The initial authorised share capital was Rs. 3 crores which was increased to Rs.10 crores and Rs.50 crores. Registered office of ZIDCO is located at Aizawl, State Capital of Mizoram.

It was set up to develop industrial areas and promote entrepreneurship by providing aid, assistance and finance to industrial undertakings, projects or enterprises in the State of Mizoram. The main objective of the Company is to provide assistance for setting up of new industrial units as well as for expansion, modernization and diversification of the existing units.

The policy framework envisaged that the SOE would generate surpluses and would yield some minimum rate of return on the investment made in them. However, over the years it has been found to be earning low or negative returns and accumulated losses is on the rise. Productivity of capital is low and fresh infusion of capital requires funds that are not easily available. Under these circumstances, there is a great need for reformation and restructuring of the enterprise.
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**Literature Review:**
Goel (2001) conducted a study on the working of financial management of selected central government undertakings in the manufacturing sector, a number of criteria such as procurement of funds, allocation of these funds, management and distribution of earnings and disinvestment policy have been used to analyse the financial management of these corporations.

Gedam (1995) provides a comprehensive theoretical discussion, pros and cons of several concepts, merits and demerits etc. of public enterprises. The value of money; 3E or efficiency, effectiveness and economy; and performance indicators as used in some of the developed countries have been dealt with. The book provides advanced theories concerning public enterprises, and answers to several relevant questions, such as what makes organizations most efficient and how to improve performance. It deals with the performance evaluation of public enterprises, particularly 48 public enterprises under the department of Heavy Industries and Public Enterprises, Government of India.

Kabra (2008) attempts to examine the role of business and industry in the economic growth of the state of Mizoram. Tracing the factors that led to the development of business and industry in the state, he analysed the role of government in the promotion and regulation of business and industry. In the process, discussion on the role played by financial institutions and SOEs in the development of industry in Mizoram has been mentioned.

Sapru (1987) presents major explanations of the public sector enterprises’ weakness as well as proposal for its rectification from the full spectrum of management. The vast number of state owned enterprises has confronted the country with the basic dilemma of how the operating and financial autonomy required for the successful conduct of an enterprise be reconciled with the need for controls to assure public accountability and consistency in public policy. The book in two massive volumes with an array of experts in the field provides an incisive analysis of the central issues in debate about the future of the public enterprise sector.

Singh (1991) writes on theory and practice of public enterprises, rationale of public enterprises in India, organisational set up of these enterprises, the need for balance in autonomy and accountability, managerial issues such as personnel management, industrial relations, finance and pricing. Finally the performance of public enterprises in the past is traced highlighting the various complexities that has resulted from state intervention. The study focuses on the SLPEs of Bihar with respect to their performance and problems has been given. The problems of continuous loss, managerial inefficiencies and excessive political interventions with no proper accountability are common problems identified in the present study.

Mittal (1992) presents a volume aimed at understanding the overall management perceptions of executives in the public sector to assess not only the specific operational tools and techniques used by these managers but what the major concerns of these enterprises are such as public enterprise and economic growth; managerial stress; controls; workers’ participation and trade unionism. The book also looks into issues concerning the public sector management of SLPEs of Kerala, and the prevailing management practices of other countries such as Tanzania, Mexico, Canada and Africa.

**Objective & Methodology:**
This article focus on the financial management of the Zoram Industrial Development Corporation Ltd. (ZIDCO), to explore the practices and the applications of finance in the corporation.

The study of financial management of ZIDCO has been primarily based on primary data (minutes and reports) from the corporation, personal interviews with personnel of ZIDCO and the data of the Comptroller and Auditor General of India (CAG) Annual Reports from 1998-2012.

**Findings and Discussions:**
Zoram Industrial Development Corporation Ltd. (ZIDCO) has had various activities namely, financial assistance to industrial units; administration of Government incentive schemes; setting up of Integrated Infrastructural
Development Centre (IIDC); providing assistance to bamboo processing units under Bamboo Flowering and Famine Combat Scheme (BAFFACOS) and extending housing loan to Government employees and multistoreyed car parking complex at Aizawl under finance from Housing and Urban Development Corporation Limited (HUDCO).

The management of the company is vested in a Board of Directors (BOD) consisting of 11 directors, including a chairman and a managing director as on 31 March 2008. The Managing Director is the Chief Executive of the company who is assisted by one general manager, two managers and three deputy managers in the Head office at Aizawl. The Company has a branch office at Lunglei for recovery of loans.

A comprehensive review on the activities of the Company was conducted during 1997-98 and included in the CAG Audit Report of Mizoram for the year ended 31 March 1998. It was discussed in the Committee on Public Undertakings (COPU) on 28 May 2001. The major recommendations of the COPU on the Action Taken Report of the management were as under:

1. The management should henceforth follow the guidelines in respect of presentation, appraisal, effective monitoring and post disbursement inspection study;
2. The management should take necessary steps to classify the overdue loans as per the guidelines of RBI;
3. The corporation should come up with a realistic plan for achieving maximum recovery of overdues from the borrowers and recycle the fund for the benefit of the people and industrial promotion of the state;
4. The management should make provision for bad and doubtful debts in their accounts;
5. And stern action should be taken against the defaulters and the management should also curtail avoidable expense on establishment.

These recommendations were given by the CAG Report due to the poor recovery of loans. ZIDCO had sanctioned loan to 2375 units for a total amount Rs. 38.78 crore from its inception up to 1997-98. The audit review disclosed that due to poor recovery of overdue principal and interest from its borrowers, the company failed to recycle the funds refinanced by Industrial Development Bank of India (IDBI) by extending loan to further beneficiaries and continue to refinance by repayment of heavy overdues of IDBI which stood at Rs. 12.22 crore, Rs. 13.90 crore and Rs. 14.94 crore at the end of four years from 1993-94 to 1996-97. Recovery of overdues was very low varying from 5.29 to 12.89 per cent and overdue at the close of 1997-98 stood at Rs. 33.28 crore. The enterprise neither analyzed the inherent causes for mounting overdues and poor recoveries nor made age-wise analysis with a view to ascertain cases of doubtful recoveries. Further neither annual target for recovery had been fixed nor were any effective recovery drive, except issue of routine nature of reminders, for repayment initiated. A scrutiny of defaulting cases disclosed that poor recovery performance and consequent mounting overdues were attributable to lack of effective recovery drives, absence of pre-sanction financial, technical and other appraisals, lack of effective monitoring of implementation of projects and post-disbursement inspection which led to abandonment, or non-implementation or mis-utilization of loans by the beneficiaries.

Financial Performance: The financial position and working results of ZIDCO for five years period ending 31 March 2008 shows that it incurred losses in all the years under review and accumulated loss increased from Rs. 8.85 crore in 2003-04 to Rs. 16.84 crore and eroded the entire paid up capital as on March 2008. The capital employed and the net worth of the enterprise became negative as on 31 March 2008. It had not evolved any system to forecast annual budgeted profitability for operation of its annual activities. ZIDCO had neither introduced any system of financial planning nor prepared business plan and resource forecasting for debt utilisation of borrowed funds from financial institutions. It had not made provision of Rs. 22.78 crore (31 March, 2008) for Non-Performing Assets (NPA) as per RBI guidelines. Had the provision been made, the accumulated loss of Rs. 16.84 crore would have increased to Rs. 39.62 crore. The Government stated (October 2008) that due to clearing of SIDBI loan in June 2008, the performance of the SOE would become positive from the year 2008-09 onwards.

Financing Decision: As against the authorised capital of Rs. 20 crore, the paid up capital of the company stood at Rs. 15.78 crore as on 31 March 2008 subscribed by Government of Mizoram (Rs. 11.50 crore) and Industrial Development Bank of India (Rs. 4.28 crore). At the earlier stage, there was an agreement between the Government of Mizoram and the Industrial Development Bank of India (IDBI) to make matching contribution to the share capital. However, IDBI discontinued contributing to the share capital from 1991-92 due to poor repayment of overdues of loans and refinance from IDBI by ZIDCO (Status Report, ZIDCO).
The debt-equity ratio has been discussed in the previous pages, a repetition will not be made but briefly stated ZIDCO has had an average of 1.43 : 5 for the five years viz., 2005-2009, which is quite safe and practical for the enterprise as it has a tendency for delay and non-repayment of overdues. A higher ratio would only expose the enterprise to deeper indebtedness.

The enterprise has received grants-in-aid as a source of funds periodically since inception. During 2004-08, ZIDCO had received the capital grant-in-aid of Rs. 7.35 crore from Ministry of Small Scale Industries (MSSI), Government of India (GOI) and Rs. 0.93 crore from Government of Mizoram (GOM) for implementation of Integrated Infrastructure Development Centre (IIDC) at Pukpui and Zote. It had also received the revenue grant-in-aid of Rs. 3 crore from Government of Mizoram which was meant to wipe out the remaining balance of ginger loan borrowed from National Minorities Development and Finance Corporation (NMDFC), New Delhi. The company, however, had not maintained separate 'grant-in-aid' register and assets register for receipt and utilisation of grant as per General Financial Rules (GFR) (Rule No.19); the revenue grant of Rs. 3 crore was not accounted for, as receipt of income from other sources (March 2008); the receipt of the grants from GOI and GOM and consequent utilisation in respect of capital work-in-progress, creation of assets for implementation of IIDC were not taken into accounts of the enterprise. The Government stated (October 2008) that the state enterprise maintained a separate set of accounts for implementation of IIDC as it had no right of ownership. The reply is contrary to the guidelines of the IIDC scheme stating that the implementing agency had right of the ownership of the IIDC Centres.

The main objective of ZIDCO is to provide assistance for setting up of new industrial units as well as for expansion, modernization and diversification of the existing units. The Financial Institutions (Fls), SIDBI and NMDFC had declined the term loan assistance to the enterprise since 1994 and 2003-04 respectively mainly due to its poor track record of repayment of loans. However, the State Government sanctioned the share capital of Rs.3.95 crore to the enterprise in the year 2004-05 and 2005-06 for providing assistance to Bamboo Processing Units under Bamboo Flowering and Famine Combat Scheme (BAFFACOS). Further, ZIDCO extended housing loan to the Government employees to the extent of Rs.10 crore and also sanctioned multistoreyed car parking cum shopping complex loan to three promoters to the extent of Rs.2.77 crore in the year 2006-07 and 2007-08 under finance from HUDCO.

As pointed out earlier, ZIDCO as is the case with all the SOEs in Mizoram is a sick company running on loss continuously, but ZIDCO is the most probable to recover of all the companies, this has been stated, in fact, by the CAG (2008). As part of the recovery process, the first step is to make corporate plans, particularly in making financing decision it becomes imperative that proper plans considering all different factors should be undertaken. Corporate plan indicates the long-term policy of a company and translates its corporate objectives into remarkable action plan both short term and long term for financing activities aimed at industrial development of the state. The COPU also recommended that the corporation should come up with realistic plans for achieving maximum recovery of overdues from the borrowers and recycle the fund for the benefit of people and industrial promotion to the state. Audit scrutiny revealed that the company had so far (March 2008) not formulated any corporate plan/long term policy for attaining the objective of industrial promotion in the State in terms of sanction, disbursement and recovery of overdues.

Investment Decision: ZIDCO is distinct from the other state enterprises, it is essentially a financial corporation and that it has had less difficulty in the acquisition of finance. These finances, however, are generally for specific purpose. The problem occurs in the effective and systematic implementation of investment. It has been severely commented by the CAG on many occasions for its defective financial management. The following observations were made in this regard.

Investment in Financial Institutions (FIs) : ZIDCO did not devise any investment policy regarding parking of surplus funds of grant-in-aid and funds received from FIs for lending, till disbursement. The enterprise had invested an amount of Rs.2.06 crore in the FIs and Rs. 2.12 lakh in Kisan Vikas Patra (KVP) as on 31st March 2008. It had invested its own fund of Rs. 1.88 crore between March and September 2007 with Life Insurance Corporation of India (LIC) (Rs. 1.18 crore Market Plus scheme) and Bajaj Alliance Life Insurance Corporation Ltd (BALICL) (Rs.70 lakh) Unit Gain Plus maturing after 5 years and 10 years respectively. This investment was made in the personal names of various functionaries of the enterprise which was in violation of the guidelines of RBI and Articles of Association (AOA) of ZIDCO. The approval of the BOD was also not obtained in respect of the above investments. It did not make any efforts to analyze the market interest rates from various FIs with a view to secure the best returns on investment by the Company. Thus, the investment of Rs.1.88 crore made in LIC and BALICL in
the names of officials of the enterprise not only failed to protect the ZIDCO’s interest, but was also in violation of the prescription and guidelines of the RBI and the AOA of the SOE. The Government stated (October 2008) that the enterprise had obtained the signed affidavit from the officials for which the investments were made. The reply does not explain why the SOE had obtained the affidavit which is legally not acceptable without consent of the respective insurance company for assigning the interest to the Company. ZIDCO had purchased a policy of Group Gratuity Scheme from LIC, Silchar branch valuing Rs. 48.90 lakh in the month of March 2007 covering 60 employees for which administrative approval of the BOD and the State Government was not obtained.

Utilisation of borrowed fund: As on 31st March 2008 the State Government had provided total guarantee of Rs. 24.67 crore to SIDBI and NMDFC on behalf of ZIDCO for repayment of the term loan and also assisted ZIDCO by providing grant and loan for repayment of Rs.3 crore to NMDFC (March 2007) and Rs.8.72 crore to SIDBI (June 2008). The enterprise made a loan payment of Rs. 2.88 crore to the FIs as against the recovery of Rs.10.42 crore from borrowers by diverting balance amount of Rs.7.54 crore to meet the administrative and management expenses. The State Government was forced to bail out ZIDCO from the debt by sanctioning a grant of Rs.3 crore (March 2007) and Rs. 8.72 crore interest free loan for repayment of loan of NMDFC and SIDBI respectively to avoid invoking guarantees provided to FIs due to irregular repayment. Thus, due to diversion of borrowed amount and irregular repayment to the FIs, the SOE was faced with a serious setback in its lending operation to secure further funds from the FIs which resulted in shortage of funds for disbursement while depleting the State exchequer to the extent of the amount settled.

Failure to claim defaulted Ginger Loan from NMDFC: ZIDCO was nominated (April 2001) as State Channelizing Agency (SCA) for implementing the programme of NMDFC for disbursing term and money margin loan to the beneficiaries of notified minorities. Under the programme, the SOE had disbursed the “ginger cultivation” loan of Rs. 2.81 crore at Rs. 5000 each to 5620 ginger cultivators against the sanction of Rs. 3 crore in the year 2000-01 and the balance amount Rs. 0.19 crore was utilised for other purposes. As per the scheme, the borrowers were to repay the loan within 12 months from the date of disbursement along with six per cent interest per annum. As on 31st March 2008, the SOE had not recovered the dues of Rs. 3.56 lakh (principal Rs.3.20 lakh, interest Rs. 0.36 lakh) from the farmers. It was noticed that the farmers could not repay the loan due to massive blight and root-borer pests which had affected their crops. In the meantime, the NMDFC had come forward for a one time settlement for clearing ginger loan by waiving the compound interest of Rs. 51.82 lakh and demanded Rs. 3.22 crore due to default of loan since 2001-02. In response to the offer (March 2007), the Government of Mizoram came forward for repayment of ginger loan of Rs. 3 crore to NMDFC on 28th February 2007 by providing grant to the SOE to avoid invoking of State Government guarantee. In this context, it was noticed that the NMDFC had floated a scheme of writing off loans/dues of the beneficiaries in the event of death, disability and calamity notified in the month of November 2006. As per the scheme, the amount written off would be credited to concerned SCA’s loan/dues account and communicated to the SCA for adjustment in its accounts. Instead of seeking for write off of the loan on account of natural calamities as provided for in the said scheme, ZIDCO instead resorted to repayment of the entire amount of Rs.3 crore by availing grant from Government of Mizoram (GOM). Further, the enterprise had excluded outstanding ginger loan amounting to Rs. 2.81 crore in the books of accounts by way of writing off of bad and doubtful debts without the approval of BOD. Had the SOE taken steps for claiming of defaulted ginger loan of 2.78 crore from NMDFC, the repayment made by the GOM would have been averted. The Government stated (October 2008) that GOM committed repayment of ginger loan on behalf of the borrowers much before 2006 and needed to go ahead as per the procedure inspite of new scheme notified by NMDFC in November 2006. The reply does not mention as to why ZIDCO so far (March 2008) had not initiated any action to write off the amount of individual borrowers in the books of accounts by the BOD and claim defaulted amount from the NMDFC.

Disbursement of loan under BAFFACOS: ZIDCO had disbursed the total assistance of Rs. 3.53 crore to the borrowers against the total receipt of Rs. 3.95 crore under BAFFACOS during 2005-06 and 2006-07. The undisbursed balance of Rs. 42 lakh was held by ZIDCO for other purposes. ZIDCO had disbursed a term loan of Rs. 2.45 crore at a rate of 10 per cent interest to the M/s. Mizoram Venus Bamboo Products Limited (MVBPL), Aizawl, in two installments in August 2005 and December 2005 with repayment period of five years. Further, the term loan was sanctioned to the borrower M/s. MVBPL for discharging the liability of the borrower with Central Bank of India, Kolkata as directed by the Government of Mizoram by providing the fund under BAFFACOS as share capital contribution. In addition, ZIDCO also sanctioned working capital loan of Rs.0.35 crore in two installments in December 2005 and June 2006 with repayment period of three years. The sanction and disbursement of term loan of Rs. 2.45 crore for settlement of time barred outstanding dues of another FI (Central Bank of India, Kolkata) needed to go ahead as per the procedure inspite of new scheme notified by NMDFC in November 2006. The reply does not mention as to why ZIDCO so far (March 2008) had not initiated any action to write off the amount of individual borrowers in the books of accounts by the BOD and claim defaulted amount from the NMDFC.
Kolkata), was not permissible as per AoA of ZIDCO. It did not appraise the project evaluation such as credit worthiness, margin money, repayment capacity and marketing of the products before disbursement of the loan. It had not entered into any agreement for creating charges such as mortgage of land and hypothecation of plant and machinery and stock against the security for disbursement of Rs. 2.80 crore for term and working capital loan. No security had been obtained against the loan (March 2008). The borrower had not repaid any installment. Thus, due to sanction and disbursement of loan of Rs. 2.80 crore in violation of the procedure of lending without creation of charges, the recovery of loan by repossession of the assets was not enforceable under the State Finance Corporation Act. The Government while accepting the fact stated (October 2008) that the loans were disbursed at the instance of GOM entirely out of the funds provided by them. The reply does not explain as to why ZIDCO did not follow the procedure for sanction and disbursement of loan.

In another instance, ZIDCO had sanctioned a term loan of Rs. 26 lakh to M/s. R. P. Bamboo Industry in November 2006 for purchase of power operated 120 bamboo stick making machine slicers for the Agarbati stick manufacturing unit. ZIDCO had disbursed the first installment of Rs. 15.60 lakh to the borrower in November 2006. On scrutiny of the sanction and disbursement of loan, it was found that the borrower had utilised the loan amount for purchase of two Fine Silver Machines, one Stick Making Machine and 337 nos. of hand slicing and stick machines instead of purchase of power operated stick and slice machine; the collateral security of the land and building was not in the name of the borrower. ZIDCO had not made the agreement for creation of charges against the security in favour of the enterprise. The borrower had repaid an amount of Rs. 0.42 lakh since May 2007 leaving outstanding of Rs.8.50 lakh (March 2008). Thus, sanction and disbursement of loan without adequate security and utilisation of the same for other purposes led to non-recovery. ZIDCO also sanctioned in August 2006 a term loan amounting Rs.44.50 lakh to M/s L. Z. Bamboo Industry, Aizawl for setting up of bamboo stick manufacturing unit and disbursed the same in two installments in August 2006 and March 2007. Scrutiny of the records of sanction and disbursement revealed that despite the defective project report as per the opinion of Project Manager, ZIDCO had sanctioned loan without considering the viability of the project for repayment; the borrower had purchased only 28 numbers of Bamboo Agarbati square stick making machines at a total cost of Rs.7 lakh instead of 50 stick making machines (estimated value Rs. 4.50 lakh); the SOE had released the second installment of Rs. 20 lakh without ascertaining the utilisation of the first installment for intended purpose; the SOE had not properly assessed the valuation of securities as the borrower had a negligible collateral security of land; the entire amount of the project was funded by ZIDCO without the borrower’s contribution; and the loanee had not repaid a single installment since September 2006. Thus, disbursement of loan without getting adequate security and release of second installment without inspection led to remote chance of recovery. The Government stated (October 2008) that the SOE has initiated action to recover the loan.

Loan under Hire Purchase Scheme: ZIDCO had sanctioned and disbursed a loan of Rs. 25,000 to 50 members aggregating to the total value of Rs.12.50 lakh in November 2005 for purchase of Agarbati stick making machines with interest of seven per cent per annum for repayment within three years. On review of the sanction and disbursement of the loans, it was revealed that the method of selection and identification of borrowers was not made available; agreements with the borrowers for hypothecation of plant and machinery were not entered into; pre and post inspections were not conducted to ensure that borrowers utilised the loan for purchase of machinery; marketability of products of borrowers was not assessed before sanctioning the loan; an amount of only Rs.9,392 against the outstanding loan of Rs.12.50 lakh was repaid (March 2008). Thus, sanction of only loan without obtaining security, non-hypothecation of plant and machinery, irregular repayment and non-assessing marketability of the products led to non-recovery of loan. The Government stated (October 2008) that the SOE had already started repossession of the plant and machinery from the defaulted borrowers. The details of borrowers and repossession of assets from them were not made available to audit.

Housing loan to Government employees: ZIDCO had sanctioned and disbursed the housing loan of Rs.10 crore for construction of houses to 474 officials working in State / Central Government / Public Sector Undertaking in Mizoram, financed by HUDCO under State Government Guarantee in the years 2005-06 and 2006-07. The important terms and conditions for granting housing loan, inter alia, included that the applicant must be in permanent service of Government / PSU and the loan shall be secured by Land Settlement Certificate as collateral security. On scrutiny of the sanction and disbursement, it was found that most of the borrowers did not follow the terms and conditions of HUDCO. The borrowers submitted the same standard estimates instead of submitting their own individual estimates according to the plan of their house; on test check of 30 cases it was noticed in 11 cases that names of borrowers were not matching with the names given in Land Settlement Certificates; non-
Disbursement of loan for Multi-Storeyed Car Parking Complex: HUDCO sanctioned (September 2005) Rs. 2.77 crore for construction of five multi-storeyed car parking complex at Aizawl. However, ZIDCO disbursed (June 2006 to October 2007) the entire amount to three promoters depriving other two promoters loan of Rs.1 crore. On scrutiny of the records of sanction and disbursement, audit further found that ZIDCO had not reappraised the Debt Equity Ratio, Margin of Safety and means of financing as per Detailed Project Report (DPR) for assessing the repaying capacity. ZIDCO had not collected the two months’ installments from the borrowers as fixed deposit with commercial bank or Public Deposit Scheme (PDS) of HUDCO by opening escrow account as stipulated in the HUDCO sanctioned letter. It had not obtained the comprehensive insurance policies from the borrowers for construction of the multi-storeyed car parking complex for protecting the loan amount against the natural calamities and other perils. The Government stated (October 2008) that the SOE had adequate security to cover the loan. Timely and effective recovery of dues is the most critical component for any financing company for sustaining its capacity to finance and reduce risk of debts. ZIDCO has to initiate action against defaulting borrowers under the provisions of SFC Act, 1951 as follows:

1. Issue notice to defaulting borrower under section 30, to discharge forthwith liabilities to the company.
2. Issue of notice under section 29, to take over the management or possession of assets or both of the industrial concerns.
3. Sell the property pledged, mortgaged, hypothecated or assigned as security.

Besides above, ZIDCO also settles cases of heavy overdues, after considering their merits, under the scheme of one time settlement (OTS) by recovering dues of principal and some of the interest, liquidated damages, charges etc.

Non-performing assets: Reserve Bank of India, issued (March 1994) guidelines to classify the loan assets into four categories depending upon their chances of realization as standard assets, sub-standard assets, doubtful assets and loss assets. However, the SOE classified the assets only as standard assets and doubtful assets (non-performing assets). In 2008, the total amount of Rs. 59.92 crore was overdue for recovery as compared to Rs. 47.51 crore in 2004. ZIDCO had not fixed annual target for recovery of the loan and did not analyse the reasons for decline in recovery of loans nor did it take any effective steps to improve the recovery. No records were made available regarding the number of units visited by the recovery staff and number of recovery campaigns held. Even periodical (monthly/quarterly) demand notices to the borrowers were not sent regularly. The matter was not supervised or monitored effectively at the top management level nor did it get adequate attention at Board level. The SOE had not filed any case for recovery of loan from defaulted borrowers under SFC Act and Recovery Act. The SOE introduced the scheme of one time settlement (OTS) in 1999. The scheme remained in force up to 30 March 1999 and thereafter the loan accounts were settled under OTS on case-to-case basis. Under OTS scheme the SOE had recovered the loan amount of Rs.4.43 crore (principal: Rs. 2.73 crore; interest: Rs. 1.70 crore) by waiving outstanding interest of Rs.1.70 crore from 173 borrowers during the period covered by audit. It was found in audit that no time frame was fixed by the SOE for implementation of OTS scheme. As a result, it affected the repayment of loan by the borrowers in time and ZIDCO incurred a loss of Rs. 2.07 crore by waiving of interest due to improper follow up of action in normal circumstances. As of March 2008, 98 part payment cases valuing Rs. 3.23 crore were pending for a period of more than one and half year since the date of approval and the amount was not adjusted against the interest outstanding by withdrawing the benefits under package as per the Rule No. 3 and 9 of OTS scheme. Further, ZIDCO had not taken action under section 29 for possession of assets. The SOE had approved the OTS scheme in January 2003 for repayment of term loan in respect of Hotel Ahimsa for Rs.30.08 lakh in three installments against the total outstanding of Rs. 55.06 lakh. The borrower had made the payment of first installment in the month of January 2003 and the balance two installments payable in the month of July 2003 and January 2004 for Rs.10.38 lakh each were not paid so far (March 2008). ZIDCO had not initiated any action to repossess the assets under section 29 of SFC Act to recover its dues. The SOE proposed in December 2007 a new special OTS scheme for the approval of the BOD for the benefit of defaulters of term loan. As per the proposed scheme the borrowers had to repay the principal within a year with the benefit of waiving the entire outstanding interest. The BOD authorised (December 2007) the managing director to formulate the modalities in consultation with SIDBI. It was noticed in audit that the SOE implemented the proposed package in the month of January 2008.
onwards without obtaining the approval of the BoD and GoM and also did not formulate the guidelines. Up to June 2008, the SOE had liquidated loan of 51 borrowers and collected the principal of Rs. 50.71 lakh by waiving of interest amount of Rs. 87.17 lakh. The waiving of interest without the approval of the BOD and GOM was irregular and unauthorized.

Shortfall in realization of loan amount by disposal of assets: During the five years ended 31 March 2008, ZIDCO disposed of the assets of 11 units of defaulted borrowers at the value of Rs.18.15 lakh. On scrutiny of two units it was found that the SOE had realized land of Rs.2.30 lakh in May 2006 against the outstanding loan of Rs.30.15 lakh at the end of repayment period, April 1999) in the loan account of Makkhama & Sons Cold Storage, Aizawl leaving a shortfall of Rs. 27.85 lakh as collateral security coverage was inadequate. It was found from the Recovery Report (22 January 1998) that the borrower had not set up the cold storage plant and no repayment was made since the date of sanctioning of loan (April 1991). ZIDCO disposed of the land at Rs.12 lakh in September 2004 belonging to Mr. K. Lalreia against the outstanding loan of Rs.98.18 lakh (principal amount of Rs.35 lakh and interest of Rs. 63.18 lakh) as of August 2001 (at the end of the repayment period), as it had not obtained adequate collateral security and there was no proper follow up though the loan was outstanding since 1998.

Setting up of Integrated Infrastructural Development Centre (IIDC): The scheme of Integrated Infrastructural Development Centre (IIDC) was prepared in March 1994 by Ministry of Small Scale Industries (MSSI), Government of India for small scale rural industries in rural/backward areas. ZIDCO was nominated as implementing agency in July 2001 by the GOM. The objectives of the scheme, inter alia, were to provide:
1. Infrastructural facilities for creation of small scale and tiny units in the backward districts/rural areas not covered under the Scheme of Growth Centre.
2. Linkages between agriculture and industry
3. Common service facilities and technological back up services in the selected centre.

Under the scheme, ZIDCO promoted two Integrated Infrastructural Development Centre (IIDC) in the backward districts viz, Pukpui (Lunglei District) and Zote (Champhai District) at a total outlay of Rs. 9.37 crore with the participation of Government of India (80 per cent) and Government of Mizoram (20 per cent). The work of IIDCs was completed in August 2005 and May 2008 in respect of IIDC Pukpui and Zote respectively at a total cost of Rs. 7.43 crore (March 2008). The implementation of the above scheme is discussed in the following paragraphs.

ZIDCO received a total grant of Rs. 8.28 crore (March 2008) from Government of India and Government of Mizoram out of total sanction of Rs.9.37 crore and the balance of Rs.1.09 crore was yet to be received. As of March 2008, it had incurred the total expenditure of Rs. 7.43 crore out of total grant plus interest of Rs.8.40 crore. Rs. 89 lakh was utilised towards administration and management expenses in violation of the guidelines issued by Government of India. The SOE had not obtained the stamped receipts where the payment exceeded Rs. 5,000 in violation of the provisions of the statutory regulations. ZIDCO had retained huge amounts in the savings bank account for more than 15 days without depositing the same in fixed deposit account to earn more interest.

As per the DPR, ZIDCO had to create the infrastructural facilities such as site development & civil works, internal roads, drainage & sewerage system, water supply and tele-communication system for housing industrial units. The work was executed by the Project Manager departmentally who was authorised to incur the expenditure with strict compliance to the codal formalities and accounting practices. Even after completion of the project of IIDC at Pukpui (May 2005), the SOE had not initiated any action to transfer the land in the name of the SOE and also had not initiated to extend the lease period from 25 years to 33-66 years for IIDC Zote as suggested. ZIDCO had not floated tenders for execution of the civil works. As a result, the completion of the work with regard to economy could not be assessed by audit. The SOE had incurred expenditure of Rs.3.07 crore against the estimates of Rs.6.51 crore in some of the items in IIDCs Pukpui and Zote. In the absence of completion certificate for execution of work with reference to the DPR, the expenditure incurred below estimates could not be vouchsafed in respect of omission/reduction/deviation of works. The SOE had incurred expenditure of Rs. 94.46 lakh in IIDC Pukpui and Zote for construction of guest house and chowkidar quarters (Rs. 32.49 lakh), industrial shed (Rs.11.92 lakh), plantation of trees (Rs.1.09 lakh), black topping of road (Rs.47.53 lakh) and purchase of two motor cycles (Rs.1.09 lakh) which were not included in the estimate of the approved DPRs. The SOE also incurred excess expenditure of Rs.13.56 lakh over the sanctioned amount for construction of administrative block in IIDCs Pukpui. The SOE had incurred an expenditure of Rs.49.05 lakh at Pukpui and Rs.52.26 lakh at Zote for payment of labour charges for site development and other works. In the absence of daily payment register, muster roll and measurement books, the
payment could not be vouched with the actual work completed. It had incurred an expenditure of Rs.31.71 lakh at Pukpui and Rs.26.56 lakh at Zote by hiring JCB for site development and other civil works without floating tenders. The payments were made by hand vouchers without proper bill of JCB owners. The SOE had not maintained the measurement book for measuring the work. An amount of Rs.13.78 lakh was incurred for purchase of groceries such as rice, chana and dal for providing food to labourers at IIDC Pukpui. It appeared doubtful as one bill was obtained (August 2008) from the supplier of construction material M/s. C.T. Enterprises for purchase of groceries in bulk (75 quintals average) without having adequate storage place at the work site. An amount of Rs.1.42 lakh was paid for plantation of trees in IIDCs without having the details of source of purchase/receipt of plants/trees. Thus, due to non-observance of the codal formalities as prescribed by the funding agencies viz. Government of India and Government of Mizoram, expenditure of Rs.7.43 crore as mentioned above lacked adequate documentation. The Government, while admitting the fact, stated (October 2008) that the SOE had completed various works incurring less expenditure due to efficient management. Further, the tendering system was not followed in selection of contractors due to lack of adequate number of eligible contractors. The reply does not justify as to why the company could not follow the codal procedures with adequate documentation for execution of works.

ZIDCO had developed 243 plots (Pukpui 118 and Zote 125) out of 272 plots in IIDCs by incurring total expenditure of Rs.7.43 crore. As of March 2008, the SOE had not issued any allotment letter or any agreement made with the entrepreneurs to lease out the plots in any of the IIDC. As per the DPR, the SOE was responsible for the project management and execution. Further, it has to provide financial assistance, technical assistance, information on subsidies and concession offered by the Government and conduct suitable training programme to ensure the success of the proposed units. ZIDCO had leased out in July 2005 the IIDC Pukpui to Mizoram Khadi & Village Industries Board (MKVIB), Aizawl, immediately after completion of the project without getting approval of the funding agencies viz., Government of India and Government of Mizoram. Pukpuii for Rs.1.12 lakh and Zote Rs.0.30 lakh. The creation of infrastructure in IIDC Pukpui and Zote was not on the basis of any minimum number of entrepreneurs requesting for allotment to set up their units in the centre; and the SOE had not devised so far (March 2008) any scheme or marketing strategy to lease out the plots by extending financial assistance with provisions for industrial subsidies to the entrepreneurs as envisaged in the Industrial Policy of the State to establish the industrial units in the IIDC centre. Thus, due to transfer of IIDC Pukpui to KVIB and non allotment of IIDC Zote, the expenditure incurred for Rs.7.43 crore turned out to be unproductive and failed to achieve the objective of the scheme so far. The Government, while admitting the fact, stated (October 2008) that the IIDC Pukpui was let out to MKVIB as no single unit came forward to set up industries at the time of completion and since large number of small and tiny units were financed by MKVIB, they could make best use of the centre. The fact remains that ZIDCO had no details of allotment of plots of housing enterprises at IIDC Pukpui by the MKVIB in support of the above argument. Further, it had not collected lease rent of Rs.90,000 per annum from MKVIB since July 2005.

Setting up of Call and Training Centre (CTC): A Memorandum of Understanding (MOU) was entered in September 2008 between ZIDCO and Public Soft Corporation (PSC) for setting up and running of Call Centre and Information Technology Enabled Services (ITES) Training Centre (Call and Training Centre) at Aizawl, Mizoram with the purpose of creating a centre of core competence in IT segment and to impart skills amongst the educated youth to grow in the industrial sector with a view to generate employment opportunities besides creating markets for local agro & forest based products, handloom & handicraft and other allied products to other parts of the country and abroad.

According to the MOU, PSC was to provide its expert services, technology, hardware, software, training, consulting and other support for setting up and running of call centre and ITES Training Centre, which would be under the supervision, management and control of PSC. In addition, PSC would bear the working capital cost and maintain all equipments including normal wear and tear. ZIDCO’s obligations were to provide suitable place for setting up the CTC, assist in selecting the trainees and to provide for the capital cost of Rs.1.09 crore of the project. PSC was to be responsible for the running the CTC and ZIDCO would receive Rs.1 lakh per month after one year of successful operation of the CTC and 20 percent of the membership fees collected. ZIDCO would not have any control over the operation management and supervision of the CTC. The MOU could be terminated by a mutual agreement in writing by both the parties and would remain in force for a period of 10 years unless extended by agreement in writing between the parties. The Government of Mizoram sanctioned in November, 2008 Rs.1 crore to ZIDCO for setting up the CTC which was released by ZIDCO to PSC during September 2008 to January 2009.
Audit scrutiny (January 2010) revealed that the MOU executed by ZIDCO with PSC did not safeguard the interest of ZIDCO as it gave full control of the finances and assets created from the funds received from ZIDCO. ZIDCO had no control over the management or assets created to ensure that the objectives for which the CTC was to be established, would be implemented by PSC. Further, in the absence of specifications and configurations of the hardware and software to be supplied as per MOU, which were most essential were not specified in the MOU. The justification for arriving at the capital cost of Rs.1.09 crore for these items listed was absent. The MOU also did not incorporate any suitable clause for levy of penalty/or to forestall PSC from abandoning the operations within the period of agreement.

The Call and Training Centre started operations in October 2008 and was closed down during July 2009 after being in operation for only about nine months due to reasons such as strike by employees and financial constraints of the PSC. The CTC has not open since then, a joint verification to assess feasibility of re-opening the CTC was carried out (December 2009) by a team consisting of high level officers of the state government and the officials of ZIDCO. The verification suggested termination of the contract with PSC. The project of setting up the CTC was taken up by ZIDCO/Government of Mizoram without conducting a feasibility study or preparing a project report. The basis of the offer and selection of PSC, records on infrastructure, trainees enrolled, training fees and membership fees collected were not available for scrutiny. The failure to conduct joint review of operations as provided by the MOU led to the closure of the operations by PSC within a period of nine months from the start of operations. Thus, the investment of Rs.1 crore turned out as a failed venture, attributing to bad managerial and financial decisions. There is always a question as to what part and extent political intervention has played, however, this is unanswerable as there is lack of evidence.

**Conclusion:-**

ZIDCO is the oldest of the five SOEs in Mizoram, the pioneer and set up supposedly to be a model for government company, however, the financial institution seems to be plagued with failure after failure. There has been no declaration of dividend throughout the 33 years of its existence. On inference from the discussion of the performance of ZIDCO in the various activities it has undertaken, the fault to a very great extent is accountable to management and lack of proper investment decisions. The business of the SOE is managed by the Board of Directors. It is very essential to conduct the Board meeting regularly for taking decisions on important matters in respect of policy decision, loan sanctioning and implementation of the industrial projects with the assistance of Government of India, State Government and financial institutions. According to Section 285 of the Companies Act, 1956, meeting of the Board of Directors shall be held at least once in every three month. The Board meeting was held only once in a year during the period from 2004-05 to 2007-08. The activity of financing various industrial projects by providing term loan is becoming more and more competitive day-by-day. Operating in liberal and global environment, the company is exposed to various kinds of risks. Therefore, effective risk management is essential for achieving financial soundness and profitability. ZIDCO had not drawn any corporate plan for financing activities and term lending schemes for attracting the entrepreneurs in consonance with the industrial policy of the state. It did not have any investment policy for investing its surplus funds. The defective pre-sanction appraisal of the projects and ineffective follow up and monitoring of the assisted units by the SOE resulted in non recovery of dues. With no effective internal control systems in place, the SOE was ill equipped in risk management and was highly susceptible to faulty financial management.

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