



REPORT OF THE
COMPTROLLER AND AUDITOR GENERAL
OF INDIA

UNION GOVERNMENT
No. 14 (COMMERCIAL) OF 1991

STEEL AUTHORITY OF INDIA LIMITED
SALEM STEEL PLANT

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OVERVIEW

I. The occurrence of iron ore in Kanjamalai Hills in Salem district of Tamil Nadu had been known right from the middle of the nineteenth century. The ore remained unexploited for want of suitable reductant. With the mining of lignite in Neyveli, technical studies were undertaken and manufacturing iron from the ores with lignite as reductant was considered feasible. Government of India, therefore, decided to set up a steel plant in Salem near Kanjamalai Hills in 1970. However, subsequent technical studies indicated the non-suitability of lignite as reductant as the lignite mined there contained more Sulphur than found earlier. A detailed Project Report prepared in 1974-1976, however, recommended the establishment of a plant at Salem for producing 220000 tonnes of stainless, electric and other special steels per annum from purchased high grade iron ore.

(Paragraphs 1.1 to 1.5).

II. In March 1977, Government approved the establishment of Salem Steel Plant (SSP) in 2 stages. Stage I of the project for cold rolling imported hot rolled stainless steel (32000 tonnes per annum) was implemented by 1981-82 at a cost of Rs.181.19 crores. The second cold rolling mill sanctioned by Government in March 1988 was commissioned in March 1991 at a cost of Rs.54.09 crores, thereby increasing the capacity of finished steel to 70,000 tonnes per annum.

(Paragraphs 1.5, 1.7 and 2.5)

III. The delay in the sanction and establishment of second cold rolling mill for stainless steel resulted in the under utilisation of other facilities created in

Stage I of the project since 1981-82.

(Paragraphs 2.1 and 2.2).

IV. A coil inspection and dividing line installed at a cost of Rs.1.13 crores in November 1988 for inspection of indigenously produced Hot Rolled Coils is under-utilised as coils received from abroad do not require inspection at SSP.

(Paragraph 3.7)

V(a). The output of the plant has steadily increased during the year 1984-85 to 1990-91. In 1990-91 the capacity utilisation was 104 percent of the DPR norm.

(b) The processing of white coils instead of black coils upto 1987-88 led to lesser utilisation of the Annealing and Pickling line II, higher consumption of LPG and more foreign exchange outgo in the import of white coils.

(Paragraphs 4.1, 7.1 and 7.2).

VI. A railway siding constructed at a cost of Rs.4.09 crores and maintained at considerable recurring expenditure is grossly under utilised

(Paragraphs 9.1 to 9.5).

VII. The Plant incurred a cumulative loss of Rs.2,538.15 lakhs from its inception in 1981-82 to 1990-91.

(Paragraph 12.1).

1. INTRODUCTION

1.1 The occurrence of iron ore in Kanjamalai Hills in Salem district was known right from the middle of nineteenth century when the ore was reported to have been converted into iron in a charcoal fired smelters and used in the construction of Menai Straits suspension bridge in the United Kingdom. The geology and analysis of the ore deposits were reported upon from time to time in 1864, 1893, 1937-38 and 1944. However, the ore could not be exploited due to non-availability of metallurgical coal in this part of the country. But after the discovery of extensive lignite deposits at Neyveli, the Government of Tamil Nadu initiated a proposal in 1960 for reduction of the ore with the use of lignite. Foreign experts, who were consulted in this connection, indicated that the ore was well suited for reduction in low shaft furnace using high temperature lignite coke, which was low in sulphur and ash contents.

1.2 The feasibility of producing iron from Neyveli - Salem raw materials was evaluated in 1962 by a technical committee appointed by the Government of India. A Detailed Project Report (DPR) was got prepared (August 1964) by M/s. M.N.Dastur & Co., by the Government of India. The Report mentioned the availability of about 120 million tonnes of iron ore, with 36 percent iron and 45 percent silica, in Kanjamalai Hills, capable of being readily concentrated by magnetic separation and pelletised to form an excellent burden material for iron making. The report also indicated that an integrated steel plant of 5 lakh tonnes per annum, using lignite for reduction, could be set up at an estimated cost of Rs.95.5 crores. As the consumption of steel was decreasing at that time the DPR was not acted upon by Government of India.

1.3 In 1970, the Government of India decided to set up a steel plant at Salem and approved its location in Kanjamalai region.

1.4 A techno-economic feasibility study for establishing the steel plant at Salem was entrusted to M/s. Dastur & Co. by Government of India in February 1971. The feasibility report submitted in December 1971 mentioned that the Neyveli lignite that was then being mined contained a sulphur content higher than what was noticed earlier in 1962, and hence the lignite was unsuitable for steel making. The report recommended the use of coking coal from Bengal/Bihar Coalfields as alternative reductant for processing the Kanjamalai ores. After further consideration of the report and consultations with M/s. Dastur & Co., Government of India took an investment decision in May 1972 to have an integrated special steel plant at Salem at a cost of Rs.340 crores to produce 1,95,000 tonnes/year strips and sheets of stainless, silicon and other special steel.

1.5 For the proposed plant, the Government of India got a DPR prepared in 1974 by M/s. Dastur & Co. A supplementary DPR was also received from the latter in April 1976. The DPR was got scrutinised by an expert committee. As per the DPR, the Kanjamalai ore had to be concentrated and pelletised before use and the pelletised ore would cost Rs.197 per tonne as against the delivered cost of Rs.79.40 per tonne at Salem of ore purchased from Bellary, Hospet deposits in Karnataka. Hence the DPR concluded that the use of high grade purchased ore would be more economical than the utilisation of Kanjamalai ore. The DPR, however, pointed out that in event of transport cost of purchased ore going up, and larger scale operations in future, exploitation of Kanjamalai ore might become advantageous later on. The DPR recommended an

annual production of 2,20,000 tonnes of finished steel sheets and strips (75,000 tonnes of electrical steel, 70,000 tonnes of stainless steel and 75,000 tonnes of other special carbon and mild steels) by processing purchased ore in electric smelting furnaces and using small cokes to be obtained from existing steel plants as reductant. This was approved by Government of India in March 1977. The project was to be implemented in two stages at a total cost of Rs.560 crores. In the first stage, it was decided to instal one sendzimir mill (cold rolling mill) with related facilities to produce 32,000 tonnes of cold rolled stainless steel sheets/coils per annum from imported hot rolled stainless steel (HRSS) coils, restricting the investment to Rs.126.81 crores.

1.6 To take up the construction and operation of the proposed plant, a separate company viz., Salem Steel Ltd., was incorporated in October 1972. However, on the formation of Steel Authority of India Ltd. (SAIL) in January 1973, as a holding company for steel and allied industries, Salem Steel Ltd. became a subsidiary of SAIL. Subsequently, in 1978 the subsidiary was dissolved and the Undertaking (Salem Steel Plant) vested with SAIL in accordance with Public Sector Iron and Steel Companies (Restructuring) and Miscellaneous Provisions Act, 1978.

1.7 The first stage of the project was completed at a cost of Rs.181.19 crores and commissioned in September 1981. Commercial production commenced in March 1982.

2. EXPANSION OF COLD ROLLING FACILITY

2.1 In the first stage for the production of 32,000 tonnes of finished stainless steel, it

was envisaged that the cold rolling mill would be utilised to the extent of 83 percent, while the related plants like coil build-up line, annealing and pickling lines, skin pass mills and shearing and slitting lines which were intended to cater to two cold rolling mills, would be utilised to the extent of 25 percent to 58 percent only with one cold rolling mill in operation. The value of investment blocked in the surplus capacity of these related equipments was estimated (February 1985) by management at Rs.75 crores.

2.2 COPU in their 30th report 1986-87, had adversely commented about the delay in sanctioning the second cold rolling mill to utilise the surplus capacity of the related facilities and recommended that the sanction, coming within the powers of the Ministry of Steel and Mines itself, should not be delayed any further keeping in view the need to utilise the scarce resources blocked in the facilities.

2.3 In March 1988, the Government of India sanctioned the installation of the second cold rolling mill at a cost of Rs.69.37 crores (to be funded out of SAIL's internal resources), which would take the production capacity of the plant to 65,000 tonnes per annum of cold rolled stainless steel sheets/coils and processing of 5000 tonnes per annum of hot rolled, annealed and pickled finished stainless steel, from purchased hot rolled coils. The cost was revised to Rs.76.27 crores with September 1990 as base. The second cold rolling mill was commissioned in March 1991 at a cost of Rs.54.09 crores. The auxiliary equipments as originally approved in the sanction had been progressively commissioned by August, 1991. The progressive actual expenditure upto December, 1991 was Rs.69.46 crores.

2.4 The related facilities created in 1981-1982 had completed about 10 years of their life and were fairly old by the time the second cold rolling mill was commissioned in March 1991. The management had stated (March 1990) as follows:

"By proper up-keep of the equipment, it would be possible to use the related facilities provided with stage I throughout the full life of the equipments of cold rolling mills-II and hence there will be no mis-match between the life of facilities in stage I and the life of second cold rolling mills".

2.5 Out of the Stage II of the project as approved by Government of India in March 1977, the cold rolling facilities for stainless steel were commissioned in August 1991 and sanction had been accorded by Government of India in April 1991 for hot rolling indigenous stainless steel slabs upto 2 lakh tonnes so as to produce 93,100 tonnes of hot rolled stainless coils per annum at a cost of Rs.425.16 crores (to be funded out of SAIL's internal resources) which was inclusive of a foreign exchange component of Rs.95.98 crores. The project was to be completed within 48 months from the date of sanction. The rest of the facilities required for making iron, stainless steel electrical sheets, special carbon and mild steels as envisaged in Stage II of the project have not yet been taken up for consideration.

3. INDIGENISATION OF PRODUCTION OF HOT ROLLED STAINLESS STEEL COILS

3.1 In order to produce hot rolled coils indigenously, it was decided by the Government in principle in June, 1977 to install at Alloy Steel Plant (ASP) Durgapur facilities for producing 90,000 tonnes per annum of stainless steel slabs which would

yield 82,000 tones of hot rolled coils for meeting the demand of SSP which was estimated to be 42,000 tonnes. Government also directed (June 1977) that the hot rolled coils from the slabs of ASP should be ready within two years and well before SSP went into production. The hot rolling of slabs of ASP were to be made at Bokaro Steel Plant, where the existing hot strip mill was assessed to have the necessary capability to undertake such rolling successfully. A trial made in Bokaro Steel Plant by hot rolling of imported steel slabs in 1983-84 and subsequently in June 1988 was, however, not successful as the coils were found to be having hot tearing and scratches intermittently throughout the length. Further, the yeild of cold rolled products from these hot rolled coils was low at 65 percent out of which prime metal was only 8 percent. The proposal for hot rolling at Bokaro was, therefore, given up.

3.2 In spite of Government's directive of June, 1977 that the hot rolled coils from the slabs of ASP should be ready within two years, the approval of Government for installing the required facilities at ASP Durgapur was received in June, 1981. The facilities were to be established, according to the Government directive, in 42 months from the date of sanction i.e. by December 1984 but they were established only in March, 1988. The production of stainless steel slabs meant for SSP during the years 1988-89 to 1990-91 was 47,634 tonnes out of 25,632 tonnes were got converted into hot bands in France and Finland since hot rolling could not be done at Bokaro Steel Plant.

3.3 In view of the unsuccessful trials made for hot rolling at Bokaro Steel Plant, SAIL proposed (October 1989) to create hot rolling facilities at SSP for rolling 90,000 tonnes of ASP slabs annually at an estimated cost of

Rs.331.10 crores with a construction schedule of 39 months. The proposal was approved by Government in April 1991 and the facilities were to be installed by April 1995 at an estimated cost of Rs.425.16 crores.

3.4 In view of the development mentioned above, the production of hot rolled stainless steel coils could not be indigenised so far. The SSP imported hot rolled coils during the period 1982-91 involving a foreign exchange outflow of Rs.493.17 crores.

3.5 A coil inspection and dividing line intended for inspection of indigenously produced hot rolled coils was installed at Salem Steel Plant in November 1988 at a cost of Rs.1.13 crores, in anticipation of receipt of hot rolled coils from Bokaro Plant. It is lying unutilised as coils received from abroad, according to the management, do not require inspection at SSP. The management stated (March 1990) that the dividing line is presently being utilised to some extent for production of finished material of thinner gauges.

4. CAPACITY UTILISATION

4.1 HRSS coils are available in black and white varieties. The approved detailed project report (DPR) envisaged the processing of 42,000 tonnes of black coils per annum to yield 32,000 tonnes of finished sheets/coils per annum. The black coils, unlike the white coils, are to be initially processed in the annealing and pickling (A&P) line II. Subsequent processing is the same for both black and white coils. Since the A&P line II was commissioned only in December 1983, SSP processed white coils till then and black and white coils thereafter.

In the DPR, production capacity was expressed in terms of prime yield and processing of black coils was envisaged. However, the actual product mix of the Plant was different in that seconds and commercial quality were also produced in addition to primes. Further, both black and white coils were processed instead of black coils only envisaged in the DPR. In view of this comparison of production of final products with the production capacity indicated in the DPR is not considered realistic. Hence, the capacity utilisation of coils processed is given in the table below.

The total quantity of black coils processed has steadily improved from 1987-88 as indicated below:

Year	Black coils to be processed as per DPR	Coils actually processed			(In tonnes)	
		Black	White	Total	Percentage of actuals to DPR level	
1984-85	42000	7802	11872	19674	47	
1985-86	42000	2475	22035	24510	58	
1986-87	42000	2853	23499	26352	63	
1987-88	42000	10031	22612	32643	78	
1988-89	42000	26623	9140	35763	85	
1989-90	42000	32579	1121	33700	80	
1990-91	42000	41145	2714	43859	104	

The continued processing of white coils even after December 1983 and to a major extent upto 1987-88 resulted in

- i) higher expenditure on the purchase of white coils as compared to black ones;
- ii) under-utilisation of A&P line II as brought out in paragraph 5.3.

Management stated (March 1990):

"Use of black coils have been stepped up progressively and processed through AP line No.II and procurement of white coils has accordingly been phased out progressively. The white coils had to be procured in order to improve utilisation of installed capacity of sendzimir mills".

4.2 The DPR envisaged output in terms of 'primes', 'seconds' and 'scrap'. SSP has, however, introduced an additional category called "commercial quality" which can neither be graded as 'primes' nor 'seconds' nor treated as 'scrap'. Category-wise, the actual outputs during 1984-1991 varied from the DPR norms as shown below:

	DPR (Percentage)	Actuals (Range Percentage)
Prime	76	72 to 84
Seconds	2	7 to 15
Commercial quality	Nil	6 to 9
Scrap	18	1.5 to 3.6
Process loss	4	0.4 to 4

As regards "commercial quality", management stated (March 1990) as follows:

"Commercial quality although not mentioned in the DPR was introduced since inception and this quality is distinguished from scrap based on dimensions and geometrical shape. Commercial quality is obtained by upgrading what was originally to have been made as scrap as per DPR which has resulted in better sales realisation thereby improved profitability.

The actual output can be considered to be satisfactory.

5 UTILISATION OF PLANTS

5.1 As already mentioned in paragraph 2.1 the DPR itself envisaged considerable under-utilisation of all the plants, other than the sendzimir mill, in the first stage of the project. The percentages of utilisation envisaged in the DPR and the actuals during 1984-1991 in respect of six major plants, are given below:

Name of Plant	Percent- age of utilisation envisaged in DPR	Actual Utilisation (Percentage)						
		1984-85	85-86	86-87	87-88	88-89	89-90	90-91
i) Sendzimir mill	83	68	86	85	87	77	67	86
ii) Coil build-up line	38	36	42	24	25	32	36	42
iii) A&P lines (2 Nos.)	58	*	*	*	*		34.5	36.5
iv) Skin Pass Mill	25	14	15	14	17	17	30	59
v) Shearing line	31	20	20	12	14	12	12	15
vi) Slitting line	26	38	46	33	29	28	22	28

Note: The figures mentioned above are percentages of actual hours utilised to available hours. i.e. calendar hours on 3 shifts basis less repair and weekly off hours in respect of sendzimir mill, A&P and slitting lines and 12 shifts per week in respect of other plants.

* Available hours for 2 lines were not made available for these years.

5.2 It may be seen from the above table that utilisation of skin pass mill (upto 1988-89) and shearing lines (upto 1989-90) was much lower than the DPR expectations.

The management stated (March 1990) that lower utilisation of skin pass mill and shearing line was due to lower market preference for 2B coils than what was envisaged in the DPR.

5.3 As per the Operations Audit conducted by the management in 1988 and figures furnished by management for the later years, A&P line II was utilised to a considerably lesser

extent than line I with respect to total calendar hours in a year on three shift basis, as given below:

Year	Total Calendar Hours	A & P line I		A & P line II	
		Total hours utilised	Percent-age to total calendar hours	Total hours utilised	Percent-age to total calendar hours
1984-85	8760	1779	20	736	9
1985-86	8760	2556	29	584	7
1986-87	8760	3317	38	469	5
1987-88	8784	3246	37	711	8
1988-89	8760	3050	35	1435	16
1989-90	8760	3406	39	1763	20
1990-91	8760	4704	54	2083	24

5.4 A&P line II is intended for initial processing of black coils. Although the quantum of black coils processed has increased considerably in 1988-89 and 1989-90, the utilisation is far less than the 58 percent envisaged in the DPR. The Management stated (February 1991) that the lower utilisation of AP lines was also partly attributable to the use of lower thickness of HRC as inputs.

6. PROCESSING DEFECTS

6.1 Mention has been made in paragraph 4.2 that production of 'seconds' ranked next to 'primes' and ranged from 7 to 15 percent of the total input during 1984-1990. The 'seconds' arise due to defects in the HRSS coils purchased and also during processing in various plants as per details given below:

Name of Processing Plant	Percentage of 'seconds'						
	84-85	85-86	86-87	87-88	88-89	89-90	90-91
Defects in the purchased HRSS coils	3.02	2.19	1.56	2.36	2.26	6.31	9.2
White patches	1.35	1.58	2.62	1.11	0.81	0.39	0.3
Coil Build-up line	0.98	1.20	1.77	1.75	0.73	0.82	0.4
A&P Lines	5.71	4.86	4.50	2.46	1.13	1.55	2.3
Sendzimir mill	0.93	4.26	3.36	3.97	2.51	1.54	1.8
Other plants	0.81	0.44	0.77	0.62	0.27	0.41	0.7
	12.80	14.53	14.58	12.27	7.71	11.02	14.7

6.2 It may be seen from the above table that most of the processing defects arise in the A&P lines and sendzimir mill. The defects in the purchased coils showed considerable increase in 1989-90 and 1990-91 than in previous years. This was attributed by the management (February 1991) to increase in the quantity of black coils and 400 series grade materials processed and introduction of ASP route HRSS coils during the year. This explanation is not tenable as there was a significant increase in the purchase of black coils in 1988-89 (Table under para 4.1) without increase in percentage of seconds.

6.3 From 1989-90 onwards, SSP is also processing coils from ASP stainless steel slabs after hot rolling them into coils by firms abroad. Out of 6.31 percent of defects in the purchased HRS coils in 1989-90 mentioned in the above table, 2.3 percent was due to defects in such coils received in the ASP route. it was seen that the prime yield from these coils was considerably less than

the prime yield from imported HRSS coils as indicated below:

	Purchased coils		Coils from ASP slabs	
	Primes	Seconds	Primes	Seconds
1989-90	81	9	52	33
1990-91	78	11	64	23

7. CONSUMPTION OF LPG

7.1 LPG is used in A&P lines for heating. As per the guaranteed test norms, 450 kilo calories are required for processing one kg. of cold rolled coils and 415 kilo calories for one kg. of hot rolled coils. During 1984-88, the actual consumption has been more than these norms as per details indicated below:

Year	Design consumption for CR&HR coils	Actual consumption (kilocalories per kg.)	Excess consumption over design	Value of excess consumption (Rupees in lakhs)
1984-85	441	627	186	22.50
1985-86	447	721	274	41.17
1986-87	447	573	126	23.63
1987-88	443	493	50	10.88
1988-89	437	405	No excess consumption	
1989-90	435	398	--do--	
1990-91	436	391	--do--	
				<u>98.18</u>

7.2 The decreasing trend in the level of consumption of LPG as per the Management's Operation Audit Report of 1988, is due to increasing use of black coils. In 1988-89, 1989-90 and 1990-91, the actual consumption was lower than that of the design norm as the use of black coils had considerably increased in these years vide paragraph 4.1. It seems that 100 percent use of black coils will further bring down the consumption level. There is thus a need to revise the norm against which actuals

can be monitored for taking corrective action when necessary.

8. OIL FIRED BOILER

8.1 A contract for design, manufacture, supply, erection and commissioning of one 12.5 tph oil fired boiler (to be used as a standby boiler) at a cost of Rs.28.78 lakhs was awarded (December 1979) to M/s. Steel Plant Ltd., Bombay. The work was to be completed within 14 months, i.e. by January 1981. The firm could not complete the work and hence the work was entrusted to another firm, M/s. WMI Cranes Ltd., Bombay, in January 1981 with a condition that the work should be completed by end of 1982. But the second firm's progress was also poor. The boiler was commissioned in April 1990 after a delay of more than 10 years, reckoned from December 1979, the date of award of the first contract.

9. RAILWAY SIDING

9.1 For the integrated plant of 2,20,000 tonnes per annum the DPR of 1974 anticipated inward and outward goods traffic of 8.2 and 2.65 lakh tonnes per annum respectively and hence proposed a railway siding from Salem Junction to SSP, a track distance of 24 kms (approx) including the tracks within SSP. The Railways found the siding an economically viable proposition. In March 1977, when the Government of India decided to take up the first stage of the project, the anticipated inward traffic got reduced to 54000 tonnes per annum (mainly of HRSS coils) and outward traffic to nil. However, the necessity for railway siding was not reexamined. It got included in the first stage of the project.

9.2 As the Railways expressed financial constraints, SSP provided the funds and the Railways executed the work as a deposit work, but agreed to take over the siding after the completion of the first stage of the project. The first stage went into production in September 1981 but the anticipated inward traffic did not materialise as the HRSS coils are transported by road; only about 9000 tonnes of LPG and coal are being moved by rail and received through the siding per annum. In view of the low level of traffic, the Railways refused (May 1985) to take over the siding.

9.3 Besides the capital cost of Rs.4.09 crores of the siding, SSP is bearing the annual maintenance charges, which amounted to Rs.55.03 lakhs upto 1989-91.

9.4 The Management stated (March 1989) that owing to-

- i) cheaper and quicker road movement and
- ii) difficulties and delays in getting piecemeal allotment of wagons, road movement of HRSS coils has been resorted to.

9.5 Thus even the pruned down anticipated inward traffic of 54000 tonnes of HRSS coils has not materialised and the siding with considerable capital and recurring expenditure is underutilised. Management have stated (February 1991) that after commissioning of second Cold Rolling Mill, SSP may have to despatch some quantities by Rail also and that when Hot Rolling facilities are set up in the Plant the Railway siding would be put to good use.

10. SALES PERFORMANCE

10.1 The Central Marketing Organisation (CMO) of SAIL is marketing the 'primes' and 'seconds' qualities of the processed material, while SSP itself sells the commercial quality material. Export is handled directly by SSP. Sales in the domestic and exports markets during 1984-91 are tabulated below:

Year	Sales in domestic market (primes, seconds & commercial qualities - in tonnes)	Export sales in tonnes)	Total sales
1984-85	18674	79	18753
1985-86	21644	168	21812
1986-87	25042	933	25975
1987-88	30377	4182	34559
1988-89	27048	3188	30236
1989-90	28313	2115	30428
1990-91	37074	3826	40900

11. SALES UNDER 8/84 SCHEME

11.1 In the year 1984, a concessional rate of customs duty of 40 percent ad-valorem was provided in Government of India Notification No. 8/84 - Customs dated 12th January 1984 for HRSS coils when imported for cold rolling and used in the manufacture of stainless steel plates, sheets and strips of a thickness of 16 BG or more, which in turn are to be used in the manufacture of capital goods, equipments and components for specified industries. For sales of every tonne of finished plates, sheets and strips under this scheme, 1.313 tonnes of HRSS coils can be imported at the concessional duty. The concessional duty can be availed of at the time of import of HRSS coils by executing a liability bond with the customs authorities. These bonds can be redeemed in the ratio of 1.313 : 1 for every tonne of end product sold under the scheme after production of end use

certificate within the stipulated period of 6 months.

11.2 SSP availed of the scheme and sold the end products under this scheme at a concession of Rs.2000 per tonne upto 30th November 1987 and Rs.3000 beyond that date of the normal selling price. Upto 31st July 1987, SSP imported a total quantity of 7587 tonnes of HRSS coils under this scheme, by paying concessional duty. All the liability bonds in respect of these imports were redeemed by June 1988. As against the equivalent quantity of 5778 tonnes of end product to be sold for the quantity of 7587 tonnes of imported ($7587/1.313 = 5778$), SSP sold a quantity of 10060 tonnes of end product at concessional sale price. This resulted in a revenue loss of Rs.100.52 lakhs in respect of the excess quantity of 4282 tonnes ($10060 - 5778$) of end products sold at concessional price. Alternatively, the loss by way of concessional customs duty not availed of for the import of an additional 5622 (i.e. 1.313×4282) tonnes of HRSS coils for meeting the excess sale of 4282 tonnes of end products was considerable and much more than the revenue loss mentioned above.

11.3 The Management stated (February 1991) that the procedure laid down by the Ministry of Finance (vide their letter No. 355/7/83-CUS-1 dated 4.2.1984) for drawal of Hot Rolled Stainless steel coils imported by SSP from the bonded warehouse at Madras/Salem was not communicated to them or Steel Authority till the end of 1986 and that in the absence of the procedure, SSP was not allowed redemption of Liability Bonds in the ratio of 1.313:1 as stipulated in the Notification No. 8/84. Accordingly, SSP could draw the Hot Rolled Coils in the ratio of 1:1 only till the beginning of 1987 and on this basis the

quantity of sales in excess would work out to 3400 tonnes as against 4282 tonnes.

Reasons for the delay on the part of the Ministry in communicating the procedure to SSP/SAIL are not known.

11.4 As regards the excess sales, management stated (June 1988) as follows:

"Due to the difficulties in getting the end use certificates within the stipulated period of six months, redemption of bonds for HRSS coils drawn at concessional duty was taking a long time (even more than two years). This delay has prompted the collector of customs to put an embargo on further drawal of hot rolled coils at concessional duty. Keeping in view the spirit of the scheme benefiting the specified industries, the sales at concessional duty continued".

11.5 It was, however, seen that no arrangements were made for monitoring and limiting the concessional sales under this scheme with reference to the HRSS coils actually imported at concessional rate.

11.6 SSP approached the Government for a one time exemption for sales under 8/84 scheme which was effective prior to the drawal of hot rolled coils, but the request was turned down by Government. The matter was again taken up (November 1990) with Government. An appeal filed with the Customs Appellate authorities in September 1990 for refund of Customs duty for quantity of Hot Rolled Coils which could not be drawn at concessional duty was rejected by Customs as time-barred. The Management stated (February 1991) that an appeal was being filed before CEGAT Special Bench.

12. WORKING RESULTS

12.1 The working results of SSP for the last seven years are given below:

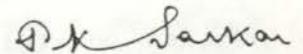
(Rupees in lakhs)

	<u>1984-85</u>	<u>85-86</u>	<u>86-87</u>	<u>87-88</u>	<u>88-89</u>	<u>89-90</u>	<u>90-91</u>
A. Income							
Sales	7954.21	10175.21	11460.86	14213.21	19197.80	22934.40	29603.89
Other income	494.89	1019.96	312.90	91.00	5597.75	3917.41	4121.33
Total (A)	<u>8449.10</u>	<u>11195.17</u>	<u>11773.76</u>	<u>14304.21</u>	<u>24795.55</u>	<u>26851.81</u>	<u>33725.22</u>
B. Expenditure							
Material cost	5359.17	6539.30	8169.25	11299.52	19391.91	24316.64	24733.96
Conversion cost	3034.69	4265.85	3818.44	3451.89	4373.81	5111.45	6887.92
Total (B)	<u>8393.86</u>	<u>10805.15</u>	<u>11987.69</u>	<u>14751.41</u>	<u>23765.72</u>	<u>29428.09</u>	<u>31621.88</u>
C. Operational Profit/(Loss) for the year (A - B)	55.24	390.02	(213.93)	(447.20)	1029.83	(2576.28)	2103.84
D. Prior period adjustments	(2.01)	(98.52)	505.92	55.58	(12.88)	13.50	(98.44)
E. Net profit/(Loss) (C - D)	53.23	291.50	291.99	(391.62)	1016.95	(2562.78)	2004.90
F. Cumulative loss from 1981-82 (inception) to 1990-91 - Rs.2538.15 lakhs.							

12.2 It may be seen from the above that net profit has not kept pace with the increased production achieved over the years vide paragraph 4.1. In 1986-87, depreciation amounting to Rs.410 lakhs charged in earlier years, was written back and this converted the operational loss into a net profit in that year. The increase in operational loss in 1987-88, as compared to 1986-87 was mainly attributable to increase in raw material prices. The profit in 1988-89 was mainly due to increased selling price. However, in 1989-90, a net loss of Rs.2562.78 lakhs was incurred mainly due to steep increase in the

raw material prices as a result of adverse fluctuations in the price of nickel and also the rate of foreign exchange despite increase in selling prices, as compared to 1988-89. During 1990-91, a net profit of Rs.2004.90 lakhs was made mainly due to increased sales and reduction in raw material cost as a result of slump in prices of HRSS coils in world market and reduction in customs duty.

The review was issued to the Ministry in December 1990 and their reply has not been received (December 1991).



(P.K. SARKAR)

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

New Delhi
The

28 APR 1992

Countersigned



(C.G. SOMIAH)

Comptroller and Auditor General of India

New Delhi
The

28 APR 1992

ERRATA

Sl.No.	Page No.	Reference	For	Read
1.	(ii)	10th line	feasbile	feasible
2.	(ii)	5th line from bottom	(Paragraphs 1.5,1.7 and 2.5)	(Paragraphs 1.5,1.7 and 2.3)
3.	6	9th line from bottom	out of 25632	out of which 25632
4.	6	2nd line from bottom	90,000 tonnes	98,000 tonnes
5.	10	<u>Table</u>		
	A	Figures for 1990-91		
		(i) Sendzimir mill	86	87
		(ii)Coil build-up line	42	44
		(iv) Skin pass mill	59	56
		(v) Shearing line	15	14
	B	(iii) A&P line 2 Nos		
		Actual Utilisation percentages		
		1984-85	*	17.7
		1985-86	*	20.9
		1986-87	*	24.8
		1987-88	*	26.3
		1988-89	*	29.9
		1990-91	36.5	45.8
6.	10	Foot note to the table	marked *	stands deleted.
7.	10	10th line from bottom	(upto 1989-90)	(upto 1990-91)
8.	11	4th line from bottom	1984-1990	1984-1991
9.	15	18th line	1989-91	1990-91
10.	17	6th line	date of	date on
11.	17	15th line	tonnes of imported	tonnes imported
12.	18	12th line from bottom	which was effective	which were effected
13	19	18th line from bottom	2103.84	2103.34

APPENDIX

Case No.	Date	Parties	Subject	Page
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