Report of the Comptroller and Auditor General of India

for the year ended March 1999

Union Government (Commercial)

Public Sector Undertakings

Eastern Coalfields Limited

No. 7 of 2000

CONTENTS

PREFACE

1. Audit Boards are set up under the supervision and control of the Comptroller & Auditor General of India to undertake comprehensive appraisals of the performance of Government Companies and Corporations.

2. The report on **Eastern Coalfields Limited** was finalised by the Audit Board consisting of the following members:

1. Shri A.K.Chakrabarti	Chairman, Audit Board and Deputy Comptroller & Auditor General (From January 1998)
2. Shri B.B.Pandit	Principal Director (Commercial) & Ex-Officio Member Secretary, Audit Board
3. Shri A. Ganguly	Principal Director of Commercial Audit & Ex-Officio Member Audit Board–II, Calcutta (From March 1998)
4. Shri T.K.Sanyal	Principal Director of Commercial Audit & Ex-Officio Member Audit Board–III, New Delhi (From March 1998 to April 2000)
5. Shri D.P.Gupta	Part-time Member
6. Shri K.A.Sinha	Part-time Member

3. The part-time members were appointed by the Government of India (in the Ministry of Coal) with the concurrence of the Comptroller & Auditor General of India.

4. This report as set out in the succeeding chapters is based on studies, made by the Audit Board, of various aspects of the functioning of the Company and the discussions held with the Secretary, Ministry of Coal and the Management of the Company

OVERVIEW

1. Introduction

(a) In compliance with the directive issued by the Government of India in September 1975, Eastern Coalfields Limited (ECL), a subsidiary of Coal India Limited (CIL) was incorporated on 1 November 1975.

(b) As on 31 March 1999 the Company had 124 operative mines of which 102 were underground mines and 22 opencast mines with a proven reserve of approximately 12883 million tonne. Grade A to D coal constituted 63 per cent of this proven reserve and the balance 37 per cent was accounted for by grade E to G coal.

(c) The present appraisal covers the working of the Company for six years ending March 1999. The coverage has, however, been increased or decreased wherever considered necessary. The main findings of this review are:

(i) Although the Company owns some of the best coalfields in the country and superior quality coal forms 63 per cent of its total coal reserve it has failed to achieve any of it's objectives and stands referred (1996-97) to the Board of Industrial and Financial Reconstruction (BIFR) as a sick company. Despite wavier of interest liability of Rs.697.72 crore by the holding company and grant of Rs.3265 crore (up to 1995-96) from the Coal Price Regulation Account(CPRA), the accumulated loss of the Company stood at Rs.2201.07 crore as on 31 March 1999.

(ii) Beset with the problems of surplus labour, virtually stagnant labour productivity, high cess and growing competition under the liberalised scenario the woes of the company have been compounded by injudicious investment decisions, poor project planning, inappropriate choice of technology and unexplained coal shortages.

(iii) The Company has taken up 95 projects since inception of which 40 have been abandoned/suspended rendering infructuous an investment of Rs.71.76 crore. Despite being labour abundant, the Company devoted a lion's share of it's investment in the post nationalisation period to highly capital intensive longwall technique of underground mining which proved to be inappropriate and unviable under the Indian-geo mining conditions.

(iv) An attempt was made to revive the Company during 1997-98 but the exercise remained limited to capital restructuring and the accompanying improvement envisaged in the physical parameters could not be achieved.

[Paragraphs 1.1, 1.3 and 4.4]

2. Objectives

(a) Although the Committee on Public Undertakings (COPU) recommended (April 1987) that micro objectives of the Company should be clearly defined as per BPE guidelines issued in 1979 and 1983 the Company/CIL was yet (March 2000) to finalise the micro objectives.

(b) The macro objectives of the Company, as framed by the holding Company i.e. CIL, which inter-alia, included development and utilisation of coal reserves, increase in productivity, optimum utilisation of production capacity, generation of surplus, improved marketing arrangements of coal and other derivatives at reasonable price throughout the country could not be achieved.

(c) As the functioning of the Company had been characterised by under utilisation of capacity of mines and equipment and unproductive investment resulting in declining production and productivity, the accumulated loss of the Company which stood at Rs.843.07 crore in 1990-91 increased to Rs. 2201.07 crore in 1998-99 after taking credit of waiver of interest amounting to Rs.697.72 crore.

[Paragraph 1.4]

3. Working Results

In spite of receipt of assistance from Coal Price Regulation Account(CPRA) and direct support from CIL, ECL has been incurring losses since inception excepting in 1988-89, 1989-90, 1991-92 and 1995-96. It had already received (upto 1995-96) Rs.3265 crore towards CPRA to compensate the loss arising out of administered pricing of coal. Besides, 100 per cent budgetary support was also given through CIL up to seventh Five Year Plan. For the period from 1988 to 1997 about Rs.3596 crore was also invested in new projects. Moreover interest waiver (on CIL loan) of Rs.697.72 crore and moratorium of 3 years on interest payment was also granted to the Company during 1997-98. As a result of mounting losses Company's networth became negative. In the year 1996-97 the networth of the Company being (-) Rs.280.16 crore, it was referred to BIFR.

[Paragaraph 2.1B]

4. Capital Structure

(a) As the Company became sick and its networth as on 31 March 1997 became negative it was referred to the Board of Industrial and Financial Reconstruction (BIFR). On that date the authorised capital and paid up capital of the Company stood at Rs.1200 crore and Rs.1039 crore respectively. In order to match the financial covenant of 70 per cent (debt to total capitalisation) agreed by CIL in the Coal Sector Rehabilitation Plan Loan Agreement with the World Bank, as well as to allow ECL a breathing time to improve its physical performance, conversion of CIL loan of Rs. 1179.45 crore to equity was effected during the year 1997-98. By restructuring the capital base, the Company came out of the provision of Sick Industrial Companies (Special Provision) Act, 1985 on 1 June 1998.

(b) Since capital restructuring of the Company was not accompanied by the envisaged improvement in the physical parameters, the Company failed to overcome its sickness and its networth came down from Rs.391.81 crore in 1997-98 to (-) Rs.49.35 crore in 1998-99 and it was again registered as a sick Company on 17 January 2000.

[Paragraph 3.1]

5. Borrowings

(a) In order to meet its working capital requirement the Company took a loan of Rs.50 crore in September 1997 from the Industrial Credit and Investment Corporation of India (ICICI) without surveying the market properly. There was no documentary evidence to indicate the basis of selection of ICICI as the most favoured source of finance. The terms and conditions attached to the loan were prejudicial to the interest of the Company and resulted in an additional interest burden of Rs. 0.94 crore. Delay in repayment of loan despite a favourable cash flow resulted in extra payment of interest to the tune of Rs. 1.72 crore.

[Paragraph 3.2(B)]

6. Planning and Development of projects

(a) Out of 95 projects taken up (March 1998) 40 projects, on which Rs.71.76 crore had been spent, were abandoned/suspended.

[Paragraphs 4.1 and 4.4]

(b) The Company introduced Longwall Mining Technology at Seetalpur and Dhemomain in 1983-84 and 1987 respectively. The equipment purchased for Seetalpur project proved to be totally incompatible with the geo-mining conditions of the area and the project had to be closed after an expenditure of Rs.15.95 crore. Two Longwall equipment worth Rs.29.99 crore were commissioned at Dhemomain but the operation could not be carried out due to non-availability of required land.

[Paragraph 4.2(A)]

(c) Russian technology of Longwall mining was introduced for Jhanjra Project for a projected production of 3.5 MT in 1982 with the scheduled date of completion in March 1994. After a lapse of over ten years, the project was divided into two phases (August 1992) with projected production of 2 MT in Phase-I and 1.5 MT in Phase-II. However, even the first phase of project did not progress according to revised plan and it is expected that the envisaged capacity of 2 MT would be achieved only by March 2002.

[Paragraph 4.2 (B)]

(d) With a combination of Longwall and Bord & Pillar method of mining, Satgram project conceived in May 1979 was scheduled to be commissioned in March 1989 at a capital outlay of Rs.26.37 crore but the same could not be completed (March 2000) due to problems of dewatering the underground mine and non-availability of land. Expenditure of Rs.138.86 crore had been incurred on the project up to March 1999. This investment has become totally unfruitful as it has now been decided to run the project with semi mechanized Bord and Pillar method for an output of 0.51 MT with an investment of Rs. 118.70 crore.

[Paragraph 4.2 (C)]

(e) French technology of Longwall Mining was introduced at Khottadih in June 1989 with a target production of 1.38 MT at a capital outlay of Rs.179.01 crore with scheduled date of commissionining in July 1993. The project commenced production from July 1994 but could never achieve the rated capacity. It was abandoned (April 1997) after collapse of a roof causing loss of equipment worth Rs.35.85 crore and damage to equipment worth Rs.19.33 crore. The Company's claim of Rs.181.24crore (December 1999) on the French firm for the collapse was pending in the International Chamber of Commerce, Paris.

[Paragagraph 4.2 (D)]

(f) Sonepur Bazari Open Cast Project (OCP) financed through World Bank Loan (114 million US $) commenced production from 1994-95 after a time overrun of about 6 years and cost overrun of Rs.459.25 crore. The main reason for this time and cost overrun was delay (5 years) in acquisition of land required for the project.

[Paragraph 4.3(A)]

(g) A Coal Handling Plant (CHP) projected to be commissioned at a cost of Rs.51.21 crore in November 1996 had to be downsized due to non-availability of land resulting in equipment worth Rs.5.51 crore becoming surplus and payment of compensation of Rs.2.65 crore to the contractor.

[Paragraph 4.3(A)]

(h) Rajmahal expansion project undertaken to meet solely the increased demand from National Thermal Power Corporation Limited (NTPC) was completed in March 1995 at a cost of Rs.953.95 crore. Due to inability of NTPC to lift coal, the Company had to restrict production from Rajmahal to 9.24 MT and 8.37 MT in 1997-98 and 1998-99 respectively as against the capacity of 10.5 MT. No punitive action was taken against this poor offtake since there was no such penal clause in the long term agreement with NTPC.

[Paragraph 4.3 (B)]

(i). Out of 17 major CHPs with annual capacity of 29.86 MT per year, five (with capacity of 7.8 MT) at Mugma, Jhanjra Main, Satgram, Dhemomain and Ratibati were either not functioning or were abandoned due to non-availability of sufficient coal resulting in unfruitful expenditure of Rs. 13.30 crore of which Rs. 5.82 crore was totally infructuous.

[Paragraph 4.5]

7. Production Performance

(a) Percentage share of ECL in total coal production of CIL and its subsidiaries had gone down from 29.42 per cent in 1975-76 to about 11 per cent in 1998-99 due to failure of the Company to increase production and improve productivity.

[Paragraph 5.1]

(b) Because of emphasis on opencast mining, more production had been obtained from Mugma – Salanpur, SP mines and Rajmahal where coal was mostly of inferior quality. As a result the percentage of production of inferior grade coal increased steadily from 22.21 per cent in 1993-94 to 33.95 per cent in 1998-99.

[Paragraph 5.1]

8. Manpower and Productivity

(a) The manpower of ECL as on 31 March 1999 was 1,42,746; of this 80.46 per cent was engaged in Under Ground (UG) mines. Output per manshift (OMS) of UG mines for the last six years (ended March 1999) varied from 0.42 tonne to 0.46 tonne compared to 0.54 tonne in 1974-75. The manpower decreased to 1,35,300 by January 2000.

(b) As on 31 March 1998, the Company had assessed its surplus workforce at 12,580. The consultant (ICICI) appointed for preparation of a revival package stated that the successful turnaround of ECL would depend upon immediate downsizing of surplus manpower by 4,651 in Group II mines and rationalisation of 71,518 employees engaged in Group IV mines.

[Paragraph 6]

9. Shortage of coal and Mixed/Fire stocks

(a) During the period from 1989-90 to 1993-94, the Company lost Rs.81.83 crore on account of write off of shortage of coal. Further shortage of Rs.36.52 crore relating to 1994-95 and 1998-99 was yet to be written off. In addition, the Company had written off Rs. 76.01 crore on account of mixed stock/ fire stock in April 1995 and Rs. 26.43 crore was yet to be written off.

(b) The Company had failed to impose penalty on the employees allegedly responsible for the shortages of coal commensurate to loss suffered by it. Of the 383 cases disposed of so far, out of a total of 419 cases, no penalty was imposed in 223 cases (58.2 per cent). In other cases also the punishment was not stringent enough to act as a deterrent.

[Paragraphs 7.1 and 7.2]

10. Sales and Marketing

The Company did not succeed either to meet the demand for coal or to recover the cost of sales during the years 1994-95 to 1998-99. Despite five upward revisions in the price of coal between April 1996 to March 1999 the gap between average cost of sale and selling price had been widening except in the year 1998-99 when it narrowed marginally. The Company suffered a loss of Rs.185.10 per tonne of coal sold in 1998-99.

The liquidity of the Company was seriously affected due to blocking up of fund in sundry debtors (Rs.946.78 crore in January 2000). Availability of better quality imported coal at lower price as a result of the liberalised import policy has thrown a great challenge to the coal industry in the country. ECL had already suffered huge loss on account of loss of both export and indigenous market due to higher cost of transport and higher price of coal.

[Paragraphs 9.2 and 9.3]

11. Domestic Consumption of Coal

By virtue of an executive order it was decided that only D-Grade coal should be used for domestic consumption of employees. This order was often flouted leading to a loss of Rs.18.14 crore and Rs. 12.62 crore during the year 1996-97 and 1997-98 respectively due to domestic consumption of A and B Grade Coal.

[Paragraph 10.1]

12. Material Management and Inventory Control

The capital and revenue stores of the Company were Rs.65.31 crore and Rs.154.78 crore respectively on 31 March 1999. The stock of revenue stores ranged between 7 to 10 months consumption as against the norm of 6 months. The Company made a provision of Rs. 31.05 crore towards obsolescence of old stock.

[Paragraph 11.1]

1. INTRODUCTION

1.1 In compliance with the directive issued by the Government of India in September 1975, Eastern Coalfields Limited (ECL) was incorporated on 1 November 1975 by taking over the assets and liabilities of the Eastern Division of Coal India Limited (erstwhile Coal Mines Authority Limited – CMAL).

The command area of ECL extended over the coalfields of Ranigunj, Mugma Salanpur, Rajmahal, Kasta, Chitra and Mejia spread over the states of West Bengal and Bihar covering an area of 1620 square kilometers. At the time of nationalisation of non-coking coal mines in May 1973 ECL (erstwhile CMAL) was having 438 mines, of which 214 were operative. As on 31 March 1999 the number of operative mines had come down to 124, of which 102 were underground and 22 opencast mines with a proven reserve of approximately 12883 million tonnes (MT). Grade A to D coal constituted sixty three per cent of this proven reserve and the balance thirty seven per cent was accounted for by grade E to G coal. The best quality coal was from the Ranigunj fields which was preferred by glass, ceramics, refractories, thermal power stations, etc., because of its unique properties like long flame and high volatile content.

1.2 Organisational set up.

The overall management of the Company rested with a Board of Directors headed by a Chairman-cum-Managing Director (CMD). Besides, there were four whole time functional Directors looking after Finance, Personnel, Technical (Planning) and Technical (Operations) and one Director each from the Ministry of Coal, Coal India Limited, Eastern Railways, Government of West Bengal, Department of Commerce/Land Reforms and Principal Chief Engineer, Damodar Valley Corporation.

The Company was divided into 15 areas each consisting of 1 to 14 collieries and headed by a General Manager.

Detailed organisation chart of the Company is given at Annexure –1.

1.3 Scope of Audit and main audit findings.

The working of the Company was reviewed earlier by the Comptroller and Auditor General of India and observations incorporated in the Union Government (Commercial) Report, Part IV for the year 1983. The Committee on Public Undertakings (COPU) also reviewed the working of the Company and its recommendations are contained in its 25th Report (Eight Lok Sabha) of April 1987.

The following major recommendations of COPU were yet to be implemented by the Company:

i) Legal formalities should be immediately completed and assets and liabilities transferred in favour of ECL within a peirod of six months.

The Ministry stated (March 2000) that a bill seeking to empower the Central Government to direct transfer of assets and liabilities vested in Coal India Limited (CIL) or in a CIL subsidiary to any other CIL subsidiary (to be incorporated under the Companies Act, 1956 in future) and to validate certain transfer of such land or rights was introduced in the Parliament in 1998. The bill was pending consideration of the Standing Committee on Energy since April 1999.

As regards delay of 11 years in introducing the bill in Parliament for effecting transfer of Assets & Liabilities by CIL, the Ministry stated during the Audit Board Meeting (March 2000) that Coal Mines Nationalisation Act , 1973 did not provide for retransfer of assets. Besides as Standing Committee on Energy had raised certain objections on such transfer, legal opinion at various levels had to be sought for and clearance from Ministry of Law had to be obtained before introducing the bill. Hence the delay.

The reply of the Ministry is not convincing as time taken for overcoming routine administrative and legal hurdles can not justify the delay of about 23 years from the date of incorporation and 11 years from the date of admittance to COPU. It indicates that the steps taken by the Ministry for transfer of assets and liabilities were neither timely nor effective.

(ii) Ascertaining surplus manpower through a scientific study.

The Ministry stated (March 2000) that a study was undertaken earlier by BICP who submitted their report in September 1987. As the report was based on mere statistical analysis of sample mines, it was neither considered scientific nor could be accepted as normative for each mine. The task of assessing the manpower scientifically was therefore entrusted by CIL to Mining Meteorological and Geological Institute (MMGI) and Central Mine Planning & Design Institute Limited (CMPDIL) and the work was in progress. In the Audit Board Meeting held in March 2000 it was stated by the Management that CMPDIL was expected to complete the study by the end of April 2000 when the final picture would emerge. It was, however, seen that the response of MMGI being not positive, the assessment of manpower for ECL was entrusted only to CMPDIL in April 2000. The assessment was in progress. The fact remains that even after lapse of about 25 years of formation, the Company was yet to ascertain the extent of surplus manpower (May 2000).

The present appraisal covers the working of the Company for six years ending March 1999. The coverage has, however, been increased or decreased wherever considered necessary. The main findings of this review are:

(i) ECL had been incurring loss every year since inception excepting 1988-89, 1989-90, 1991-92 and 1995-96 and the mounting losses left it's net worth completely eroded in 1996-97 leading to a reference to the BIFR. Despite waiver of interest liability of Rs.697.72 crore by CIL and grant of Rs. 3265 crore (upto 1995-96) from the Coal Price Regulations Account the Company's balance sheet showed an accumulated loss of Rs.2201.07 crore as on 31 March 1999.

(ii) Although the Company owns some of the best coalfields (Ranigunj area) in the country and superior quality of coal (Grade A to D) forms 63 percent of it's total coal reserve, the company has failed to achieve any of it's objectives primarily due to huge infructuous expenditure on unviable technology, underutilization of capacity of mines and equipment and surplus manpower.

(iii) The manpower of ECL as on 31 March 1999 was 1.43 lakh, 80.46 per cent of which was engaged in underground mines. Despite having abundant labour the company devoted a lion's share of its investment in the post nationalization period to highly capital intensive Longwall technique of underground mining. The longwall technique has proved to be inappropriate and unviable under the Indian geo-mining conditions and has led to infructuous expenditure and blocking up of capital at Seetalpur, Dhemomain, Jhanjra and Kottadih.

(iv) Apart from choice of inappropriate technology, ECL's injudicious investments on projects which had to be abandoned mid-way because of non-availability of land, inadequacy of survey data etc. have also proved to be very costly.

(v) The Company continued to be plagued by coal shortages but was yet to formulate a concrete strategy to deal with the problem. The percentage of coal shortage to book stock in the last nine years ranged between 4 per cent to 46 per cent. In most of the cases pertaining to such shortages either no penalty had been imposed or the punishment had not been stringent enough to act as a deterent.

1.4 Objectives

The objectives of the Company as framed by the Holding Company i.e. Coal India Limited (CIL) were tabled in the Parliament in June 1977. These, interalia, included development and utilisation of coal reserves, increase in productivity, optimum utilisation of production capacity, generation of surplus, improved marketing arrangements of coal and other derivatives at reasonable price throughout the country, and promotion of research and development activities.

The COPU in its Report of April 1987 (25th Report) observed that the common objectives drawn by CIL for all its subsidiaries and placed before the Parliament in June 1977 were worded rather too generally and that the objectives and obligations to be framed under BPE guidelines were required to spell out specifically the broad principles for creation of various reserves, responsibilities of self financing, anticipated return on capital employed, basis of workings of national wage and pricing policies so that these could provide basic parameters for evaluating the performance of undertakings and also taking timely remedial measures wherever necessary. The COPU, therefore, recommended (April 1987) that micro objectives of the Company should also be clearly defined as per BPE guidelines issued in 1979 and 1983 and should be placed before the Parliament within six months. In response, CIL stated (March 1999) that the micro objectives had been prepared and submitted to the Ministry in January 1993, but the same had not been approved so far (May 2000).

It is surprising that despite COPU's observations, micro-objectives which should form the basic parameters for evaluating the performance of the Company have not been finalised, even after 25 years of its inception. Further, the succeeding chapters would reveal that even the broad macro objectives of the Company have not been achieved.

2. FINANCIAL POSITION AND WORKING RESULTS

2.1 The financial position and working results of the Company for the last six years upto 1998-99 are given below : -

1 (A) Financial Position:

(Rs. in crore)

		1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
LIABILITIES							
a.	Paid up capital	1039.00	1039.00	1039.00	1039.00	1039.00	2218.45
(i)	Others (All shares are held by CIL-Holding Company)	1039.00	1039.00	1039.00	1039.00	1039.00	2218.45
(ii)	Conversion of loans into Equity (pending allotment)	-	-	-	-	1179.45	----
b. Reserves & Surplus							
	Capital Reserve	9.31	9.31	9.32	9.32	9.32	9.32
c. Borrowings							
(i)	From Holding Company (CIL)	1523.41	1634.56	1293.70	1681.35	518.97	615.57
(ii)	From Financial Institutions	6.45	5.90	5.25	4.42	3.51	0.75
(iii)	Foreign credits	267.08	268.10	412.94	399.61	401.20	389.00
(iv)	Cash credit	53.07	54.02	54.87	32.23	15.20	8.84
(v)	Others	-	-	-	-	35.66	----
(vi)	Interest accrued & due	-	0.09	0.08	-	-	0.13
d.	(i) Current Liabilities & Provisions	1162.06	1166.88	1092.09	1271.69	1768.03	2290.93
(ii)	Provisions for Gratuity	37.03	48.81	245.87	257.53	269.67	249.76
TOTAL		**4097.41**	**4226.67**	**4153.12**	**4695.15**	**5240.01**	**5782.75**
ASSETS							
e.	Gross Block	2323.89	2957.39	3350.94	3633.00	3920.25	4112.43
f.	Less: Cumulative Depreciation	873.62	1038.39	1249.00	1493.64	1743.45	1989.16
g.	Net Block	1450.27	1937.00	2101.94	2139.36	2176.80	2123.27
h.	Capital works in progress	766.18	397.27	382.37	366.12	252.55	198.30
i.	Investments	0.08	0.08	0.08	0.08	0.08	0.08
j.	Current Assets, Loans & Advances	969.90	862.56	652.44	870.43	983.94	1193.30
k.	Misc. expenditure not written off	19.21	29.52	170.72	132.44	98.04	66.73
l.	Accumulated Loss	891.77	1000.24	845.57	1186.72	1728.60	2201.07
TOTAL		**4097.41**	**4226.67**	**4153.12**	**4695.15**	**5240.01**	**5782.75**
m.	Working capital	(-)192.16	(-)304.41	(-)439.73	(-)401.26	(-)784.08	-1097.75
n.	Net worth	128.02	9.24	22.71	(-)280.16	391.81	(-)49.35
o.	Current ratio	83.46	73.91	59.74	68.45	55.65	52.09

1(B) Working Results

		1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
i)	Production (in million tonnes)	22.61	24.85	27.80	29.65	27.44	27.16
ii)	Net sale value of coal (Rs. in crore)	1155.97	1252.11	1365.85	1900.85	1946.88	2047.87
Iii)	Subsidy from Coal Price Regulation Account (CPRA) (Rs. in crore)	407.58	467.07	545.89	-	-	-
iv)	Cost of Production (Rs. in crore)	1633.94	1911.12	2146.06	2241.99	2488.77	2608.56
v)	Operating Profit (Rs. in crore) including CPRA	212.67	238.47	315.67	16.37	(-)138.34	33.94
Vi)	Operating Profit as a percentage of Net Sales Value	18.40	19.05	23.11	0.86	(-)7.11	1.66
Vii)	Profit & Loss (Rs. in crore)	(-)64.04	(-)104.69	(-)155.13	(-)338.23	(-)533.77	(-)464.23

Since inception (1975) ECL had been incurring losses excepting in 1988-89, 1989-90, 1991-92 and 1995-96. It had already received (upto 1995-96) Rs.3265 crore towards Coal Price Regulation Account (CPRA) to compensate the loss arising out of administered pricing of coal. The CPRA had, however, been withdrawn with deregulation of prices of Coal in 1996-97. Besides, 100 per cent budgetary support was also given through CIL upto Seventh Five Year Plan which came down sharply to 14 per cent in the Eighth Five Year Plan (1992-97). For the period from 1988 to 1997 about Rs.3596 crore was also invested in new projects to increase the profitability of the Company. Moreover, interest waiver (on CIL loan) of Rs.697.72 crore during the last four years ending 31 March 1998 apart from moratorium of interest for 3 years on non-plan loan of Rs.259 crore upto 31 March 1999 was also granted to the Company.

In spite of receipt of assistance from CPRA and direct support by CIL the Company had been incurring losses almost recurringly. As a result of mounting losses Company's networth became negative. In the year 1996-97 the networth of the Company being (-) Rs.280.16 crore it was referred to the Board of Industrial and Financial Reconstruction (BIFR). But as a result of conversion of loan worth Rs.1179.45 crore into equity, as a part of capital restructuring, the Company came out of the purview of BIFR in the year 1998-99. The networth of the Company as on 31 March 1998 was Rs.391.81 crore but as a result of poor performance during 1998-99 the Company had become sick once again with a negative net worth of (-) Rs.49.35 crore as on 31 March 1999. The Company was again referred to BIFR and registered as a Sick Company on 17 January 2000.

Mounting losses of the Company are mainly attributable to increase in salary, under utilisation of capacity of mines, high cost of production, surplus manpower, low productivity of labour, problem of offtake of coal by NTPC and collapse of Kottadih UG project, etc.

The current ratio had decreased from 83.46 in 1993-94 to 52.09 in 1998-99 which was indicative of serious financial crunch being faced by the Company towards meeting its working capital requirement. As a result, the Company was depending more and more on long term borrowings. The liquidity crunch had also resulted in curtailing some of the important development expenditures on on-going projects and abandonment /suspension or deferment of some important projects.

ECL produced superior quality of coal from its Ranigunj fields but it suffered a price disadvantage due to comparatively high cess being levied by the Government of West Bengal. The price disadvantage suffered by ECL as compared to companies producing coal in other states varied grade-wise from Rs.225.65 to Rs.354.10 per tonne. The notional loss/price disadvantage on this account as calculated by ICICI during 1996-97 and 1997-98 worked out to Rs.510.65 crore and Rs.448.86 crore respectively. The Government of West Bengal had reduced (December 1998) the cess from 45 per cent to 25 per cent with effect from 1 December 1998 consequently the Company increased (January 1999) the basic price of coal resulting in generation of additional revenue of Rs. 39.02 crore for the quarter ended March 1999.

Admitting the fact, the Ministry pointed out (March 2000) that whatever support was received from CIL was in the form of interest bearing loan. The interest has added to the loss. It was further stated that main reasons for mounting losses were the excessive manpower and irrational levies charged by the Government of West Bengal. While the cost of salary and wages contributed 76 per cent of the operating cost, the impact of cess was around Rs.448 crore per annum before reduction of cess in 1997-98. This amount could have added to income without affecting price to the customer. It was mentioned in the Audit Board Meeting that the Company had approached the Court for bringing down the cess at par with other states. The case was ,however, pending in the Supreme Court.

Appreciating the above contention of the Ministry the following points deserve consideration :-

(a) Financial support without interest is possible only when adequate return in other form is given. In fact CIL had hardly got any return on its investment in ECL, on the contrary CIL had waived interest to the tune of Rs.697.72 crore during the four years ended March 1998 and granted moratorium on interest for three years on non-plan loan of Rs.259 crore up to 31 March 1999.

(b) ECL is blessed with the best quality of coal in the country and therefore its price was fixed at a higher rate. But it had repeatedly failed to achieve the production target and meet the market demand. Therefore, cess alone should not be treated as a reason for loss to the Company.

(c) Management had not yet identified the actual excess manpower nor could it fix manpower norms. Therefore, financial implications arising out of surplus manpower had not been ascertained.

(d) The Management failed to take the full advantage of reduction of cess from December 1998 as the production in 1999-2000 was only 25.12 MT and sales were 24.48 MT compared to 27.16 MT and 25.54 MT respectively in the previous two years.

3. CAPITAL STRUCTURE

3.1 As on 31 March 1997 the authorised capital and paid up capital of the Company stood at Rs. 1,200 crore and Rs. 1,039 crore respectively. In order to match the financial covenant of 70 per cent (debt to total capitalisation) agreed by CIL in the Coal Sector Rehabilitation Plan Loan Agreement with the World Bank, as well as to allow ECL a breathing time to improve its physical performance, conversion of CIL loan of Rs. 1179.45 crore to equity was effected during the year 1997-98. By restructuring the capital base, the Company which became sick on 31 March 1997 due to negative networth came out of the provision of Sick Industrial Companies (Special Provision) Act, 1985 on 1 June 1998.

The main conditions laid for restructuring of capital as well as the achievements there against in 1997-98 and 1998-99 were as under: -

		Conditions		Achievements	
		1997-98	**1998-99**	**1997-98**	**1998-99**
a)	Capacity Utilisation (Per cent)	82.07	84.61	72.00	74.55
b)	Production level (Million Tonne)	31.00	31.50	27.44	27.16
c)	Reduction in manpower	1,53,840	1,36,760 (upto 2000-2001)	1,53,840	1,42,746
d)	Meet debt service liabilities to CIL & outside agencies in full i.e. arrears of Pension Fund, Cess liabilities to W.B. Govt, Interim Relief. (Rs. in crore)	536	816	16	NIL

From the above table it is evident that the achievements were far behind the expectations except in respect of reduction in manpower in 1998-99. Infact by January 2000 the company succeeded in reducing the manpower to 1,35,300. Since capital restructuring was not accompanied by the envisaged improvement in the physical parameters ,the Company failed to overcome its sickness and its networth came down from Rs.391.81 crore in 1997-98 to (-) Rs.49.35 crore in 1998-99. The Company had again been registered as a sick company with BIFR on 17 January 2000.

3.2. Borrowings

3.2 (A) The Company had been functioning with a negative working capital for the last six years ended March 1999. As on 31 March 1999 the working capital was (-) Rs.1097.75 crore. Thus, the Company had to resort to borrowings from CIL, Banks and other financial Institutions sometimes even on very unfavourable terms prejudicial to the interest of the Company as would be evident from para 3.2(B).

The Company's borrowings for the last six years were as under : -

(Rs. in crore)

		1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
a.	Borrowings From CIL.	1523.41	1634.56	1293.70	1681.35	518.97	615.57
b.	Borrowings from Banks & Financial Institutions (Excluding interest due)	59.52	59.92	60.12	36.65	54.37	9.59
c.	Interest on borrowings i) on CIL loans	118.69	171.50	181.25	NIL	NIL	33.72
	ii) on borrowings from Banks/ Financial Institutions	2.06	2.96	2.01	0.42	3.58	1.98

(As stated in the preceding paragraphs CIL waived interest of Rs.697.72 crore during the last six years ended March 1999)

Acute liquidity crisis faced by the Company was attributable to the following factors:-

I. Blocking up of capital in the inventory of stores and spares : As on 31 March 1998 and 1999 the value of stock of stores and spares was Rs.139.21 crore and Rs.154.78 crore corresponding to 7.05 months and 7.39 months consumption respectively. As a sizeable portion of the stock had become obsolete the Company made provision of Rs.20.77 crore and Rs.31.05 crore during 1997-98 and 1998-99 respectively towards obsolescence of stores and spares.(refer para 11.1)

II Shortage of Coal Stock/Mixed Stock/Fire Stock of Coal : Upto the year 1993-94, the Company had written off Rs.81.83 crore towards shortage of coal stock. A further sum of Rs. 36.52 crore in aggregate for the period from 1994-95 to 1997-98 was yet (May 2000) to be written off. Similarly, the Company had written off Rs.76.01 crore in January 1996 on account of Mixed/Fire Stock. Another sum of Rs.26.43 crore was awaiting write off. These factors have substantially contributed to the dearth of working capital. (refer para 7)

III. Increasing trend of Sundry Debtors' balance: There had been a continuous upward trend in the balance of Sundry Debtors. As on 31 March 1999 the balance stood at Rs.876.13 crore (Rs.429.70 crore exceeding six months) as against Rs.706.38 crore (Rs.292.38 crore exceeding six months) as on 31 March 1998. The corresponding provision for doubtful debt was Rs.240.09 crore and Rs.179.16 crore respectively. Increasing trend of Sundry Debtors adversely affected the inflow of funds. Most of these debts were unconfirmed debts due from State Electricity Boards. (refer para 9.3)

IV Increase in Loans & Advances : Loans & Advances increased from Rs.107.38 crore in 1996-97 to Rs.127.44 crore in 1997-98. The Company had made provision for doubtful advances of Rs.8.64 crore upto 31 March 1998 as against Rs.7.59 crore upto 31 March 1997. However, the Loan & Advance decreased to Rs.87.09 crore with a provision for Rs.7.53 crore as on 31 March 1999.

V. Suspension/abandonment of Coal Handling Plants, Railway Siding, etc. : A provision of Rs.104.46 crore (31 March 1999) was made against expenditure incurred on a number of Coal Handling Plants, Railway Sidings, Stores (Plant & Machinery), Development, Civil Works, entrapped Longwall Equipment (Kottadih Underground Mine) which were eventually suspended or abandoned. (refer para 4.5)

VI. Wastage of fund on Mining Projects abandoned so for: The Company had lost Rs.71.76 crore on 40 projects abandoned/suspended till 1997-98. This adversely effected the financial position of the Company. (refer para 4.4)

3.2(B) Borrowings from Industrial Credit and Investment Corporation of India Limited (ICICI)

In order to meet its working capital requirement the Company took a loan of Rs.50 crore from ICICI on 26 September 1997. The loan was repayable in ten equal monthly instalments of Rs.5.36 crore. It was observed that the said loan was taken without conducting a market survey. The terms and conditions of the loan were rigid and included, interalia, hypothecation of assets worth Rs.108 crore and further security as the lender deemed fit thereafter. Besides, the Company was required to open an Escrow account in the name of ICICI with the State Bank of India (SBI), Calcutta branch where all sale bills payments (coal) from Calcutta Electric Supply Corporation were to be deposited 5 days in advance of due date of instalment and ICICI was to draw the instalment from this account. The terms and conditions also included the appointment of a nominee Director of ICICI on the Board of Directors of ECL in case of default in repayment. ICICI charged a rate of interest of 15.3 per cent (including interest tax) per annum on the said loan. The loan was repaid in October 1998 as against the projected date of July 1998.

The detailed examination of the records related to this transaction revealed the following:

(i) There was no documentary evidence to indicate the basis of selection of ICICI as the most favoured source of finance.

(ii) The Company deferred repayment of loan by three months despite a favourable cash flow during that period. This resulted in extra payment of interest to the tune of Rs. 1.72 crore.

(iii) The condition that the amount repayable be deposited in Escrow account 5 days in advance of the due date of repayment of instalment resulted in an additional interest burden of Rs. 0.94 crore.

In response, the Ministry stated (March 2000) that as the financial condition of ECL was very poor, no Banks or Financial Institution other than ICICI was agreeable to grant such loan on stand alone basis. CIL was also not in a position to stand as guarantor for the loan from established banks. The Ministry added that the Escrow mechanism was an integral part of the terms and conditions of loan from ICICI and the ECL had no control over it.

The contention of the Ministry is not convincing because:-

(i) CIL's issue of letter of comfort to ICICI against the repayment of loan by ECL (vide clause 1.1(e) of the Agreement) runs contrary to the statement that CIL was unable to stand as guarantor for raising loan by ECL from established Banks.

(ii) Instead of depositing the instalment in the Escrow account 5 days in advance of the due date, ECL could have insisted upon a suitable provision in the loan agreement in the form of penalty for delay in payment of instalment and thereby avoided loss of interest of Rs.0.94 crore.

(iii) It was a general practice that CIL granted loan to its subsidiaries as per urgency of payments. In fact during 1998-99 CIL granted such a loan to ECL at a nominal rate of interest of 6.5 per cent. Denial of temporary cash support (loan) at the time of financial crisis raises a question on the role of CIL as a Holding Company.

4. PLANNING AND DEVELOPMENT OF PROJECTS

4.1 Project formulation and status of the projects

The work of formulation of all projects of ECL was entrusted to Central Mine Planning and Design Institute Ltd. (CMPDIL), a subsidiary of CIL.

Total investment of the Company on the new mining projects, existing mining projects and non-mining projects as on 31 March 1998 was as under:-

(Rs. in crore)

Sl. No.		Underground Mines	Open cast Mines	Total investment
1.	New Mines	467.25	1787.94	2255.19
2.	Existing (old) Mines including reconstruction projects	1398.28	275.88	1674.16
3.	Non-mining projects	-	-	243.45
	Total	**1865.53**	**2063.82**	**4172.80**

The above table does not include 3 projects formulated during 1997-98 involving a capital outlay of Rs.167.23 crore with a projected capacity of 1.63 MTY which were yet to be approved/approved subject to availability of fund.

The Company had taken up 95 mining projects since inception of which 42 projects with projected capacity of 26.22 MTY had been completed and 40 projects with projected capacity of 13.95 MTY had been abandoned. The Company had sustained a loss of Rs.71.76 crore on these abandoned projects.

The new projects in which the Company had invested have been discussed in the succeeding paragraphs. It would be seen therefrom that there were huge cost and time overrun in execution of these projects and the new technology of Longwall (LW) mining had a persistent unsatisfactory track record. The Management admitted (March 1999) that no projects were completed within the projected cost and time schedule. It was further stated that the slippage and unsatisfactory performance of the projects was due to non-availability of land and inadequate geo-mining study. As regards LW mining technique, it was stated by the Management (March 1999) that though the Company's experience was not good, there was no other alternative to it due to its cost effectiveness in UG mining.

The above contention of the Management may be viewed in the light of the Ministry's statement (March 2000) that just after nationalization the coal companies were constantly under pressure to meet the growing demand for coal and therefore, difficult and high risk mining projects were undertaken.

4.2 Long Wall (LW) Projects

The first LW mining experiment in ECL started with Seetalpur project followed by Dhemomain Project.

4.2(A) Seetalpur and Dhemomain Project

(i) SEETALPUR PROJECT

Equipment worth Rs.3.15 crore for LW method of mining at Seetalpur was commissioned in 1983-84 but it proved unsuccessful because of its incompatibility with the geo-mining conditions. As a result the entire expenditure (Rs.15.95 crore) on the project proved to be infructuous. The project was closed in October 1990 and the above equipment along with the spares of Rs.43.17 lakh had been lying idle since then.

(ii) DHEMOMAIN PROJECT

Two LW equipment worth Rs.29.99 crore were commissioned at Dhemomain in 1987 but the operation could not be carried out due to non-availability of required land. The project was ultimately stopped during 1992-93. Out of two LW equipment sets, one worth Rs.21.13 crore was transferred to Jhanjra Project and was in use there. The other (worth Rs.8.86 crore) was lying idle since then.

The Management, inter alia, stated (August 1996, November 1998 and March 1999) that Seetalpur failed due to deviation in actual working conditions from the geo-mining studies conducted by the experts. Dhemomain Project faced the problem of non-availability of land. The first set of LW equipment was transferred to the Jhanjra Project and the second set was proposed to be used at Chinakuri-III mine. It was also stated that the Seetalpur and Dhemomain had provided an opportunity for learning the technology and experience gained was utilised at Jhanjra and Khottadih.

Endorsing the views of the Management, the Ministry stated (March 2000) that Longwall Mining was successful at Khottadih where the production achieved the levels as per plan and Jhanjra had been working successfully for the last ten years though recently one of the panels had to be suspended due to heating . It was further added that the longwall equipment lying idle at Dhemomain mine were found to be unsuitable by CMRI for use in Chinakuri-III. Their use in other mines was being explored.

The contention of the Management/Ministry is not tenable on the following grounds :-

(a) In regard to LW Mining, CIL viewed that early efforts on Longwall Mining were ill-conceived and poorly implemented . Equipments and geological mining conditions were not matched correctly and there were problems with technology transfer, training and spare parts availability. There were examples of moderately successful mechanised faces with longwall equipment supplied by the French, British and Russians.

(b) While the production of Khottadih longwall mining had been stopped from April 1997 due to collapse of the mine as a result of incompatibility of equipment, production of Jhanjra could never achieve even 50 per cent of its capacity.

c) The repeated failures of LW mining in other projects had proved that the experience gained at Seetalpur and Dhemomain was of little use. (refer Para 4.2 B & 4.2.D)

4.2(B) Jhanjra Project

The feasibility report of Jhanjra underground project prepared in collaboration with Soviet Experts and approved by the Government in December 1982 envisaged annual coal production of 3.5 MT by operating 12 powered support LW faces. The project with an estimated capital outlay of Rs.184.55 crore was expected to be completed by March 1994. The Russian technology required operation of 12 Longwall faces on the whole and 9 (Nine) longwall faces simultaneously. Operation of so many Longwall faces simultaneously was a highly complex exercise which led to insurmountable functional and managerial problems. The Management should have known that even in countries like Australia where LW had worked successfully UG mines were planned for a production level of around 1.2/1.5 MTY with operation of one LW face.

The progress of work was very tardy and in August 1992 the Committee of Secretaries apprehending huge time and cost overrun of the project reviewed it and decided to implement it in two phases with an annual production target of 2 MT in the first phase and 1.5 MT in the second phase. Accordingly the first phase of the project, sanctioned in August 1995, was expected to be completed by March 1998 at a capital outlay of Rs.403.96 crore by operation of 4 LW faces. Capital outlay and scheduled date of second phase were not decided. However, even the first phase of the project did not progress according to the revised plan and it is expected that the envisaged capacity of 2 MT will be obtained only by March 2002.

All the four LW faces of Phase-I had been installed by June 1998, however, development equipment like Road Headers could not be procured primarily because of an overall fund crunch in ECL. The actual production of coal achieved from partial operation of phase-I of the project during 1997-98 and 1998-99 was 0.81 MT and 0.95 MT respectively.

The Management analysed the delay and attributed it to problems related to shaft sinking, mine entry, procurement of winder and uncertainty regarding supply of equipment and spares from erstwhile USSR.

The Management stated (March 1999) that delay in acquisition of land, import and customs clearance, testing of equipment, approval of DGMS and lack of sufficient experience of Russian experts on Indian soil were some of the other reasons leading to enormous time and cost overrun of this project.

Corroborating the fact, the Ministry inter alia added (March 2000) that Russian experts had been invited to help improve performance of Russian LW faces.

The main reason for slippages was found to be non-availability of land at the time of need. Proper advance action for acquisition of land could have avoided slippages to a large extent.

4.2(C) Satgram Reorganisation Project

Satgram mine is one of the oldest mines of ECL. The purpose of the Reorganisation Project (1.2 MTY) was to combine mechanised Bord and Pillar and LW mining system for mine operation. The project profile and production performance are tabulated below :

Sl. No.	Project Profile	Original	Revised	Anticipated
a.	Date of approval of the project.	May 1979	Sept.1990	--
b.	Date of completion	March 1989	March 1995	March 2002
c.	Cost (Capital outlay-Rs. in crore)	26.37	148.26	208.44 (Actual 138.86 upto March 1999)

Production Performance **(In MT)**

	Rated Capacity	Actual
1997-1998	1.20	0.19
1998-1999	1.20	0.22

The technology envisaged in the project was LW Powered Support (1 Panel) and mechanised Board and Pillar District (4 Nos.). It would appear from the above table that anticipated time over-run for the project was 12 years while anticipated cost over-run was Rs.182.07 crore. After approval of the project in 1979, there was initial delay in finalisation of global tenders for shaft sinking and pit bottom development. As the upper seam of the project needed dewatering (also envisaged in the Project Report) at regular intervals for working of the mine, the Company had installed pumping system for transfer of water to new Satgram site but was unable to operate it due to resistance of the villagers in the surrounding area regarding acquisition of land and provision of some facilities to them. The issues remained unresolved inspite of several meetings with District Authorities and the State Government. The water level had meanwhile increased by 7 meters vertically which delayed the dewatering programme considerably. As the fact of water logging in the upper seam was envisaged in the Project Report and acquisition of land above the LW panel was a pre-requisite for working of the mine, the Management should have taken constructive steps at the initial stage of the project itself towards acquisition of land.

The first LW Panel development was completed in 1997-98. There had also been belated submission of the Revised Project Report (RPR) to Government which was discussed in the Inter Ministerial Group (IMG) meeting on 20 March 1998 and was awaiting (March 2000) Public Investment Board's (PIB) approval.

The Management, inter alia, stated (November 1998) that problems related to acquisition of land were the main reasons for time and cost overrun. It was further stated (March 1999) that the problem of land being nowhere near a solution it had been decided to close the Longwall Mining and transfer the equipment to Jhanjra Project if found suitable.

The Ministry however stated (March 2000) that it has now been decided to run the project with semi-mechanised Bord and Pillar Method for an output of 0.51 MTY with an investment of Rs.118.70 crore.

Thus a project which was to produce 1.20 MTY with a investment of only Rs. 26.37 crore may now produce only 0.51 MTY even after spending Rs. 118.70 crore. Meanwhile the expenditure of Rs. 138.86 crore (upto March 1999) on the project has proved to be unfruitful because of failure of the Company to take timely steps for procurement of land or to assess the difficulty of getting the requisite land before embarking upon such a venture.

4.2 (D) Khottadih Underground Project

Khottadih Underground Project was approved by the Government in June 1989 for a total production of 1.38 MTY mainly to cater to the needs of Bakreshwar Thermal Power Station. The envisaged capital outlay was Rs.179.01 crore with the scheduled date of completion in July 1993 and production demonstration and technology transfer within a year of commissioning. The technology was multislicing LW Caving using powered supports. For implementation of the technology, a turn-key agreement was made with M/s. CdFI, France in September 1989. Subsequently, another technology i.e. single slicing (4.5 mtr.) method was proposed by CdFI, France and the same was approved by the Government. Accordingly, the revised agreement was signed (November 1991) between CIL and CdFI, France for a production target of 1.391 MTY. The revised cost estimates of Rs.340.86 crore was yet (February 1999) to be approved by PIB and the Government. The actual production started from July 1994 as against scheduled date of July 1993. The total production during 1995-96, 1996-97 and 1997-98 was 0.87 MT, 0.83 MT and 0.23 MT (upto April 1997) respectively.

The Company incurred Rs.335.31 crore (March 1999) on the Project. There were frequent breakdowns which eventually led to total collapse at Panel No.3 in April 1997. The heavy mass of dislodged strata above the coal seam fell on the mining equipment worth Rs.55.18 crore (written down value) causing severe damage to the equipment. The Company incurred an expenditure of Rs.75.65 lakh to recover the entrapped equipment but equipment worth Rs.35.85 crore remained finally unrecovered apart from damage to equipment worth Rs.19.33 crore. The LW mining operation also came to an abrupt halt since April 1997. In addition to this the Company was having imported spares worth Rs.6.60 crore out of which spares valuing Rs.4.02 crore had been received after the collapse.

Records revealed that based on the geological data furnished by the CMPDIL, the French firm had reconsidered (July 1994) two legged shield support with load factor of 68 Te per square metre. Central Mining Research Station (CMRS) Dhanbad had, however, recommended four legged chock shield (April 1993) based on soil condition of Khottadih. Inspite of the load factor at Jhanjra LW Mine being 120 Te/sq.m. and the global theory in this regard being "the bigger the better", the French firm was allowed to start the LW mining at Khottadih with their own technology of two legged power support. The operation had limited success initially and there were frequent breakdowns. There was thus ample reasons to review the load factor and power support, but due to lack of experience and familarity with French Technology the Management relied upon the firm entirely which eventually culminated in the collapse causing a loss of Rs.62.54 crore (Rs.35.85 crore on trapped equipment + Rs.19.33 crore on damaged equipment + Rs.6.60 crore on redundant spares + Rs.0.76 crore expenditure on recovery).

The Company had lodged (September 1997) a claim for Rs.36.30 crore for the damaged equipment on the French firm against their counter claim for Rs.5.24 crore for the services rendered by them.

The Management, interalia, stated (August 1998, November 1998 and March 1999) that the technical capacity of CdFI was duly assessed by CIL before awarding the contract and the project was implemented under their expert supervision. The equipment was installed underground with the approval of statutory bodies like Director General of Mines Safety (DGMS), CMRI. The experience in Jhanjra was not useful due to higher seam thickness (4.5 meters as against 3.4 meters) at Khottadih. The geological data furnished by CMPDIL had been wrongly interpreted by CdFI which could not be detected due to lack of experience in French technology. However, the rest of the panels having 25 years of life would be worked upon for which global tenders had been floated and the same were under finalisation (May 2000). It was further stated that the cost and 85 per cent of the risk of operation would be borne by the tenderer for a period of five years.

The Ministry added during the Audit Board meeting (March 2000) that the Company had lodged a revised claim in December 1999 for Rs.181.24 crore representing the value of damaged equipment, consultancy fees and compensation for major injury and death relating to the accident before the International Chamber of Commerce, Paris and was hopeful of recovery of the amount. It was further stated that the provisions in the agreement with CdFI enabled the Company to prefer such a huge claim.

The fact, however, remains that the Company was totally dependent on the French firm due to lack of experience in French Technology. Such dependence was injudicious particularly when a huge investment was to be made and the French experts were not sufficiently familiar with the geo-mining conditions of the mines. The records, also revealed that CdFI had not only disowned the liability of the claim but had also lodged a counter claim of Rs.10.02 crore (FF 14314202 at the rate of Rs.7 per FF) for recovery of arbitrary encashment of bank guarantee (Production) by CIL and technical assistance fees provided by the CdFI to the Company. It was further revealed that the collapse of the mine was attributed by CdFI to the mal-operation of equipment and not to deficiency in the design. Besides, the accident had occurred after the guarantee period had expired (31 August 1995). In view of above, the recovery of the amount was quite uncertain. The mining at Khottadih UG has also been kept suspended till date (May 2000).

4.3 Open Cast Projects

4.3.(A) Sonepur Bazari Project

Sonepur Bazari Project with a capacity of 3 MTY was approved in July 1985 and was scheduled to be completed by 1990-91. It was substantially financed by a World Bank Loan of US $ 114 million covering the cost of major HEMM, CHP, Training centre and workshop facilities. Besides time over-run of 6 years the project suffered a cost overrun of Rs.459.25 crore over the projected outlay of Rs.192.96 crore.

The Management stated (March 1999) that there was delay of more than 5 years in acquisition of land on account of resistance of the local villagers which delayed the project. The actual production of coal from the project as against the envisaged production was as follows: -

(In million metric tonnes)

Year	Envisaged Production	Actual Production	Shortfall
1994-95	1.60	1.26	0.34
1995-96	2.40	1.85	0.55
1996-97	3.00	1.75	1.25
1997-98	3.00	2.40	0.60
1998-99	3.00	2.28	0.72

The following shortcomings were noticed in the implementation and functioning of the project :-

(i) The Company entered (May 1993) into an agreement with M/s. Mcnally Bharat Engineering Company Limited for construction of a Coal Handling Plant (CHP) for despatch of sized coal through a conveyor by Railway on a turn-key basis, in two phases (Phase-I & II) at a total cost of Rs.51.21 crore. The construction of Phase-I of the CHP was to be completed by August 1994 and the entire turn-key project (Phase-I & II) was to be completed by November 1996. In June 1995, the Company decided to truncate Phase-II of the CHP due to non-availability of requisite land for construction of railway sidings and the project cost was revised to Rs.27.08 crore from the original estimated cost of Rs.51.21 crore. The actual expenditure against Phase-I was Rs.33.89 crore.

(ii) The project also suffered production loss due to delay in commissioning of a Walking Dragline procured (December 1993) at a cost of Rs. 55.56 crore, which was commissioned in November 1996, as against scheduled date of January 1996. The delay in commissioning was due to mis-match and short supply of equipment, delay in completion of electrical testing, late arrival of equipment and damage to some equipment during initial trial.

Due to truncation of work a sum of Rs.2.65 crore was paid as compensation to the contractors in October 1995 in settlement of their claim. Besides, out of the materials valued Rs.5.72 crore received at project site, the Company was able to transfer materials worth Rs.21.02 lakh only to its Sodepur Central Workshop leaving a balance of Rs.5.51 crore unutilised at site (April 1999). Thus, awarding of contract in 2 phases (Phase-I &

II) simultaneously before acquiring the requisite land resulted in avoidable expenditure of Rs.2.65 crore towards compensation and Rs.5.51 crore on account of unutilised material of the CHP.

The Management, inter alia, stated (November 1998) that the said truncation of the project was essential to provide land for diversion of Ranigunj - Suri Road cutting across the project otherwise all the OCP activities would have come to a stand still. Management added that users were being identified for unutilised material valuing Rs.5.51 crore.

The Ministry added (March 2000) that it was assessed during early 90's that it would be possible to transport coal from this project to a nearby existing siding for loading into wagons by pay-loaders and despatch to various destinations and therefore the construction of Phase-II was dropped. This resulted in substantial savings of capital investment on Phase-II of the CHP and 10 kilometers long Railway Siding.

The contention of Management/Ministry is not convincing as the said land was considered essential for the project and had been acquired before implementation of the project (as stated in the 134th meeting of the Board of Directors held in September 1996). It is thus, not clear why the land which had been acquired specifically for the project was provided for diversion of a road leading to loss of Rs.2.65 crore towards compensation and Rs.5.51 crore on account of unutilised material of the CHP. It is also not clear why the work order for Phase-II was awarded in May 1993 when it was thought in early 90's that coal could be transported to nearby existing Railway Sidings. The so called savings in capital expenditure should be viewed in the light of the recurring expenditure involved in transportation of coal for 10 kilometers including the cost of loading and unloading.

4.3(B) Rajmahal Project

The Rajmahal Open Cast project with a capacity of 5 MT started production from 1985-86. To meet the increased demand of National Thermal Power Corporation Limited (NTPC), an Expansion Project (10.5 MT) was taken up in 1987. The expansion project was implemented in collaboration with M/s. Canadian Commercial Corporation, Canada with M/s. Metchem Canada being its operating agent and was the largest venture of ECL. The original estimate of capital cost of the expansion programme was Rs.562.70 crore. This was revised to Rs.966.70 crore. The actual capital cost worked out to Rs.953.95 crore. The Project was completed in March 1995 as envisaged . The Company achieved the highest production of 10.05 MT in the year 1996-97 and produced 9.24 MT and 8.37 MT in 1997-98 and 1998-99 respectively registering a shortfall of 1.26 MT and 2.13 MT in those years. The project had a long term Coal Supply Agreement (CSA) with NTPC. Due to inability of NTPC to lift coal as per linkage/target, the Company had to restrict production at lower level during 1997-98 and 1998-99. Inadequacy of off take by NTPC led to piling up of stock. The closing stock as on 31 March 1998 and 31 March 1999 was as high as 1.319 MT and 1.310 MT. It was observed that the Company could not take any punitive action against this poor off-take since there was no such penal clause in the long term agreement with NTPC. The Management stated (May 1999) that penal provisions have been proposed in the new agreement under finalisation.

Although, the Company was forced to restrict the production at Rajmahal OCP due to poor off-take of coal by NTPC another project viz the Rajmahal optimisation Open Cast Project (approved in September 1996) was under implementation with the scheduled date of completion in March 2004. As the project was taken up without ascertaining the prospects of higher offtake of coal by NTPC by taking a firm commitment in this regard, the viability of the project appeared to be uncertain.

4.4 Suspended/Abandoned Mining Projects

As stated earlier out of 95 mining projects taken up for implementation by the Company, 40 projects were suspended/ abandoned upto the year 1997-98. The total expenditure incurred on these projects worked out to Rs.71.76 crore. Synopsis of these projects is as under :-

(Rs. in crore)

Sl.No	Category of Projects	No. of Projects	Capital outlay sanctioned	Actual expenditure
A.	Projects shelved without incurring expenditure.	14	156.67	---
B.	Projects suspended/ merged with existing mines.	16	225.09	65.59
C.	Projects shelved	10	253.63	6.17
	Total :	**40**	**635.39**	**71.76**

Analysis of reasons for abandonment are summarised in the following table:

(Rs.in crore)

Sl. No.	Name of Projects	Reasons for abandonment of the Project	Expenditure incurred
1.	Dhangojore (UG)	Low rate of return (IRR)	0.19
2.	Haripur R-III (UG), Ningha (UG)	Permission of DGMS to run the mine not granted.	11.67
3.	Chinakuri Augmentation, (UG) Parbelia (UG), Chinakuri-1 & 2 (UG), Dishergarh (UG), Amrasota reorganisation (UG)	Inadequate geo-mining study.	32.15
4.	Loudoha (UG).	Project unviable even at the proposal stage.	0.75
5.	Jambad (OC), Abhirampur (OC), Nakrakunda- B (OC).	Projects shelved after making preliminary investment in respect of which future use was undecisive.	0.66
6.	Bakulia (UG), Madhujore R-X (UG)	Projects shelved after making pre-liminary investment stated to be used in future.	4.38
7.	Dalurband (UG), New Kenda B & P (UG), NK Madhabpur (UG).	Fund constraint.	1.09
8.	Sital Dhemo.	Merged with other mines.	0.18

Sl. No.	Name of Projects	Reasons for abandonment of the Project	Expenditure incurred
9.	Purushottampur (UG), Chora Phase-I (UG), Bhanora West (UG),Central Kajora (UG), Chinakuri R & D (UG), Kushadanga (UG), Pawapur (UG).	Project with 60 per cent gestation period past and less than 5 per cent of sanctioned capital recommended for use as existing mine.	16.91
10.	Amkola (UG),Khodia Re-org Scheme	Other reasons (delay in procurement of equipment for mechanisation, production being carried out with outdated equipment	3.78
		Total :	**71.76**

The above table indicates deficiencies in project planning and implementation as a number of mining projects were taken up by the Company without receipt of permission of DGMS, proper assessment of geo-mining conditions, availability of funds, proper assessment of viability of the projects/rate of return, etc. This led to pre-mature abandonment of projects and waste of precious resources. Although these deficiencies in the project planning and implementation had also been pointed out in Chari Committee's Report (October 1985) the position remained unchanged till date (September 1999). Even after the submission of Chari Committee's Report, 35 projects valuing Rs. 28.64 crore were taken up and abandoned/shelved. 5 projects valuing Rs. 43.12 crore which were taken up before submission of the Report were abandoned after the submission of the Report.

The Management stated (November 1998 and March 1999) that very little investment was made in these projects as compared to the total investment. The abandonment/suspension had resulted in savings of recurring losses which would have occurred had these projects been implemented in adverse geo-mining conditions. The expenditure on these projects may be termed as expenditure in the nature of Research & Development (R & D). Some of the projects were abandoned due to lower rate of return.

In reply, the Ministry furnished a statement of utilization of expenditure and stated (March 2000) that hardly any expenditure could be declared wasteful – as they were either merged with existing mines or would be gainfully utilized as and when needed.

The contention of the Management/Ministry is not tenable on the following grounds : -

(1) As these projects had been taken up without proper study regarding geo-mining conditions, availability of funds, viability of the project etc., taking up of these schemes based on inadequate information/studies was injudicious.

(2) The expenditure of Rs.71.76 crore could not also be termed as R & D expenditure since neither did the Company undertake these projects for the purpose of research nor did it gain from these projects in terms of R & D.

(3) As admitted by the Management in the Audit Board Meeting (March 2000) that new projects were explored hastily without adequate ground work to meet the pressure of achieving huge production target, thus failures were inevitable.

(4) The stated utilization of expenditure in the existing mines was an afterthought and not for the purpose for which the expenditure was incurred. Even, the plant and machinery valuing Rs. 2.27 crore in Chinakuri Mine had not been utilized as yet, expenses on mine development (Rs.2.64 crore) at Parbelia and Bakulia and on prospecting and boring (Rs.13.33 crore) have hardly any prospect of yielding benefits in future.

4.5 Non-mining Projects --Construction of Centralised/Major Coal Handling Plants - CHPs

From time to time the Company took up construction of centralised/major CHPs. The purpose of these projects was twofold viz satisfaction of customer through assured supply of quality and sized coal and reduction of time taken for loading coal on to railway rakes. Out of the total 17 major CHPs undertaken with annual handling capacity of 29.86 MTY of coal, one CHP (Kunustoria) was completed during pre-nationalisation period, two were completed before 1987-88, seven were completed during 1987-88 and March 1999, five were abandoned and two were in progress. Seven CHPs with annual capacity of 18.60 MTY were completed with cost overrun of Rs.24.72 crore and time overrun ranging between 2 years 9 months to 13 years excepting Sonepur Bazari CHP where the delay was of 7 months. Five CHPs with a total capacity of 7.8 MTY and expenditure of Rs.13.30 crore were finally abandoned due to inadequate coal reserves/non-availability of land, non-application of plough technology etc. after a period of 5 to 17 years from the date of work order. The expenditure of Rs.13.30 crore thus, proved to be totally unfruitful. Two ongoing projects. viz. Bankola and J.K. Nagar were already having a cost overrun of Rs.2.62 crore and time overrun ranging from 12 to 14 years. The fate of these ongoing projects was uncertain because of the overall scarcity of funds being faced by the Company and also because the contractors had left the jobs midway and an arbitration case was pending. CHP wise project profile is detailed in Annexure-II.

Following were the main reasons for time and cost overrun :

a) Frequent revision in the scope, and layout of the projects.

b) Projects were taken up without ensuring availability of land.

c) Lack of co-ordination between CMPDIL and the Company.

d) Belated handing over of sites to the contractor and disputes with contractor over late payments.

e) Resistance by local inhabitants.

f) Environmental problems, and

g) Non-availability of coal.

The performance of the ten operating CHPs (20.12 MTY) was also not satisfactory as their average capacity utilisation* ranged between 75 per cent and 77 per cent during 1997-98 and 1998-99.

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* Capacity Utilisation worked out on the basis of 305 working days during a year

The Management stated (August 1996) interalia, that since most of the reasons were beyond their control, the CHPs could not be completed in time. The CHPs were taken up on the premise that coal prices would be fixed based on the inputs cost and plan supports would be available. As these conditions were withdrawn, the construction of some major CHPs was abandoned. Besides, failure of technology, change of geo-mining conditions, problems in acquisition of land were also responsible for suspension of major CHPs. An additional reason for suspension of CHPs was the environmental problems.

Ministry inter-alia admitted (March 2000) that the 5 CHPs could not be fully constructed/put to use and stated that investment of Rs.13.30 crore was not totally infructuous as substantial parts of Plant and Machineries, structurals, etc., had either been transferred to other projects or would be transferred.

The contention of the Management/Ministry is not tenable as the factors cited as being responsible for the delay should have been accounted for in the planning process of projects. Availability of land, ascertainment of geomining condition and requirements of environmental regulatory bodies are the basic parameters on which the Company should have adequate and complete information before venturing into any investment decision. Even though some equipments, and structurals of the abandoned CHPs had been transferred to other projects, the expenditure on civil works for Rs.5.82 crore had turned out to be totally infructuous. Structurals and equipment worth Rs.2.30 crore at Mugma CHP and a sizable quantity (amount not ascertained by the management) of structurals and equipment at Ratibati and Dhemomain had not yet been transferred/utilized.

4.6 From the foregoing analysis it would be evident that the Company failed to keep its commitment given to the Committee on Public Undertakings (COPU) in 1987 that project planning and monitoring system would be strengthened to avoid time and cost overrun.

5. PRODUCTION PERFORMANCE

5.1 ECL had the highest share of 29.42 per cent (26.18 MT) in the total coal production of CIL during the first year of its inception 1975-76.Although, it had retained its original geographical configuration and constituent coalfields it was amongst the lowest coal producing subsidiaries of CIL contributing only about 11 per cent of the total output (1998-99) . In fact from the year 1976-77 there had been a steady decline in production till 1986-87 (25.62 MT). The production, however, increased to 30.13 MT during 1988-89 but fluctuated thereafter between 22.60 MT (1993-94) and 29.65 MT (1996-97).

The Management stated (November 1998) that the decrease in ECL's contribution in total production of CIL was due to formation of new companies viz. Northern Coalfields Limited (NCL), Mahanadi Coafields Limited (MCL) and South Eastern Coalfields Limited (SECL), which had been producing more than 50 per cent of total production.

The reply of the Management was not acceptable as many of the mines under those companies were in operation even before their formation. The share of ECL in the overall production of CIL had declined because unlike NCL, MCL & SECL it had failed to augment its total production and productivity.

The Company had been operating in four coalfields viz. Ranigunj, Mugma/Salanpur, S.P. Mines and Rajmahal. Grade production profile and field wise production profile of the Company during the last 6 years upto 1998-99 was as under:-

Grade Profile

(Production in million tonnes)
Percentage of total production in brackets

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Superior Grade (upto "D")	17.59 (77.79)	18.08 (72.76)	18.63 (67.01)	18.70 (63.07)	17.45 (63.59)	17.94 (66.05)
Inferior Grade (E & below)	5.01 (22.21)	6.77 (27.24)	9.17 (32.99)	10.95 (36.93)	9.99 (36.41)	9.22 (33.95)
Total	**22.60**	**24.85**	**27.80**	**29.65**	**27.44**	**27.16**

Field-Wise Production Profile

(In million tonnes)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Ranigunj	14.44	15.06	15.88	16.09	14.97	15.27
Mugma/Salanpur	3.13	2.95	2.69	2.70	2.63	2.59
Rajmahal	4.23	6.03	8.53	10.05	9.24	8.37
S.P. Mines	0.80	0.81	0.70	0.81	0.60	0.93
Total	**22.60**	**24.85**	**27.80**	**29.65**	**27.44**	**27.16**

Mining Profile

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Under-ground	14.17 (62.67)	13.61 (54.77)	13.70 (49.28)	13.87 (46.78)	12.65 (46.10)	12.93 (47.61)
Open Cast	8.44 (37.333)	11.24 (45.23)	14.10 (50.72)	15.78 (53.22)	14.79 (53.90)	14.23 (52.39)
	22.61	**24.85**	**27.80**	**29.65**	**27.44**	**27.16**

It would be evident from the preceeding tables that the percentage of production of inferior grade coal increased steadily from 22.21 (1993-94) to 36.41 (1997-98). On the other hand the percentage of production of superior grade coal decreased from 77.79 (1993-94) to 63.59 (1997-98). Because of emphasis on opencast mining, more production had been obtained from Mugma-Salanpur, S.P. Mines and Rajmahal areas where coal was mostly of inferior quality. Accordingly, grade-mix had deteriorated and revenue was affected.

After nationalisation, more emphasis was laid on new projects and reconstruction projects for increase in production rather than on existing mines having production potential. Existing mines were neglected and essential mine development works and replacement of old obsolete equipment, needed even for maintaining the existing level of production were not undertaken. As compared to huge investment on development of new mines, marginal investment in existing mines could have yielded larger incremental production in a shorter span of time as accepted by the Management during the Board of Director's meeting (November 1994).

The Management stated (November 1998 and March 1999) that the UG mines were not neglected as the production of these mines increased from 13.61 MT to 13.88 MT during 1994-95 to 1996-97. The same declined to 12.65 MT during 1997-98 due to socio-political problems apart from local problems and collapse of Khottadih UG mine . The unfavourable product mix was also due to closure of some UG mines and more production from OCPs.

The Ministry inter-alia stated (March 2000) that since ECL had large number of old under ground mines, there had been gradual depletion in their production capacity leading to closure of some of the mines. The opening of new under ground mines being a time consuming process, reconstruction/reorganization of potential existing mines, introduction of intermediate technology with SDL/LHDs and marginal schemes were taken up to optimize production from existing mines. However, socio political problems and fund constraint resulted in delay in implementation or deferment/withdrawal of the scheme. Thus, the Company did not neglect the optimization of the existing under ground mines.

The contention of the Management/Ministry is not tenable as the production of UG mines declined from 23.56 MT during 1975-76 to 12.93 MT in 1998-99 while the production in OCPs increased from 2.62 MT during 1975-76 to 14.23 MT in 1998-99. The investment in the under ground mines was to the extent of 30 per cent (Rs.1206.91 crore) of the total investment which is indicative of the fact that lesser importance was given to existing under ground mines despite the fact that UG production held the key to the success of the

Company. During the Audit Board meeting (March 2000) the Ministry admitted that growing dependence of the Company on OCPs for quick results in terms of increased production was a matter of concern. This, the Secretary said would pose a serious problem in the future when the company having exhausted its open cast reserves would be forced to depend entirely upon underground mines where the cost of producing coal would be very steep.

5.2 The table below summarises the estimated demand, capacity of mines, target of production, actual production, despatch and closing stock of coal during the six years ended 1998-99:

(In million tonnes)

Sl.No.		1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
1.	Estimated demand	30.51	27.15	27.32	31.00	33.00	3290
2.	Capacity of mines	34.57	35.91	36.33	35.27	38.21	36.43
3.	Target of production	25.00	25.45	29.75	31.50	32.50	32.00
4.	Actual production	22.61	24.85	27.80	29.65	27.44	27.16
5.	Despatch	22.19	24.22	25.80	28.04	26.64	25.54
6.	*Closing stock in terms of weeks production	14	11	7	7	7	9

[Norm for stock in coal companies was 1 month's production (i.e. 4 weeks)]

The table indicates that during the six years ended 1998-99 the closing stock of the Company ranged from 7 weeks production to 14 weeks production which was much higher than the norm of 4 weeks production fixed by the holding Company (CIL) in consultation with the Planning Commission. It was difficult to comprehend the justification for this piling of stock in view of the fact that actual production in all these years was lower than the estimated demand.

Though the Management admitted (November 1998) that there was reduction in holding of stock from 14 weeks during 1993-94 to 7 weeks during 1997-98, the stock at the end of 1998-99 was still double the norm of 4 weeks' production leading to blockage of working capital.

The Ministry while accepting the contention of audit that current level of closing stock was higher than the suggested norm stated (March 2000) that during monsoon open cast mining becomes difficult and some reserves are required to be kept on stock to facilitate normal dispatches for the period from June to September of the year. It was however

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**** Closing stock has been arrived at taking into account domestic consumption and boiler consumption.***

stated that various measures had been adopted to reduce the stock level in future so as to bring the closing stock to 5 weeks production at the end of 1999-2000.

5.3 Overburden Removal

Against overburden removal (OBR) target of 25.30, 23.00, 30.15, 32.72, 35.70 and 40.39 million cubic meters for the years from 1993-94 to 1998-99, actual removal was 20.93, 24.69, 24.31, 30.46, 33.63 and 34.23 million cubic metres respectively. Thus, during these six years shortfall in OBR was to the extent of 19.01 million cubic metres. The expenditure on the OBR which should have been incurred during the concerned years would now have to be incurred in subsequent years. This would adversely affect the financial viability of the concerned OCPs in future.

The Management attributed (August 1996, October & November 1998) the shortfall in OBR to the following reasons : -

i) Restriction in development/advancement of quarry due to land acquisition problems.

ii) Blasting restrictions due to presence of villages in vicinity.

iii) Excessive rainfall

iv) Long and frequent power tripping from sources i.e. BSEB, DVC, etc.

v) Non-availability of equipment and spares, etc.

vi) Fire and other reasons.

It was admitted by Management/Ministry (March 2000) that there was liability on account of incremental OBR due to lower OB removal during the past few years and that the other reasons like non-availability of land, problems of power, maintenance, blasting norms, spare parts etc. were guided by phenomena beyond the control of the Company.

While reasons listed at (iii) and (vi) can be considered as natural factors beyond the control of the Management, the other factors were controllable and the Management should have taken proper action at appropriate time to foresee and overcome these constraints. In fact the Management has since introduced advance action for land acquisition and village shifting for improvement of productivity as per their reply on "Manpower and Productivity" (Chapter 6)

6. MANPOWER AND PRODUCTIVITY

The share of ECL in total production and manpower of CIL was 10.6 per cent and 24 per cent respectively as on 31 March 1999. On the same date the total manpower of ECL was 142746 as compared to 180943 as on 31 March 1975 i.e. the year of inception. On 31 March 1999, 80.46 per cent (114852) employees of ECL were engaged in underground mines, the output per manshift (OMS) in the underground mines varied between 0.42 tonne to 0.46 tonne in the six years ending 1998-99 as compared to 0.54 tonne in 1974-75. As against this the OMS in OCPs ranged between 1.7 tonne and 3.65 tonne during the corresponding period compared to the OMS of 0.48 tonne in 1973-74. High productivity of OCP was attributable to small workforce and heavy capital investment. There had been only a marginal improvement in the overall OMS, ranging from 0.59 tonne to 0.85 tonne (1998-99) as compared to 0.53 tonne in 1974-75.

For turnaround of ECL, the Company had identified excessive manpower as the most significant inhibiting factor. As on 31 March 1998, the Company had re-assessed its surplus workforce as 12580. Some of the workforce had become surplus because of exhaustion of old units, stoppage of manual loading in OCPs, closure of small OCPs etc. Added to this was the additional burden due to induction of new workforce of land losers/ oustees and employment in terms of clause 9.4.2 and 9.4.3 of National Coal Wage Agreement (NCWA) i.e. due to death/disablement of workers.

The consultant (ICICI) stated (31 August 1998) that successful turnaround of ECL would depend, inter alia, on the followings:

(i) Immediate reduction of 4651 workforce in Group II mines comprising Bankola, Kajora, Kenda and Kunustoria Areas which sustained a total loss of Rs. 133 crore for the year ended 31 March 1998.

(ii) Reduction in total workforce of about 71518 engaged in the 64 unviable mines under Group IV comprising Mugma, Pandaveswar, Salanpur, Sodepur, Satgram and Sripur Areas which registered a loss of Rs.422 crore during 1997-98.

The Management while admitting excess manpower as one of their major concerns stated that they had made efforts to re-deploy work force from these unviable mines to other viable occupations. Further, it was added that the ECL Board had decided to close down 64 mines.

The Ministry, however, admitted that rationalisation of manpower was an uphill task due to socio political reasons. Secretary, the Ministry of coal stated during the Audit Board Meeting (March 2000)that the root cause of the problem was the illogical induction of about 25 per cent additional employees just on the eve of nationalisation of the Company. He added that political interference and lack of support from State Administration impede the process of closing the unviable mines and retrenching surplus manpower.

It may, however, be stated that if the Company wishes to turnaround and improve the productivity of its workforce it will have to take expedient steps not only towards reduction in manpower but also towards rationalization of manpower between divisions, areas and units.

The Ministry added that various steps were being initiated to reduce manpower through VRS on one hand and to remove imbalance in different categories of employees on the other. As a result of this initiative, the Company had managed to bring down the manpower to 1,35,300 as on 1 February 2000 as compared to 1,42,746 as on 1 April 1999 The process, the Ministry added, would continue with special emphasis on those mines which were proposed to be closed. For improvement of productivity various steps including monitoring of utilisation of equipment, advance action for land acquisition and village shifting, etc., had been initiated.

7. SHORTAGE OF COAL AND MIXED/FIRE STOCK

7.1 Shortage of Coal

According to the policy followed by the Company, the book stock of Coal is taken for the purpose of closing stock valuation where the variance between the book stock and physical stock is within + / - 5 per cent. In case the variation is more, physical stock is taken as closing stock and an enquiry into the causes of shortages is conducted. The said 5 per cent is considered as error in volumetric measurement.

The table below indicates the shortages of Coal stock (over and above 5 per cent) and the percentage of shortage to book stock for the last nine years ended March 1998:

Year	Shortage (in lakh tonnes) Exceeding +/- 5 per cent of the book stock.	Percentage of shortage to book stock
1989-90	15.72	39.31
1990-91	0.50	10.16
1991-92	2.43	32.71
1992-93	1.52	18.38
1993-94	5.80	45.60
1994-95	2.17	33.64
1995-96	0.51	20.00
1996-97	2.94	25.50
1997-98	0.08	3.72

In 1998-99, there was shortage of stock to the tune of 0.11 lakh tonne (Rs.100.25 lakh) and excess of 0.17 lakh tonne (Rs.161.08 lakh). The net result was 0.06 lakh tonne (Rs.60.83 lakh) excess.

It would be evident from the above that there were huge coal stock shortages over the years upto 1997-98. These shortages occurred mostly in mines under Mugma, Rajmahal areas. The percentage, however, came down dramatically to 3.72 in 1997-98. For the period from 1989-90 to 1993-94, the Company had written off stock shortages to the extent of Rs.81.83 crore . No further write off action had been initiated (March 1999) for stock shortages valuing Rs.36.52 crore relating to the period from 1994-95 to 1997-98.

For the period from 1988-89 to 1997-98 there were 419 cases of stock shortages out of which 383 cases were disposed off as detailed below and 36 cases were pending as on 31 March 2000.

a)	Dropped or exonerated	223
b)	Promotion withheld	5
c)	Reversion to lower time Scale	51
d)	Increment withheld	30
e)	Censured/cautioned	52
f)	Demotion	4
g)	Recovery from Gratuity	18
	Total :	**383**

The preceding table indicates that the Company had failed to impose penalty commensurate to loss suffered by it on account of shortage of coal.. Of the 383 cases disposed of so far no penalty had been imposed in 223 cases (58.2 per cent). In other cases also the punishment was not stringent enough ranging from withholding of increment to recovery from gratuity. In absence of exemplary punishment the problem of coal shortage had continued which a Company like ECL with mounting losses could ill afford.

The Management stated (March 1999) that the shortages were due to over reporting and theft but segregation of shortages due to theft was difficult to identify. However, penal actions were taken against those found responsible for shortages. Conscious effort was being made to ensure proper reporting of production which had shown desired results.

In reply the Ministry stated (March 2000) that several steps including stock measurement at regular intervals had been taken to eliminate coal stock shortages and the position had improved significantly. Punishment was also awarded by the disciplinary authority based on the enquiry report. In the Audit Board Meeting the Ministry stated (March 2000) that out of 10 measures recommended by R.N. Mishra Committee for checking the over reporting, 5 could be implemented so far. It was also admitted that there were some laxities in BCCL, CCL and ECL where too many officers were involved in shortages of coal stock.

The contention of the Management/Ministry was not acceptable as there was erratic rise and fall in the shortages of coal during the last nine years ended March 1999 and the Management was unable to segregate shortage on account of over reporting and shortage attributable to theft. Even though the shortages could not be totally eliminated, the Management had implemented only 5 out of 10 recommendations of R.N. Mishra Committee. The following major recommendations of the Mishra Committee were yet to be implemented:-

(i) Production target of a mine be fixed on its despatch capacity and not production potential.

(ii) Production of open cast mines be firmed up at regular intervals of two weeks by actual survey measurement of the quarry face. While reporting production, care be taken to discount the percentage of band that gets mixed with coal.

(iii) Tubs reportedly raised be reconciled with tubs paid for. Reported production be reconciled every month with actual despatch and closing stock.

(iv) Performance appraisal to take into account despatch performance and coal stock shortage.

(v) For prevention of pilferage the following steps be taken:

- Re-conciliation of transport trips recorded at pit head with receipt at dump yard .
- Strengthening of security arrangements at sidings.
- Introduction of mechanised loading through CHPs.
- Installation of electronic weighbridges at sidings.
- Arrangement to deal with coal stock fire.

In absence of corrective measures based on these crucial recommendations the internal control system continued to be ineffective and there was ample scope for over-reporting of production

7.2 Loss due to Mixed Stock*/Fire Stock**

The Company suffered huge loss on account of mixed stock and fire stock. The details of loss of stock and financial implications therefore are summarised in the following table :

	Mixed Stock		Fire Stock		Total Value
	Quantity lakh/tonne	**Value (Rs. in crore)**	**Quantity (in lakh tonne)**	**Value (Rs. in crore)**	**(Rs. in crore)**
Mixed stock/Fire stock written off by CIL/ECL	20.78	58.31	6.31	17.70	76.01
Mixed stock/Fire stock not written off	4.68	26.18	0.03	0.25	26.43
	25.46	**84.49**	**6.34**	**17.95**	**102.44**

Of the total stock written off (April 1995), Rajmahal project alone contributed 76 per cent of the mixed stock and 100 per cent of the fire stock. The Company had written off (January 1996) Rs. 76.01 crore on this account and action for the rest was awaited (March 1999). It was observed that through proper handling and maintenance of the stock the Company could have avoided the loss. In respect of the amount written off punishment was awarded to only one person by withholding one increment with cumulative effect and 6 persons were cautioned/censured/warned (non-recorded) out of

- *Mixed stock- When coal gets mixed with shales, other extraneous material etc.*
- *** Fire stock resembles stock which has lost its coking properties due to fire when exposed to surface.*

total 42 persons found to be involved. Obviously, the punishment was not commensurate to the loss suffered by the Company.

While examining the cases awaiting further action, it was seen that Mugma Project had 3.36 lakh tonnes of Mixed stock valuing Rs. 17.43 crore lying unmoved for 8 to 9 years as on 31 March 1999. There were, however, no recorded reasons for the delay in taking decision relating to this stock.

8. UTILISATION OF HEAVY EARTH MOVING MACHINES (HEMMs)

8.1 Utilisation of HEMM in Open Cast Mines

Shovels, dumpers, drills, draglines and dozers are the HEMMs normally used in opencast mines for removal of overburden and production of coal. At the end of 1998-99, the Company was having 104 shovels, 369 dumpers, 111 dozers, 54 drills and 1 Dragline as against 77 shovels, 323 dumpers, 96 dozers and 50 drills, (Dragline Nil) at the end of 1990-91. The table below indicates the available excavation capacity of HEMMs and utilisation of excavation capacity for the last eight years up to 1998-99.

Year	Excavation Capacity (in million cubic metres)*	Actual Production (In million cubic meters)			Percentage of excavation capacity utilised
		Coal	Over-burden	Total	
1991-92	38.69	5.28	14.58	19.86	51.0
1992-93	51.97	5.41	19.06	24.47	47.0
1993-94	54.99	5.50	20.02	25.51	46.0
1994-95	61.54	6.95	24.16	31.11	51.0
1995-96	57.32	8.78	24.21	32.98	58.0
1996-97	59.41	9.84	29.09	38.93	66.0
1997-98	60.38	9.69	32.55	42.24	70.0
1998-99	61.31	9.79	34.15	43.94	72.0

** Excluding quarry coal production by manual means and OB removal through hired HEMM*

The Management while explaining the reasons for underutilization of HEMM capacity stated (September 1998, November 1998 and March 1999) that main constraints in achieving high capacity utilisation were restrictions on development for advancement of quarry, land problems, difficult soil conditions of haul road, ageing of machinery, shortage of fund for development, lack of proper flow of spares etc. All efforts were being made to achieve the capacity utilisation of not less than 80 per cent during 1998-99. There was no surplus equipment in the Company but there was some mismatch between the combination of machines because of which the desired level of capacity utilisation could not be achieved. The Management had further stated (May 1999) that steps were being taken to reduce idleness of dumpers, improve load factor of dumpers, remove the mismatch between excavation and transport capacity to improve the capacity utilisation.

Endorsing the views of the Management, the Ministry stated (March 2000) that efforts were made to achieve higher capacity utilization by means of improved communication system and proper overburden dumping arrangement also.

8.2 Analysis of down-time of HEMMs

The following table indicates the standard vis-a-vis actual downtime (Breakdown), idle time and composite non-availability of HEMMs after allowing normal maintenance hours during the period from 1990-91 to 1997-98 :-

(Percentage of available hours)

Category of HEMM	Standard Percentage of Downtime (CIL Norm)*	Actual Percentage of Downtime	Percentage of Idle Hours	Composite Percentage of non utilisation to availability*
Shovel	20	27 to 36	33 to 41	66 to 70
Dumper	33	34 to 45	34 to 39	71 to 80
Dozer	30	39 to 48	26 to 35	72 to 75
Drill	22	25 to 37	42 to 53	71 to 79
Dragline	15	7 to 8	18 to 41	33 to 48

It would appear from above that downtime was very high in case of dumpers, dozers, shovels and drills. Actual downtime percentage during the entire period was higher than the norm inspite of the fact that the Company was equipped with Regional and Unit workshop facilities. The high downtime percentage after allowing for normal maintenance was indicative of the fact that the efficiency in normal maintenance, judicious management of spares, preventive maintenance supported by conditioning monitoring and workshop management were not adequate. The idle time contributed towards obvious increase in cost of production and loss to the Company, which could have been avoided through proper HEMM management.

The Management stated (November 1998 and March 1999) that compared to norms fixed by CIL, the downtime in respect of dragline and dumper was either equal or below the standard.

The Ministry, however, stated (March 2000) that the downtime has been reducing gradually and efforts were being made to improve it further through proper spares parts management and monitoring.

The analysis furnished by the Ministry have not taken into consideration the total available shift hours and idle time of HEMM. Hence the analysis was not acceptable. Besides, when the achievement of the excavation capacity was around 70 per cent with such high percentage of non-operation of HEMM, it may be concluded that either the excavation capacity were not properly assessed or the population of HEMM was higher than the actual requirement.

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* *Based on total shift hours .*

9. SALES AND MARKETING

9.1 Pricing Policy and Credit Control

By virtue of Colliery Control Order 1944 the prices of coal were being administered by the Govt. of India since inception of the Company. Various committees were appointed in the past to determine the cost of production of coal. Ultimately, Bureau of Industrial Costs and Prices (BICP), Govt. of India determined the normative cost of production of coal and devised escalation formula in 1986-87 for determination of cost to fix up the prices of coal. They also recommended that the prices of coal should be based on Gross Calorific Value (GCV) contained in various grades of coal in place of Useful Heat Value (UHV) being adopted by CIL/Govt for fixation of price.

The notified prices of coal were based on overall cost of production for CIL as a whole. As a result certain unintended advantages/dis-advantages in notified price accrued to the Company where cost of production was lower/higher than average cost of production of CIL as a whole. To avoid such anomalies the concept of Retention Price was introduced under the aforesaid Colliery Control Order by a notification dated 30 March 1982. Under this system, CIL had to monitor and administer Coal Price Regulation Account (CPRA) under which low cost mines were to contribute the difference between the notified price and the cost and the high cost mines were to get compensation for the shortfall in price to cover the cost. The Coal Price Regulation Account (CPRA) created to compensate the losing mines/subsidiaries became operative from 1982-83 under the overall control of CIL and continued till 1995-96. ECL received Rs.3265 crore on this CPRA over the aforesaid period (refer para 2.1B). The Govt. control on the price of coal was relaxed in phases and price of A, B & C Grade Coal was deregulated from 31 March 1996 and D Grade Coal from 31 March 1997. Prices for other grades E, F & G have been deregulated since January 2000. However, after decontrol, ECL had revised prices of coal five times during the period from April 1996 to March 1999. Inspite of such revisions, ECL failed to recover the cost of production/sales and sustained heavy losses every year.

9.2 Sales performance and Profitability

The sales performance of the company and profitability during the last 5 years was as under: -

Year	Sales		Demand	Actual Offtake *	Perc-entage of demand satisfied	Average cost of sales	Average selling price	(+) profit/ (-) Loss	Total loss in crores of Rs.
	M.T.	Rs.Cr.	M.T.	M.T.	%	Rs./T	Rs./T	Rs./T	(2.1 x 8)
1994-95	24.22	1252.12	29.56	25.23	85.35	788.01	710.33	(-) 77.68	188.14
1995-96	25.80	1365.85	29.00	26.76	92.28	831.78	741.08	(-) 90.70	234.01
1996-97	28.04	1900.85	31.00	28.97	93.45	800.71	678.92	(-) 121.79	341.50
1997-98	26.64	1946.88	33.00	27.53	83.42	935.71	731.95	(-) 203.76	542.82
1998-99	25.54	2047.86	32.90	26.34	80.06	988.24	803.14	(-) 185.10	472.75

**** Includes internal and domestic consumption of coal.***

It is evident from the preceding table that the Company did not succeed either to meet the demand for coal or to recover the cost of sales. Despite five upward revisions in the price of coal between April 1996 to March 1999 the gap between average cost of sale and selling price has been widening except in the year 1998-99 when it narrowed marginally. Factors like shortfall in production of coal, increase in fixed overheads like salaries, wages, power etc., change in grade mix and additional burden on account of arrears over burden removal for OCP's have been primarily responsible for loss incurred by the Company on sales. Underloading charges, demurrage charges and deduction on account of quality slippage have also added to this gap. During the five years ended March 1999 the Company suffered deduction of Rs.108.43 crore on account of quality and absorbed demurrage charges of Rs.17.05 crore and underloading charges of Rs.26.29 crore due to lack of adequate infrastructural facilities like Railway sidings to accept rakes of 58 box wagons, crushing, loading arrangements, weigh bridge facilities, feeder roads from pit head to the sidings, etc.

The Ministry of Coal stated (March 2000) that prices of coal were high primarily due to high incidence of cess/royalty and increase in railway freight. The secretary, Ministry of Coal stated that the average annual increase in railway freight during the last 18 years was around 13 per cent against which the average annual increase in the basic price of coal during the same period was merely 9 per cent. About high cess the Secretary informed that ECL had approached the Court and the case was pending in the Supreme Court though the Government of West Bengal had reduced the cess by 20 per cent in December 1998.

While Ministry's contention about high railway freight and cess is acceptable, it would be too simplistic to explain the growing sickness of ECL in terms of these two factors. Ignoring the growing burden on account of wages and salaries of surplus labour, under utilisation of capacity of mines and equipment, virtually stagnant productivity of labour, unproductive investment in assaying the present plight of ECL would be ignoring the obvious.

9.3 Credit Control

As stated earlier {Para 3.2(A)} one important factor responsible for liquidity crunch being faced by the Company was blocking up of funds in Sundry Debtors. The Sales vis-a-vis Debtors during the last 5 years were as under : -

(Rupees in crore)

Year	Sales	Debtors			Sundry Debtors as a percentage of sales
		Exceeding six months	Less than six months	Total	
1994-95	1766.06	247.72	350.06	597.78	33.85
1995-96	1937.52	175.40	208.21	383.61	19.80
1996-97	2692.23	223.01	388.51	611.52	22.71
1997-98	2778.36	292.38	414.00	706.38	25.42
1998-99	2794.60	429.70	446.43	876.13	31.35

It would be seen that huge amount ranging from 19.80 per cent to 33.85 per cent of sales remained blocked in sundry Debtors resulting in adverse cashflow of the Company.

As on 31 March 1999, the Company declared Sundry Debtors to the tune of Rs.240.09 crore as doubtful and accordingly provision was made in the accounts. Sundry Debtors balance as on 31 January 2000 stood at Rs.946.78 crore of which Rs.872.39 crore (92.14 per cent) related to power sector alone. Out of the above amount Rs.233.57 crore was disputed on account of quality, quantity, presence of stone etc. A total amount of Rs.102.90 crore (Rs.65.13 crore for Power Sector) was outstanding for more than 3 years as on 31 January 2000. In order to tackle the problem it was decided by the Cabinet Committee on Economic Affairs that w.e.f. 1 January 1997 coal supplies would be on cash-and-carry system. The coal companies were required to insist upon advance payment or open Irrecoverable Revolving Letter of Credit (IRLC) for supply of coal from the forementioned date. It was stated by the Ministry that only for dues upto 31 December 1997 the Ministry would intervene to recover from the Central Plan Assistance. On 7 October 1998 CIL issued a directive to its subsidiaries stating that 90 per cent of coal value on declared grades plus 100 per cent of transportation charges etc. and statutory levies would be paid either through Letter of Credit or against advanced payment. The balance 10 percent of coal value would be recovered within one month based on the results of joint sampling. The Ministry stated that discussion was going on for coal dues of Rs.482 crore pending as on 31 March 1999 with West Bengal Govt. Powerhouses for adjustment with Cess payable by ECL to the West Bengal Govenment.

The Company was yet to finalise Coal Supply Agreement (CSA) with its customers except Calcutta Electric Supply Corporation, Badarpur Thermal Power Station and National Thermal Power corporation.

9.4 Marketing Under Decontrolled Scenario.

Non-coking coal produced by CIL/ECL was exposed to competition from imported coal since 1992-93 with the onset of policy of liberalisation. The imports picked up after the import duty had been lowered as per the Export-Import (Exim) Policy of 1992-97 and coal was brought under Open General License. A total quantity of 1.68 million tonne (Rs.309.80 crore), 4.58 million tonnes (Rs.748.30 crore), and 5.78 million tonnes (Rs.911.80 crore) of Non-coking coal was imported by India during the years 1996-97, 1997-98 and 1998-99 respectively. Imports were thus showing an increasing trend.

In the international system coal is graded in terms of Gross Calorific Value (GCV). The imported coal having GCV ranging between 6000 to 6877 is qualitatively superior to ECL coal having GCV ranging between 5597 to 6454. Besides, lower ash percentage, moisture content etc. of imported coal, made it more favourable and economical than the best coal of ECL from Raniganj Mines. A study of Raniganj Coal vis-à-vis imported coal revealed that apart from superiority of quality, imported coal had an edge over Raniganj Coal on landed cost basis where the consumers of coal were located within 300 Kilometre of the port of entry as could be seen from the table.

Landed cost at the port of entry (Chennai)

Imported Coal					ECL Coal from Ranigunj (ROM) (Rail-cum-sea route)			
	Australia (6685)	China (6877)	Indonesia (6019)	S.Africa (6528)		A-Gr. (6454)	B.-Gr. (6049-6454)	C-Gr. (5597-6049)
CIF Price (Rs./MT)	1589.50	1483.25	1294.98	1443.72	Ex-colliery price	1568.25	1483.97	1269.01
Duty & other incidental (Rs./MT)	451.06	430.12	392.85	422.30	Trans.& other incidental (Rs./MT)	859.50	859.50	859.50
Landed cost	**2040.66**	**1913.37**	**1687.83**	**1866.02**		**2427.75**	**2343.47**	**2128.51**
Landed cost at the port of entry (Okha)								
CIF Price (Rs./MT)	1589.50	1483.25	1294.98	1443.72	Ex-colliery price	1568.25	1483.97	1269.01
Duty & other incidental (Rs./MT)	558.16	537.12	499.85	529.30	Trans. & other incidental (Rs./MT)	1132.50	1132.50	1132.50
Landed cost	**2147.66**	**2020.37**	**1794.83**	**1973.02**		**2700.75**	**2616.47**	**2401.51**

It would be seen from the proceeding table that ECL coal proved to be costlier for consumers in coastal areas as compared to the cost of imported coal.

ECL's supplies were mostly concentrated to regional consumers like WBSEB, NTPC, DPL, CESC, DVC, SAIL, BSEB etc. who have not yet (February 2000) started using imported coal. The threat of imported coal to ECL was most perceptive in respect of supplies in the Southern Coast (Tamilnadu State Electricity Board and cement units in Andhra Pradesh) and Western Coast (cement factories in Gujarat, Rajasthan etc.). Most of these units were located within 300 kilometres from the port of entry. In the cement sector ECL had lost its market to the extent of 4.96 lakh tonnes worth Rs.59.45 crore in 1998-99 as compared to supply to the same sector in 1997-98. The actual despatch to Tamilnadu State Electricity Board against linkage also declined by 3.43 lakh tonnes valuing Rs.41.11 crore in the same year.

On the export front also due to higher price of ECL coal compared to imported one, the export market of Bangladesh was lost to the extent of 46000 tonnes (Rs.5.43 crore) in 1997-98 and 52000 tonnes (Rs.6.23 crore) in 1998-99. Similarly export of coal to Nepal also declined to the extent of 41000 tonnes (Rs.4.91 crore) in 1998-99.

As stated earlier (Para 2.1B), ECL faced disadvantage on account of Cess which was 45 percent of the basic price of coal, subsequently reduced to 25 percent from 1 December 1998. As ECL simultaneously increased the average basic price of Raniganj Coal by Rs.86.50 per tonne and Salanpur Coal by Rs.27.25 per tonne, the linkage of various core sector consumers was shifted during 1998-99. The loss of linkage of ECL Coal to Power houses in 1998-99 was enjoyed by other subsidiaries of CIL and other parties as under : -

(1) BCCL; 3.81 million tonnes (including 1.20 million tonnes to TNEB, 0.43 tonnes to PSEB).

(2) Mahanadi Coalfields Ltd. (MCL) 1.97 million tonnes.

(3) Bengal Emta, a Joint Sector Project with West Bengal Govt.); 0.97 million tonne.

ECL's total loss of linkage on account of this shift worked out to Rs.808.99 crore in 1998-99 (taking into account the basic price of 'C' grade coal). In case the Powerhouses located in the Eastern Region switch over to imported coal for its added advantages, ECL would not only find it more difficult to market its products but also lose its command in the Eastern Region.

The Ministry of Coal in this context expressed anxiety over reduction of import duty on coal and stated in the Audit Board Meeting (March 2000) that in future coal prices would be determined by the price of imported coal due to its superior quality i.e. high calorific value, low ash content, etc. and it is going to pose a great threat to ECL as well as Coal India Limited as a whole.

In order to withstand the growing competition from imported coal ECL has no other alternative but to cut down its cost of production drastically through cost optimisation programmes like reduction in manpower, better capacity utilization, increase in labour productivity and judicious investment.

10. DOMESTIC CONSUMPTION OF COAL

10.1 As a part of benefits being given to its employees the Company supplied them with certain quantity of coal for domestic consumption. The functional directors of the Company had decided that only D-grade (or lower grade) coal would be supplied for domestic consumption. Contrary to this decision, it was observed that in many areas higher grade of coal (A and B) was being supplied for domestic consumption. This resulted in avoidable loss of revenue amounting to Rs.30 crore (approx.) per year. Chairman-cum-Managing Director (CMD) reiterated (July 1996/May 1997) the decision of the Functional Directors to use D-Grade Coal only for domestic consumption with a view to release higher grade coal for industrial use to earn better revenue. Decision was taken (October 1996) to transport inferior grade of coal from Mugma/Salanpur to 'A' and 'B' grade coal producing mines of ECL to use it for domestic consumption. However, the practice was discontinued (October 1997) resulting once again in loss of revenue due to consumption of higher grade coal for domestic consumption.

The Management stated (April 1998) that Greezzly Plants were installed for segregating steam coal from Run of Mines (ROM) Coal and thus steam coal was transported to other Areas consuming higher grade coal. It was also stated that efforts were being made to reduce the consumption of Grade-C coal for domestic use but switching over from Grade-C to Grade-D coal could not be undertaken overnight. The Management added further (July 1998 and November 1998) that due to transport and handling loss, cost of transportation and industrial relation problems the collieries producing higher grade (A & B) coal were consuming the lower grade coal available in their Area. This otherwise means that collieries producing only A or B Grade coal would use only A or B grade coal of that Area.

The Ministry also added that main reasons for non-supply of lower grade coal was due to non-acceptability by the workers producing higher grade coal.

The reply of the Management/Ministry is not tenable because during the years 1996-97 and 1997-98 domestic consumption of inadmissible grade (C grade and above) of coal was 3.95 lakh tonne and 3.63 lakh tonne respectively. Even after making an allowance for transport at an average rate of Rs.100 per tonne the loss of revenue on account of rate difference worked out to Rs.18.13 crore and Rs.12.62 crore for the year 1996-97 and 1997-98 respectively.

11. MATERIAL MANAGEMENT AND INVENTORY CONTROL

11.1 High value equipment, plant and machinery for OC and UG mines, capital inputs and all other equipment against World Bank Loan were procured on behalf of the Company by CIL. The balance capital equipment and all other purchases were made at the Company level. The purchase functions of the Company were carried out by the material management division headed by Chief Materials Manager who reported to the concerned Director in charge.

At the end of the year 1998-99 Plant and Machinery and capital stores valuing Rs.65.31 crore were in stock as against Rs.26.62 crore at the end of 1988-89.

The stock of stores and spares increased from Rs.53.99 crore to Rs.154.78 crore during the period from 1988-89 to 1998-99. The stock holding of stores and spares during this period ranged from 7 months to 10 months consumption as against the norm of 6 months consumption. The Company made a total provision of Rs.33.37 crore during the year 1998-99 out of which provision against obsolete and damaged stores was Rs.31.05 crore.

The above indicated the unplanned manner in which purchases were made resulting in infructuous expenditure of Rs.31.05 crore .

Accepting the observations of audit, the Management/Ministry stated (November 1998, March 1999 and March 2000) that the increase in the inventory was due to inflation and commissioning of major projects like Sonepur Bazari, Khottadih and Jhanjra. Due to different technologies, the spares had no uniform compatibility and thus, most of the spares belonging to machines not in use had been rendered surplus. Adoption of mechanisation in different technologies had involved increase in requirement of spares of different nature which had in turn increased the level of inventory. The months consumption worked out to 5.9 in 1997-98 if discarded/surveyed off materials were excluded.

12. REVIVAL OF ECL

CIL appointed (June 1998) ICICI to prepare a revival package for ECL. As per reply of the Ministry (March 2000), ICICI had submitted its Final Report which inter-alia suggested transfer of 64 unviable mines involving 71518 employees to a separate entity with expressed purpose of closing those mines in an orderly fashion either at one go or in a phased manner. Government would have to bear the burden of VRS and cash losses of the entity. It was estimated that Rs.2118 crore would be required to close those mines at one go or Rs.4041 crore for phased closure over seven years with discounted present value of Rs.2463 crore (at 16 per cent). It was also suggested that the residual mines should be operated on Joint Venture basis with private participation of 49 per cent initially with the assurance of the stake being enhanced to 51 per cent as and when the prevailing statutory restriction in this regard is lifted. It was assessed by ICICI that it would be possible to stabilise the production at 26.25 MT, and the Company would be able to earn profit consistently around Rs.300 crore per annum by 2006 -07.

In the revival package submitted to BIFR (June 1999), the company proposed inter-alia the following : -

(1) Closure of 64 unviable mines involving 71444 employees

(2) Financial support from Central Government by way of waiver /deferment of Government loans received through CIL

(3) Relief from payment of Cess to the State Government

(4) Deferment or waiver of all outstanding dues of statutory nature

(5) Significant reduction in costs of production

(6) Increase in coal production/offtake and revenues.

Therefore, the focus of the revival exercise was mainly on cost reduction and financial relief from Central/State Government. After detailed deliberations with the concerned agencies a more acceptable package had been evolved which was as under

(a) Early separation of 22000 persons above 55 years of age

(b) Wage freeze upto 31 March 2002

(c) Non payment of LTC/LLTC upto 31 March 2000

(d) Payment of single wage for working on Sundays and holidays.

But the above proposals were not accepted by the Trade Union.

Against the above measures, the management had (February 2000) been able to reduce the manpower only to 135300 from the level of 158251 in April 1997 - against the normal annual retirement of around 4000 employees.

The Ministry inter-alia stated (March 2000) that while capital restructuring was carried out in 1997-98, the associated conditions therewith i.e. reduction of manpower, improvement of capacity utilisation, working capital management etc. were not met primarily due to slackening of coal demand and restriction in coal prices due to decline in international price of coal and low import duty thereon. The decision for closure of mines entirely depended upon support from the Government both in terms of policy as well as financial resources but the decisions were pending with the Government. The suggestions of the ICICI were under consideration of CIL as well as the Government and the final outcome was awaited.

The contention of the Management/Ministry for revival of ECL may be viewed in the light of the following : -

(1) Despite having sufficient demand for ECL Coal, the target of production had always been fixed lower than the demand (except 1995-96, 1996-97) and the actual production and despatch were still lower than the target (refer Chapter 5). Therefore, the Company, had failed to exploit the favourable market conditions.

(2) The Company could not increase its volume of sales since December 1998, despite reduction of Cess (20 per cent) by the West Bengal Government.

(3) The ICICI proposal for Joint Venture seemed to be an impractical proposition in view of the comment of the Ministry during the Audit Board Meeting (March 2000), that there was no response for mining by private enterpreneures, despite announcements in two consecutive Budgets of the Central Government.

Therefore, the revival of ECL has not made any headway so far (May 2000).

Chakrabarti.

(A.K.CHAKRABARTI)
Deputy Comptroller and Auditor General
Cum Chairman, Audit Board

New Delhi
Dated : 18 SEP 2000

Countersigned

V. K. Shunglu

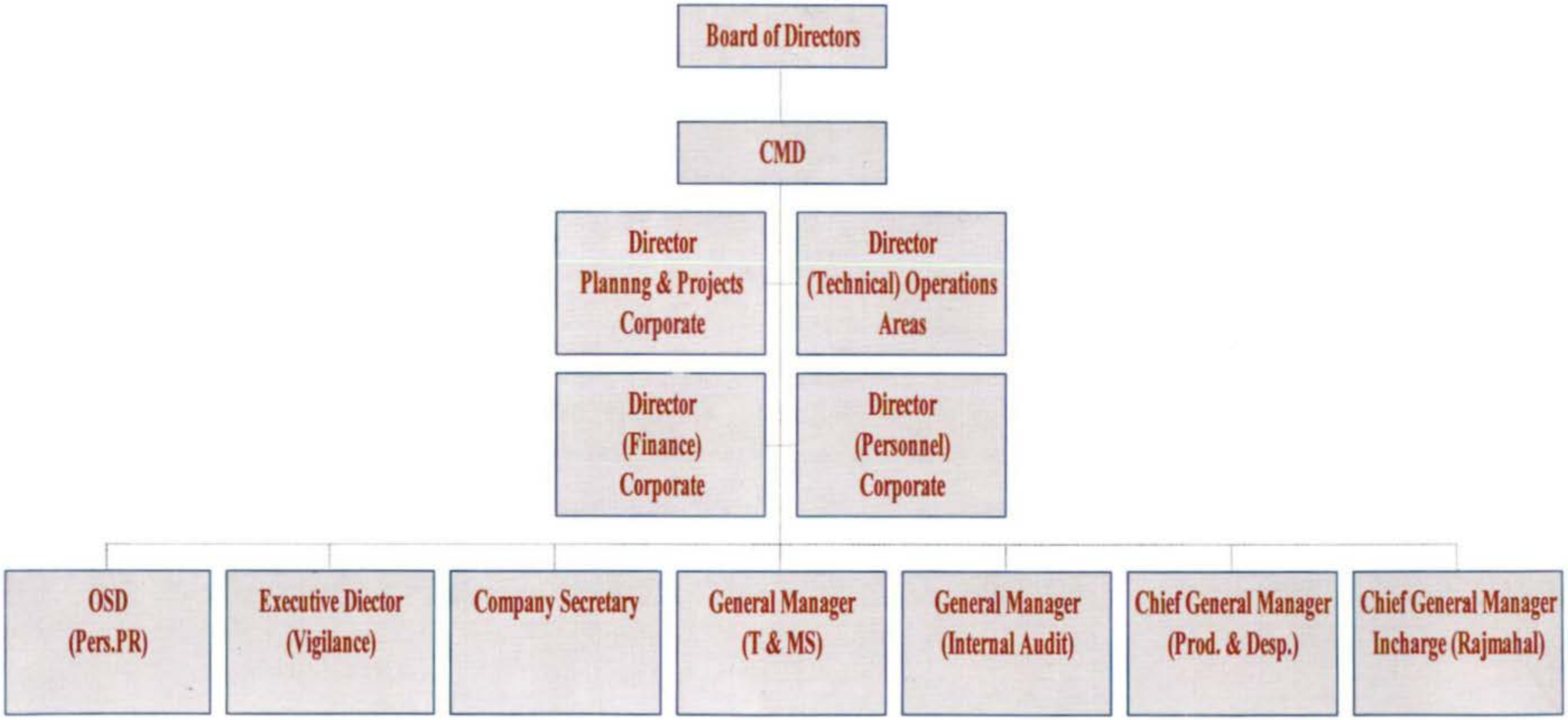
(V.K. SHUNGLU)
Comptroller and Auditor General of India

New Delhi
Dated : 18 SEP 2000

ABBREVIATION AND GLOSSARY

1)	BSEB	Bihar State Electricity Board
2)	BIFR	Bureau of Industrial and Financial Reconstruction
3)	BCCL	Bharat Coking Coal Limited
4)	CHP	Coal Handling Plant
5)	CIL	Coal India Limited
6)	CMPDIL	Central Mine Planning & Design Institute Limited
7)	CMAL	Coal Mines Authority Limited
8)	CdFI	Charbonnage de France International
9)	COPU	Committee of Public Undertakings
10)	CMRS	Central Mines Research Station-Dhanbad
11)	CFRI	Central Fuel Research Institute Dhanbad
12)	CPRA	Coal Price Regulation Account
13)	CCL	Central Coalfields Limited
14)	DGMS	Director General of Mines Safety-Dhanbad
15)	ECL	Eastern Coalfields Limited
16)	Escrow Account	A non-interest bearing Bank Account
17)	EMS	Earning per man shift
18)	HEMM	Heavy Earth Moving Machine
19)	ICICI	Industrial Credit & Investment Corporation of India Limited
20)	IMG	Inter Ministerial Group
21)	IPR	Internal Rate of Return
22)	LW	Long Wall
23)	MT/MTY	Million Metric Tonnes/Million Metric Tonnes per Year
24)	MIC	Main incline
25)	MCL	Mahanadi Coalfields Limited
26)	NTPC	National Thermal Power Corporation
27)	NCL	Northern Coalfields Limited
28)	NCWA	National Coal Wage Agreement
29)	OCP	Open Cast Project
30)	OEM	Original Equipment Manufacturer
31)	OMS	Output per man shift
32)	PIB	Public Investment Board
33)	Preview date	Date falling 5 days before the date of payment
34)	RPR	Revised Project Report
35)	SECL	South Eastern Coalfields Limited
36)	UG	Underground

ANNEXURE – I
(as referred to in para 1.2)
ORANISATIONAL STRUCTURE OF EASTERN COALFIELDS LIMITED



Annexure-II (A)
(as referred to in para 4.5)
Status of Major Coal Handling Plants as on 31 March 1999

Sl. No.	Name of CHP	Sanctioned Capacity (in MTY)	Date of award of contract	Original Cost (Rs. In lakh)	Revised cost Rs.in lakh	Cost incu-rred (Rs.in lakh)	Cost over-run (Rs.in lakh)	Schedule date of complet-ion	Revised date of comple-tion	Time overrun	Period from date of award of contract	Remarks
1.	Dhemomain	0.70	2/1981	241	492	505.00	264.00	7/1983	12/1984	In-complete Project	14 years	Foreclosed in February 1995, incomplete stage due to non-availability of land and nonapplicability of plough technology.
2.	Ratibati	0.90	3/1978	154	351	344.21	190.21	3/1980	5/1985	In- Complete Project	16 years 11 months	Foreclosed in February 1995, incomplete stage due to obstruction by villegers on account of environmental problem.
3.	Satgram	1.20	12/1986	537	---	19.60	---	3/1990	---	Do	9 years 2 months	Foreclosed in February 1995, incomplete stage due to nonavailability of sufficient coal.
4.	Jhanjra Main	3.50	NA	306.90	306.90	24.91	---	3/1993	---	Do	---	Foreclosed in June 1993, incomplete stage as crushing of coal was not required.
5.	Mugma	1.50	4/1987	690	694	435.82	---	4/1992	---	Do	5 years	Foreclosed in March 1992, incomplete stage due to closure of some open cast mines because of adverse economics arising out of stopping of operation of hired HEMM.
	Total	7.80	---	---	---	1329.54	454.21					

6.	**Bankola**	1.08	NA	509	517.96	754.41	245.41	3/1988	12/2000	Do	12 years 8 months	Incomplete because of dispute with contractors.
7.	**J.K.Nagar**	0.86	3/1983	311.59	---	328..37	16.78	7/1985	not yet decided	13 years 8 months	----	Incomplete due to shortage of fund.
8.	**Kunustoria**	0.40	---	---	---	---	---	---	1965	---	----	Completed during pre-nationalisation period of ECL.
9.	**Amritnagar**	0.42	2/1977	142	---	164.32	22.32	4/1979	12/1983	6 years 6 months	----	Completed in October 1985.**
10.	**Chinakuri**	0.70	2/1977	149	183	227.00	78.00	6/1979	12/1983	5 years 6 months	----	Completed in December 1984.**
	Total	11.26					1270.93					

***** Already discussed by COPU in 1987-88.***

ANNEXURE-II (B)
(as referred to in para 4.5)

Sl. No.	Name of CHP	Sanctioned Capacity (in MTY)	Date of award of contract	Original Cost (Rs.in lakh)	Revised cost (Rs. In lakh)	Cost in-curred (Rs.in lakh)	Cost over-run (Rs.in lakh)	Scheduled date of completion	Actual date of completion	Time overrun
11.	New Kenda	0.90	3/1978	179.00	285.00	417.77	238.77	3/1980	4/1987	7 year
12.	Bahula	0.90	9/1976	145.00	215.00	291.20	146.20	3/1978	6/1987	9 years 3 months
13.	Jhanjra 1 & 2	0.75	NA	71.13	-	78.00	6.87	3/1986	12/1988	2 years 9 months
14.	Khottadih	1.39	3/1978	171.00	393.00	531.69	360.69	6/1981	7/1994	13 years 1 month
15.	Rajmahal	10.50	NA	5054.00	5151.03	6711.70	1657.70	3/1988	10/1991	3 years 7 months
16.	North Searsole.	1.16	12/1983	309.00	309.00	370.35	61.35	5/1985	3/1991	5 years 10 months
17.	Sonepur Bazari	3.00	NA	4050.46	4050.46	3389.81	--	12/1986	7/1997	7 months
	Total	18.60					2471.58			
	Grand Total	29.86					3742.51			

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