Report of the Comptroller and Auditor General of India

for the year ended March 2003

Union Government (Commercial)

Public Sector Undertakings

(Steel Sector)

No. 6 of 2004

CONTENTS

PREFACE

A reference is invited to the prefatory remarks in Report of the Comptroller and Auditor General of India – Union Government No. 1 (Commercial) 2004 where a mention was made that reviews of the performance of Companies/Corporations by the Comptroller and Auditor General of India are presented in separate Reports. This Report for the year ended March 2003 has been prepared incorporating the audit findings noticed during transaction audit of the public sector undertakings of steel sector. The Companies covered are Steel Authority of India Limited, MECON Limited, Hindustan Steelworks Construction Limited, Rashtriya Ispat Nigam Limited, MSTC Limited, National Mineral Development Corporation Limited and Kudremukh Iron Ore Company Limited under Ministry of Steel.

The Report containing twenty one paragraphs is divided into seven sections.

Section I pertaining to Steel Authority of India Limited contains 12 paragraphs and one review on working of Captive Mines of the Company.

Section II contains review on the working of MECON Limited.

Section III pertaining to Hindustan Steelworks Construction Limited contains review on Off-loading of contracts by the Company.

Section IV pertaining to Rashtriya Ispat Nigam Limited contains two paragraphs.

Section V pertaining to MSTC Limited contains one paragraph.

Section VI pertaining to National Mineral Development Corporation Limited contains two paragraphs.

Section VII pertaining to Kudremukh Iron Ore Company Limited contains two paragraphs.

19 Draft Paragraphs and three reviews were forwarded to the Secretary Ministry of Steel for furnishing their replies. Replies to nine paragraphs pertaining to Kudremukh Iron Ore Company Limited, Rashtriya Ispat Nigam Limited, National Mineral Development Corporation Limited and Steel Authority of India Limited were not received from the Ministry.

The cases mentioned in the Report are among those, which came to notice in the course of audit conducted during the year 2002-03 and early part of 2003-04, and during earlier years wherever relevant.

STEEL SECTOR PROFILE

1 Background

Steel has been considered as an important tool for development of any modern economy and the level of per capita consumption of steel is treated as one of the important indicators of socio-economic development and living standard of the people in any country. The Indian steel industry started in 1907 and at the time of independence there were only three steel plants producing about 1.1 million metric tonnes(MT) of steel in 1948 i.e. Tata Iron and Steel Company Limited (TISCO), Indian Iron and Steel Company Limited (IISCO) and Visvesvarya Iron and Steel Limited at Jamshedpur, Burnpur and Bhadravati. Tata Steel was established in 1907 as Asia's first and India's largest integrated private sector steel company. IISCO's Burnpur Steel Plant initially set up in 1918, began production of steel in 1939. Since then steel industry has come long way and by the end of March 2003, steel production in India was 33.91 million metric tonnes (MT) and India became one of the ten largest steel producing countries of the world. The per capita steel consumption in India is 27 Kg as against 472 Kg in USA, 429 Kg in European Union and 128 Kg in China.

2 Administration and Control

Ministry of Steel (MOS) is the administrative Ministry of the Government of India dealing with various aspects of steel sector. MOS is responsible for co-ordination of the duties from various sources for the growth of the Iron & Steel Industry, formulation of policies in respect of production, pricing, distribution import and export of iron and steel, planning, development and control of and assistance to the iron and steel industry in the country. MOS has one attached office viz, the office of the Development Commissioner for Iron & Steel located at Kolkata which is responsible to supplement the efforts of MOS in regulation and development of steel industry.

3 Government Companies under Steel Sector

The following are the main public sector Companies under the Ministry of Steel.

Steel producing Companies

(1) Steel Authority of India Limited
(2) Indian Iron and Steel Company Limited
(3) Rashtriya Ispat Nigam Limited

Construction Company

(4) Hindustan Steelworks Construction Limited

Consultancy Company

(5) MECON Limited

Mining Companies

(6) National Mineral Development Corporation Limited
(7) Kudremukh Iron Ore Company Limited.

Trading Companies

(8) MSTC Limited.

Other Public Sector Undertakings are Sponge Iron India Limited, Manganese Ore (India) Limited, Bharat Refractories Limited and Ferro Scrap Nigam Limited.

4 *Financial Performance of PSUs under Steel Sector*

The table given below indicates the important financial performance indicators of the major Public Sector Undertakings of the Steel Sector for the year ending 31 March 2003.

(Rs in crore)

Name of Company	Paid up Capital	Govt. Share	Govt. Loans	Capital employed	Net Worth	Accumulated losses	Dividend paid, if any
1. SAIL	4130.40	3544.6	0.27	16023.46	1064.49	2764.93	NIL
2. IISCO	387.66	NIL	NIL	(-)220.84	(-)591.79	979.37	NIL
3. RINL	7827.32	7827.3	NIL	4518.16	3286.02	4461.28	NIL
4.HSCL	117.10	117.10	435.31	10.30	(-)1035.20	982.54	NIL
5. MECON	2.42	2.42	4.42	(-) 74.79	(-) 224.95	199.59	NIL
6. NMDC	132.16	130.03	NIL	1173.71	1591.74	NIL	39.65
7. KIOL	634.51	628.17	NIL	1099.04	1155.41	NIL	22.21
8. MSTC	2.20	1.98	NIL	239.19	68.72	NIL	1.83
9. Sponge Iron India	65.10	64.26	3.50	53.64	57.32	12.97	1.04
10. MOIL	15.33	15.33	NIL	120.00	117.07	NIL	4.14
11. BRL	201.79	201.50	153.50	3.78	(-)159.04	360.26	NIL
12. FSNL	2.00	NIL	NIL	120.95	117.59	NIL	0.70

5 *Liberalisation of Steel Sector*

With a view to accelerating the growth of the steel sector, the Government of India initiated a number of policy measures since 1991 as indicated below:

July 1991	Licensing restriction removed
January 1992	Price control abolished, distribution quotas removed
April 1994	Steel Development Fund cess abolished
January 1996	Engineering Goods Export Assistance Fund cess abolished

In the new industrial policy announced in July, 1991, Iron and Steel industry, among others, was removed from the list of industries reserved for the public sector and was also exempted from the provisions of compulsory licensing under the Industries (Development & Regulation) Act, 1951. As a result of liberalisation, several private players entered into the steel business. Share of public sector and private sector in the production of steel during 1990-91 was 46 per cent and 54 per cent respectively, while during 2001-02 the same was 32 per cent and 68 per cent respectively. The regime of controlled pricing mechanism of the Joint Plant Committee operating since 1964 was abolished with effect from 16 January1992. Producers are now free to determine and announce the prices, which are governed by market forces of demand and supply.

With a view to accelerating the growth of steel sector, the Government of India in the industrial policy of July 1991 removed iron and steel industry among others, from the list of industries reserved for the public sector and exempted it from the provision of compulsory licensing under the Industries (Development & Regulation) Act, 1951.

6 *Entry of Private Sector*

During pre-liberalisation phase, there was only one integrated steel plant in the private sector in the country. In addition, there were a large number of mini steel plants and steel processing units.

The new industrial policy announced in July 1991 has opened the iron & steel industry for private investment. In the post liberalisation era, 19 new/green field steel projects have been sanctioned by the financial institutions involving a total capacity of approximately 12.8 million MT (saleable steel). So far, nine units have been fully commissioned with 5.75 million MT per year capacity and three units having a capacity of 3.7 million MT per year have been partially commissioned.

7 *Steel Sector Scenario*

In the first half of the decade, existing players like TISCO and SAIL reported record earnings during this period aided by the following:-

- Sharp increase in domestic demand and decontrol of prices,
- Benefits from modernisation and changes in product-mix,

In the second half of the decade particularly from 1998-99, the condition of steel industry started deteriorating and major player like SAIL incurred a huge loss of Rs. 1618 crore during 1998-99 due to sluggishness in the steel market, falling sales realisation etc.

After reeling under severe recession due to depressed market conditions leading to suppressed margins, there was a turn around during the financial year 2002-03. International steel prices firmed up, particularly in flat products, fuelled by China's consumption of around 15 million MT per month. The global demand for steel is estimated to have grown by six per cent. In the domestic front also, signs of recovery/turnaround of steel sector were visible as demand of steel as well as price thereof indicated improvement as the demand of steel picked up during 2002-03 and the growth in consumption of steel increased by 5.7 per cent during 2002-03 from 3.4 per cent during 2001-02. Domestic consumption of steel, which was 26.53 million MT in 2000-01 increased to 29.02 million MT in 2002-03.

8 *Production*

The production and consumption of steel during the last five years ending as on 31 March 2003 is as under:

(In million MT)

Year	Production	Consumption
1998-99	23.82	23.55
1999-00	26.71	25.09
2000-01	29.27	26.53
2001-02	31.63	27.44
2002-03	33.91	29.02

As against the total demand (consumption) of 131.63 million MT during 1998-99 to 2002-03, the production of 145.34 million MT was in excess by 13.71 million MT representing 10.42 per cent of demand. It would be seen that the production of steel in proportion to its consumption increased from 1.15 per cent in 1998-99 to 16.85 per cent in 2002-03.

9 *Import and Export*

Though India started steel production in 1907, steel exports from India began only in 1964. India's major market for steel included China, USA, Canada, Indonesia, Italy etc. The major steel items of export include plates, structurals, bar, pig iron, galvanised products, stainless steel, wire rods, wire etc. Though the country's production of iron and steel is sufficient to meet its domestic demand yet considering its grades and quality factor some quantity of steel is always required to be imported.

Import of steel has been mainly in plates, HR coils, CR coils and semis. Import and export of steel during the last five years are given below:

(Quantity in million MT)

Year	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03 (upto 31 December 2002)**
Import	2.53	3.28	3.40	3.48	2.70
Export	2.84	3.63	2.80	3.61	3.10

It would be seen that on the export front, there has been a remarkable improvement of nearly 45 per cent (on an annualised basis) in 2002-03 from 1998-99.

Import and export policy

The Ministry of Commerce in consultation with the Ministry of Steel decide the general policy and procedure for export and import of iron and steel including steel products. To increase the export, Government of India announced several measures in five year Exim Policy (2002-07), which include the removal of quantity restrictions on exports, retention of duty-neutralisation and other, export promotion schemes. Import had also been liberalised by removing the restriction of import licensing, lowering of import duty etc. Import and export duty applicable on iron and steel in India is indicated below:

a) **Import duty**:- After liberalization, import duty rates on iron and steel items have been gradually reduced over the years. Import duty, which was in the range of 50-85 per cent during 1993-94, decreased to 25 per cent during 2003-04. The consistent decrease in the import duty opened up the domestic iron and steel sector to international competition. The custom duties are low for developed countries while for the developing countries it was fixed at a higher level as shown below: -

(In percentage)

	Japan	Canada	USA	South Africa	China	Indonesia	Egypt	India
Average	0.6	1.0	1.0	5.0	7.4	9.2	18.5	25.0
Maximum	6.3	8.0	12.5	30.0	30.0	25.0	40.0	25.0

b) **Excise duty**:- During the period 1991-92 upto 1994-95, the Excise duty on iron and steel materials increased from 11.5 per cent in 1992-93 to 15 per cent in 1994-95 and is 16 per cent at present (2002-03).

It would be seen that on one hand import duty was reduced while excise duty was increased which made it difficult for the steel industry in the country to face competition.

10 The picture ahead

Liberalisation has changed the perspective of Indian Steel Industry. Competitive exchange rate and increasing global demand together with locational advantages that the steel industry has enjoyed resulted in increase in exports in recent years. However, despite this surge, steel exports have continued to remain around 10 per cent of total production and less than one per cent of overall world exports. Various studies indicate that steel industry would continue to be pre-dominantly domestic demand driven and would remain only a marginal player in international arena.

Liberalisation has, however, changed the system of pricing of steel. In a situation of open imports, the landed cost would set a ceiling on the prices that could be charged in the domestic market. Global steel prices would, therefore, determine the cost that the domestic producers can afford and not the other way around. The world trend in steel prices exhibit two characteristics i. e. the prices are cyclical in nature and that these cycles are getting shorter and shorter. These characteristics impart volatility to the steel prices that not only affect profitability of the sector but also make it increasingly necessary to have continuous adjustments in their pricing, production and marketing strategies. Though the Indian Industry currently has the advantages of relatively low labour and raw material costs, energy, transportation and financing costs are high relative to their international competitors. Energy and transportation costs are also largely non-tradables. In terms of technology, steel industry has scarcely been able to keep pace with international standards. These factors would largely determine the sector's competitive position. A down turn global prices, tapering up off global demand or creation additional capacities elsewhere and changes in duty structure may have its repercussions on steel companies. A turn around in this sector would be sustainable only if the competitive edge is strengthened.

OVERVIEW

This Audit Report for the year 2002-03 containing 19 paragraphs and three performance reviews is presented in seven sections:

Section I	Chapters 1 to 3	Steel Authority of India Limited
Section II	Chapter 4	MECON Limited
Section III	Chapters 5 and 6	Hindustan Steelworks Construction Limited
Section IV	Chapters 7 and 8	Rashtriya Ispat Nigam Limited
Section V	Chapters 9 and 10	MSTC Limited
Section VI	Chapters 11 and 12	National Mineral Development Corporation Limited
Section VII	Chapters 13 and 14	Kudremukh Iron Ore Company Limited

Financial Implications

The total quantifiable financial implication of paragraphs and reviews included in this Report is Rs. 941.87 crore. The Company-wise details with reference to the nature of irregularity are given as under:

(i) Steel Authority of India Limited

The financial implication in respect of performance review and paragraphs relating to Steel Authority of India Limited, which could be quantified, is Rs 803.86 crore as per the details given below:

(Rs. in crore)

Review of captive mines	
Avoidable excess expenditure	422.97
Idle investment, idle establishment, blockade of funds	172.13
Delay in commissioning of equipment	71.01
Loss due to non-compliance of law, rules etc.	3.40
Other irregularities	19.67
Sub-total	**689.18**
Chapter 1-Fianancial Management	
Avoidable excess expenditure	0.56
Wasteful infructuous expenditure	1.61
Control weakness	3.66
Loss due to non-compliance of law, rules etc.	0.78
Sub-total	**6.61**
Other transaction audit findings	
Avoidable excess expenditure	72.99
Undue favour to the contractors	18.18
Idle investment, idle establishment, blockade of funds	12.00

Loss due to non-compliance of law, rules etc.	4.90
Total	**108.07**
Grand Total	**803.86**

(ii) MECON Limited

The financial implication in respect of performance review relating to MECON Limited, which could be quantified, is Rs 75.12 crore as per the details given below:

(Rs. in crore)

Review on working of MECON Limited	
Irregular expenditure	0.93
Wasteful infructuous expenditure	0.86
Delay in commissioning of equipment	53.97
Control weakness	1.50
Undue favour to the party	1.00
Non compliance to rules	6.27
Miscellaneous	9.99
Incorrect estimation	0.60
Total	**75.12**

(iii) Hindustan Steelworks Construction Limited

The financial implication in respect of performance review relating to Hindustan Steelworks Construction Limited, which could be quantified, is Rs 45.25 crore as per the details given below:

(Rs. in crore)

Review on off-loading contract	
Avoidable excess expenditure	19.08
Undue favour to contractors	6.27
Delay in commissioning of equipment	7.67
Idle investment, blockade of funds	3.53
Other irregularities	8.70
Total	**45.25**

(iv) Rashtriya Ispat Nigam Limited

Avoidable expenditure — Rs. 2.67 crore.

(v) MSTC Limited

Loss due to non securing financial interest — Rs. 8.49 crore

(vi) National Mineral Development Corporation Limited

(i) Avoidable loss — Rs.0.61 crore.
(ii) Avoidable expenditure — Rs. 3.01 crore.

(vii) Kudremukh Iron Ore Company Limited

(i) Idle investment — Rs. 1.42 crore.
(ii) Avoidable expenditure — Rs. 0.96 crore.
(iii) Irregular expenditure — Rs. 0.48 crore.

SECTION I STEEL AUTHORITY OF INDIA LIMITED

Chapter 1 Organisational set up and Financial Management

Steel Authority of India Limited (Company) was incorporated on 24 January 1973 as a Government Company under the Companies Act 1956 to carry on the trade or business of manufacturing, prospecting, buying, selling, importing exporting or dealing in iron and steel of all qualities, grades, types, stainless steel etc. The Company has four integrated steel plants headed by Managing Directors at Bhilai, Durgapur, Rourkela and Bokaro. Three plants at Salem, Durgapur and Bhadravati produce stainless and alloy steels. The marketing of products of steel plants is done through the Central Marketing Organisation (CMO), having headquarters at Kolkata, which has a countrywide distribution network.

(Para 1.1)

The Company suffered losses during all the five years ending 31 March 2003. Accumulated loss of the Company was Rs 2764.93 crore as on 31 March 2003.

(Para 1.4)

In Durgapur Steel Plant, equipment valuing Rs 30.39 crore were lying idle for last three years and an amount of Rs 21.29 crore had been spent on unsuccessful and abandoned projects. In Bokaro Steel Plant Rs 22.16 crore had been spent on incomplete schemes on which no expenditure was incurred during last three years. Plant and machinery procured at a cost of Rs. 21.23 crore had not been installed in Bokaro Steel Plant.

(Para 1.7.1)

Due to non collection of bank guarantee from tube makers, the Company suffered loss of Rs. 3.10 crore towards payment of sales tax.

(Para 1.9.4)

Though, the number of manpower had decreased, the expenditure on manpower, on the contrary, increased significantly during 1998-99 to 2002-03 due to wage revision.

(Para 1.10.1)

Chapter 2 Review on Captive Mines

Steel Authority of India Limited (Company) operated 13 captive mines with annual rated capacity of 230.12 lakh MT of iron ore and 71.83 lakh MT of limestone and dolomite to meet the requirement of its steel plants. In 1989 a Raw Material Division was formed to manage the working of captive mines of SAIL but the mines attached to Bhilai Steel Plant were not transferred to this Division. Purchase of raw material from outside sources was also not entrusted to the Division.

(Paras 2.1 and 2.3)

Production of iron ore from mines was less than the rated capacity due to which steel plants had to procure iron ore fines and lumps from outside sources at a cost of Rs 56.11 crore involving extra expenditure of Rs. 20.79 crore. On the other hand the production at Rajhara and Dalli mine under Bhilai Steel Plant was more than the requirement resulting in accumulation of stock of 67.43 lakh MT valuing Rs. 100.88 crore as on 31 March 2003.

(Para 2.4.1)

Equipment utilisation in the iron ore mines was 6 to 65 per cent of the capacity but the Company had procured 17 new equipments valuing Rs. 24.07 crore which could have been avoided by increasing the utilisation of available equipments.

(Para 2.4.2)

At Kalta mine, the crushing plant was not installed though the equipments were procured during 1992-93. Due to non installation of the crushing plant the iron ore was produced manually through the private contractors at a cost of Rs 177.07 crore during 1992-93 to 2002-03.

(Para 2.4.3)

Due to delay in commissioning of crushing plant at Kuteshwar mines by six years, the limestone was produced manually through private contractors at an extra cost of Rs 36.17 crore during 1993 to 1999.

(Para 2.5.3)

At Bhawanathpur mines the Company had incurred infructous expenditure of Rs 40.55 crore on plant and equipment, township, non-residential buildings, railway sidings and other assets as the quality and specification of the limestone of this mine was not upto the requirement.

(Para 2.5.4)

Production at dolomite mines was below the rated capacity and the production at Baraduar mine was stopped since June 1983 due to which the Company had to procure 171.12 lakh MT of dolomite from outside sources at a total cost of Rs 756.90 crore during 1992-93 to 2002-03. Moreover the Company had incurred an extra expenditure of Rs 2.58 crore towards payment of idle wages to staff of Baraduar mine during the period 1992-93 to 1999-2000 due to delay in closure of the mine.

(Para 2.6.2)

Chapter 3 Major findings of transaction audit

The Company increased/extended the limit of unsecured credit to two private parties without verifying their creditworthiness and ignoring the evaluation by Credit Rating and Monitoring Cell of the Company, which resulted in non realisation of Rs 14.55 crore.

(Para 3.1)

Due to not carrying out the scheduled overhaul of Air Separation Unit, the Company had to incur an extra expenditure of Rs. 7.93 crore on purchase of oxygen from outside source.

(Para 3.2)

The Company issued cheques to Railways without ensuring adequacy of funds with the banks, which resulted in their dishonour and avoidable payment of surcharge of Rs 15.46 crore.

(Para 3.3)

Improper planning in installation of de-dusting system at Bokaro Steel Plant resulted in rendering an investment of Rs 4.92 crore as idle and infructous.

(Para 3.4)

Shifting of two furnaces from Visvesvaraya Iron and Steel Plant to Bokaro Steel Plant without evaluating the techno-economic viability of the project resulted in loss of Rs 2.98 crore to the Company.

(Para 3.5)

The Company procured bearings from a private party at higher rates resulting in undue favour to that party involving extra expenditure of Rs. 1.65 crore.

(Para 3.6)

Due to short utilisation of in-house capacity of wheel and axle plant of Durgapur Steel Plant and getting the machining jobs done through outside agencies, the Company suffered a loss of Rs 9.30 crore.

(Para 3.7)

The Company suffered a loss of Rs 92.76 lakh on procurement of Ladle additive compound due to placing the repeat orders on a private firm without following the tender procedure.

(Para 3.8)

Due to switchover from using the limestone of Company's own captive mine at Kuteshwar to limestone purchased from Jaisalmer, the Company suffered a loss of Rs 37.32 crore during 2000-01 and 2001-02.

(Para 3.9)

Computerised Combustion Control System installed at Bokaro Steel Plant at the cost of Rs 7.08 crore is lying idle due to non rectification of defects by the supplier.

(Para 3.10)

Salem Steel Plant extended unsecured credit (March/April 2000) to M/s Master Strips Private Limited, Bangalore in violation of credit policy of the Company which resulted in non-recovery of dues of Rs. 3.97 crore.

(Para 3.11)

Salem Steel Plant extended unsecured credit during December 1999 to April 2000 to M/s Sahil Steel Tubes Private Limited, Banglore on the strength of corporate guarantee and post dated cheques without verifying the creditworthiness of the customer. This resulted in non-recovery of dues amounting to Rs.1.98 crore.

(Para 3.12)

SECTION II MECON LIMITED

Chapter 3 Review on working of MECON Limited

MECON Limited was incorporated in May 1978 as Metallurgical and Engineering Consultants (India) Limited with the main objective to help the development of iron and steel industries in the Public Sector and later on diversified its activities to emerge as a multi-disciplinary agency providing complete engineering, procurement and construction services. The Company is functioning without Chairman-cum-Managing Director since February 2002 and without Director (Finance) since inception.

(Paras 4.1 and 4.2)

The Company had suffered losses during all the five years ending 31 March 2003.

(Para 4.3)

The Company lost several bids due to wrong calculation in estimates and quoting of high rates. It could secure only 38.83 per cent and 35.29 per cent of consultancy and supply jobs respectively. Even in execution of jobs, the Company suffered loss of Rs. 102.91 crore in consultancy jobs and Rs 48.95 crore in supply jobs during five years ending 31 March 2003.

(Paras 4.4 and 4.5)

The Company diversified (1983) its activities to non-steel sector also but it had suffered loss of Rs. 74.70 crore during five years ending 31 March 2003 in execution of these jobs.

(Para 4.7)

SECTION III HINDUSTAN STEELWORKS CONSTRUCTION LIMITED

Chapter 6 Review on off-loading of contracts

Hindustan Steelworks Construction Limited (Company) was incorporated in June 1964 as a wholly owned Government Company with main objective of creating indigenous capacity and capability for construction of steel plants in the country. The Company had suffered losses during all the five years ending 31 March 2003. Accumulated loss of the Company as on 31 March 2003 was Rs. 982.54 crore.

(Paras 6.1 and 6.3)

Though the Company was incorporated mainly for construction of steel plants, it could not secure sufficient jobs from steel plants and the Company had taken up the works in other areas of civil works etc. The orders secured from steel plants ranged between 16.6 per cent and 29.9 per cent of the total orders secured by the Company even though the manpower for steel plants was in the range of 81.3 per cent to 86.7 per cent. The management had not taken any action for redeployment of the workforce.

(Para 6.4)

For execution of works secured by the Company, 91.6 to 93.4 per cent of the works were got executed through contractors/piece rate workers and only a small portion of the work was executed departmentally. The works were awarded to private parties on single tender basis and open tender system was adopted for awarding the contracts only in limited cases.

(Paras 6.5.1 and 6.5.2)

SECTION IV RASHTRIYA ISPAT NIGAM LIMITED

Chapter 8 Major findings of transactions audit

Rashtriya Ispat Nigam Limited (RINL) incurred avoidable payment of surcharge of Rs.1.67 crore due to its failure to maintain correct power factor.

(Para 8.1)

RINL paid avoidable penal levy of Re. one crore in March 2000 towards compensatory afforestation charges in violation of Forest Conservation Act.

(Para8.2)

SECTION V MSTC LIMITED

Chapter 10 Major findings of transactions audit

Decision of MSTC to sell material to a loss making State Government Company on credit in April 1997 without any financial guarantee led to a loss due to non recovery of sale consideration and interest amounting to Rs 8.49 crore.

(Para 10.1)

SECTION VI NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED

Chapter 12 Major findings of transactions audit

National Mineral Development Corporation Ltd. (NMDC) incurred avoidable freight charges of Rs.3.01 crore on the dispatches made during 2000-01 and 2001-02 due to its failure in adopting the nomenclature as per Goods Tariff.

(Para 12.2)

SECTION VII KUDREMUKH IRON ORE COMPANY LIMITED

Chapter 14 Major findings of transactions audit

The Company incurred an infructuous expenditure of Rs 1.42 crore on creation of excess storage capacity besides avoidable payment of Rs 96.46 lakh towards service charges to Indian Oil Corporation Limited due to delay in completion of storage tank.

(Para 14.1))

Section - I
STEEL AUTHORITY OF INDIA LIMITED

CHAPTER :1
STEEL AUTHORITY OF INDIA LIMITED

Highlights

Steel Authority of India Limited (Company) was incorporated on 24 January 1973 as a Government Company under the Companies Act 1956 to carry on the trade or business of manufacturing, prospecting, buying, selling, importing exporting or dealing in iron and steel of all qualities, grades, types, stainless steel etc.

The Company has four integrated steel plants headed by Managing Directors at Bhilai, Durgapur, Rourkela and Bokaro. In addition stainless and alloy steels are produced in three plants at Salem, Durgapur and Bhadravati. The marketing of products of steel plants is done through the Central Marketing Organisation (CMO), having headquarters at Kolkata, which has a countrywide distribution network.

The Company suffered losses during all the five years ending 31 March 2003. Accumulated loss of the Company was Rs 2764.93 crore as on 31 March 2003.

(Para 1.4)

One of the main reasons for heavy losses was heavy interest burden due to loan taken for capital expenditure and modernisation of the plants.

(Para 1.4.1)

The capacity utilisation in case of crude steel in the Company ranged between 81.10 percent and 91.76 percent during 1998-99 to 2002-03.

(Para 1.5)

In Durgapur steel plant, equipment valuing Rs 30.39 crore were lying idle for last three years and an amount of Rs 21.29 crore had been spent on unsuccessful and abandoned projects. In Bokaro Steel Plant, Rs 22.16 crore had been spent on incomplete schemes on which no expenditure was incurred during last three years. Plant and machinery valuing Rs 21.23 crore had not been installed in Bokaro Steel Plant.

(Para 1.7.1)

During the last five years (May 2002), 72 schemes each costing more than Rs.5 crore were completed with a time over run of more than 24 months (28 schemes) and a cost over-run of Rs.126 crore.

(Para 1.7.2)

Due to non collection of bank guarantee from tube makers, the Company suffered loss of Rs. 3.10 crore towards payment of sales tax.

(Para 1.9.3)

Though, the number of manpower had decreased, the expenditure on manpower, on the contrary, increased significantly during 1998-99 to 2002-03 due to wage revision.

(Para 1.10.1)

1.1 Introduction

Steel Authority of India Limited (Company) was incorporated on 24 January 1973 as a Government Company under the Companies Act 1956 to carry on the trade or business of manufacturing, prospecting, buying, selling, importing exporting or dealing in iron and steel of all qualities, grades, types, stainless steel etc.

The Company has four integrated steel plants headed by Managing Directors at Bhilai (BSP), Durgapur (DSP), Rourkela (RSP) and Bokaro (BOSP). Three plants at Salem, Durgapur and Bhadravati produce stainless and alloy steels. The marketing of products of steel plants is done through the Central Marketing Organisation (CMO), having headquarters at Kolkata, which has a countrywide distribution network.

1.2 Organisational set-up

The administrative and overall functional control of the Company is vested with the Board of Directors headed by Chairman, who in day to day management of the Company is presently assisted by six functional Directors. There was no regular Director (Finance) and Director (Commercial) since 1 October 2002 and 1 April 2003 respectively

1.3 Paid-up Capital

Against the authorised equity share capital of Rs.5,000 crore, the paid-up capital of the Company as on 31 March 2003 was Rs.4130.40 crore. Of this, Government of India holds equity share capital of Rs.3544.69 crore which is 85.82 per cent of the total paid-up capital and the balance 14.18 per cent is held by the financial institutions/ individuals etc.

Due to losses suffered during 1998-99 to 2002-03, the Company had not declared any dividend during these years.

1.4 Financial Position

The financial position of the Company under broad headings for the last five years upto 2002-03 is given below:

(Rs. in crore)

Liabilities	**1998-99**	**1999-00**	**2000-01**	**2001-02**	**2002-03**
Paid up capital	4130.40	4130.40	4130.40	4130.40	4130.40
Reserve & surplus	2858.14	1931.44	1160.21	1159.97	1159.77
Loans	21017.25	15082.41	14250.68	14011.63	12969.65
Current liabilities	5371.30	4839.89	4838.66	4653.58	4475.32
Provisions	835.93	1310.24	1955.08	2105.32	2836.70
Total	**34213.02**	**27294.38**	**26335.03**	**26060.90**	**25571.84**
Assets					
Gross block	28187.98	26823.32	26915.59	27198.88	27534.61
Depreciation	9880.72	10950.53	11738.19	12400.73	13498.75
Net block	18307.26	15872.79	15177.40	14798.15	14035.86
Capital Work in progress	2588.62	1474.62	1220.59	555.94	378.62
Investment	386.44	376.62	435.30	538.62	543.17
Current assets, loans & advances	12827.92	8273.48	8376.02	7129.92	7312.95
Misc. Expenditure-not written off	102.78	499.97	371.99	577.65	536.31

Accumulated loss	Nil	796.90	753.73	2460.62	2764.93
Total	**34213.02**	**27294.38**	**26335.03**	**26060.90**	**25571.84**
Working capital	6353.00	3025.37	2767.64	1792.00	1987.60
Capital employed	24660.26	18898.16	17945.04	16590.15	16023.46
Net worth	5192.31	3071.17	3241.52	1328.28	1064.49

(i) Net worth of the Company had been sharply eroded from Rs.5192.31 crore (1998-99) to Rs.1064.49 crore in 2002-03 due to huge losses suffered by the Company during the last five years. Net worth had decreased despite the fact that the Company sold its captive power plants and leased out its quarters to employees/ex-employees, which fetched Rs.1093 crore during 1999-2000 to 2002-03 from activities not relating to the business operation of the Company.

(ii) During 2001-02, the Company became a potentially sick Company due to erosion of 50 per cent of its peak net worth for the last four years in terms of provisions of Sick Industrial Companies (Special provisions) Act, 1985.

(iii) Reduction of loans from Rs.21017.25 crore (31 March 1999) to Rs. 15082.41 crore (31 March 2000) was mainly due to waiver of loan of Rs.5073 crore by the Government of India (February 2000) from Steel Development Fund (SDF).

(iv) Current ratio, a measure of liquidity, was 2.26:1 in 1998-99 and it was subsequently reduced to 1.37:1 in 2002-03.

1.4.1 Working results

The working results of the Company for the last five years ending 31 March 2003 are indicated below:-

(Rs in crore)

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03
Sales	14993.85	16250.16	16232.63	15502.00	19207.10
Expenditure	14161.92	16058.04	14846.88	15775.14	17844.66
Operating Profit/(-)Loss	831.93	192.12	1385.75	(-)273.14	1362.44
Other income	671.24	1009.44	780.89	1284.17	802.37
Depreciation	1104.06	1132.79	1143.62	1155.89	1146.66
Interest	2017.44	1788.79	1751.68	1562.03	1334.02
Net Profit/ (-)loss	(-) 1618.33	(-) 1720.02	(-)728.66	(-) 1706.89	(-)315.87

Analysis of working results revealed the following:

(i) The Company suffered loss during all the five years. The reasons for loss, apart from sluggishness in the steel industry market, were higher burden of interest and depreciation on the commissioning of modernisation units of RSP and BOSP.

(ii) The Company recorded the highest loss of Rs.1720.02 crore during 1999-2000, even after taking into account the benefit of Rs.757 crore due to waival of loan of Rs.5073 crore by the Government of India in February 2000.

1.4.2 Comparison with Integrated Steel Plants in Private Sector

While the Company suffered loss during all the five years, Tata Iron and Steel Company (TISCO), an integrated steel manufacturer in the private sector, on the contrary, managed to register profit during all these years inspite of sluggishness of the steel sector market. Audit analysis revealed that:

- The operating expenditure as a percentage of sales varied between 91.46 and 101.76 in the Company whereas it was 76.49 and 94.79 in TISCO during the last five years period.
- Due to huge borrowings taken by the Company to finance modernisation/capital expenditure, interest expenditure as a percentage of the operating expenditure was very high and varied between 7.48 in 2002-03 and 14.24 in 1998-99 while in TISCO, it was 4.07 in 2002-03 and 6.37 in 1999-2000.

1.5 Operational Performance

Steel production takes place in three stages as under:-

(i) From raw material to hot metal in Blast Furnaces

(ii) From hot metal to crude steel and slab in Steel Melting Shop and Continuous Casting Plant/slabbing Mill

(iii) From Slabs to saleable Steel in rolling mills

Some quantity of hot metal is sent to Pig Casting Machine for producing Pig Iron according to requirement.

The following table indicates the capacity and actual production of pig iron, crude steel and saleable steel of steel plants during the last five years:

(In lakh MT)

	1998-99		1999-00		2000-01		2001-02		2002-03	
SAIL	**Capacity**	**Actual**	**Capacity**	**Actual**	**Capacity**	**Actual**	**Capacity**	**Actual**	**Capacity**	**Actual**
Pig iron	20.02	7.76 (38.76)	20.02	6.06 (30.27)	20.02	3.84 (19.18)	20.02	3.75 (18.73	19.45	3.07 (15.78)
Crude steel	120.28	100.73 (83.75)	123.16	99.88 (81.10)	123.16	105.37 (85.55)	123.16	106.77 (86.69)	123.16	113.02 (91.76)
Saleable steel	100.01	86.02 (86.01)	106.26	95.30 (89.69)	106.26	97.03 (91.31)	106.26	96.97 (91.26)	106.26	103.52 (97.42)

Note: Figures in brackets denote percentage to rated capacity.

It would be seen from the above table that while the capacity in case of pig iron in the Company remained grossly underutilised, the capacity utilisation in case of crude steel ranged between 81.10 per cent (1999-00) and 91.76 per cent (2002-03).

1.6 Technical Performance Indicators

The operational efficiency of a steel plant is judged according to certain technological parameters. Of these, coke rate and productivity of blast furnace in steel making assume significance. The operational efficiency of steel plants based on the above parameters are indicated below:

1.6.1 Coke Rate

Coke rate indicates consumption of coke (in kgs) for production of one MT of hot metal in blast furnace. Steel plants working with lower coke rate indicate improved operational performance and high coke rate indicates poor performance.

The table below indicates the norms fixed by the management and actual achievement in the steel plants:-

(kg per MT of hot metal)

Plant	1998-99		99-2000		2000-01		2001-02		2002-03	
	Norm	Actual	Norm	Actual	Norm	Actual	Norm	Actual	Norm	Actual
RSP	630	663	625	668	628	656	628	647	580	611
BSP	570	557	545	534	533	544	525	524	480	498
BOSP	564	562	534	548	548	552	548	549	530	536
DSP	609	620	590	587	580	586	580	580	545	573

It would be seen that among steel plants, in RSP, though the coke rate decreased from the highest level of 668 kgs in 1999-2000, it was still higher at 611 kg in 2002-03 as compared with other plants of the Company. Further, RSP could not achieve the norm set by the management in any of the last five years.

On the other hand, coke rate in TISCO and Rashtriya Ispat Nigam Limited (RINL) was at a better level when compared with the Company's plants, as it was 529 kg and 517 kg respectively in 2002-03.

1.6.2. Blast Furnace Productivity

Blast Furnace (BF) productivity measures production of hot metal (in MT) per day per cubic meter of BF. Higher ratio indicates better performance of the working of the blast furnaces in terms of production. Low productivity of Blast Furnace indicates higher slag (Waste) volume and increased cost of production.

The table below indicates the norms as well as the actual achievement in the various steel plants:-

(MT/cum/day)

Plant	1998-99		1999-2000		2000-01		2001-02		2002-03	
	Norm	Actual	Norm	Actual	Norm	Actual	Norm	Actual	Norm	Actual
RSP	1.15	0.94	1.15	0.94	1.17	1.13	1.23	1.09	1.21	1.11
BSP	1.64	1.63	1.64	1.63	1.69	1.63	1.71	1.67	1.75	1.73
DSP	1.46	1.21	1.40	1.26	1.40	1.32	1.40	1.32	1.33	1.36
BOSP	1.65	1.57	1.65	1.59	1.65	1.59	1.70	1.57	1.70	1.60

The productivity of Blast Furnaces in RSP was ranging between 0.94 MT (1998-99) and 1.13 MT (2000-01) while in case of Bokaro Steel Plant, the productivity was as high as 1.60 MT in 2002-03. In view of low productivity of Blast Furnace, there is a need for improvement in RSP in particular as well as other units specially when the BF productivity of TISCO was as high as 1.74 MT in 2002-03 and it was 1.72 MT in RINL during 2002-03.

The higher coke rate and lower productivity of Blast Furnace, which had a direct financial impact on cost of production, requires a detailed analysis at management level to find out ways and means to improve working of the steel plants.

1.7 Capital Schemes

1.7.1 A test check of the records relating to capital schemes completed/under progress had revealed that the Company had not been able to derive any benefit from the investment of Rs. 110.40 crore as indicated below :

(Rs. in crore)

	BSP	RSP	DSP	BOSP	Total
Schemes shown under WIP without incurring any expenditure in last three years	0.48	0.31	-	22.16	22.95
Plant & Machinery which were not installed and put to use in last one year	-	-	-	21.23	21.23
Equipments kept idle for 3 years or more	0.30*	0.68	30.39	6.94	38.31
Unsuccessful and abandoned projects	1.45	0.89	21.29	4.28	27.91
Total	2.23	1.88	51.68	54.61	110.40

***** *Indicates written down value.*

Since the amount of Rs.110.40 crore blocked in these schemes was substantial and was not giving any return, Management should have taken remedial action either to complete the schemes if feasible or to initiate disposal action but no concrete steps had been taken by the Management so far (March 2003).

1.7.2 Time and Cost Over-run

During the last 5 years, 72 schemes (other than modernisation) each costing more than Rs.5 crore valued at a total Rs.2789 crore were completed. Out of 72 completed schemes, 11 schemes were completed as per schedule and the remaining 61 schemes were completed with time over-run as indicated below:

Delay in Month	Schemes sanctioned during 8th plan	Scheme sanctioned during 9th plan	Total No. of schemes
1-12	14	7	21
13-24	10	2	12
More than 24	28	0	28
Total	52	9	61

It would be seen that in 28 schemes delay in completion was more than 24 months.

The Management intimated the Board of Directors in May 2002 the following reasons for delay in some of the major completed schemes:

- Sinter Plant No.3 of BSP:- hot trial was conducted in February 2001 against commissioning schedule of September 1998. After rectification of defects noticed during hot trial, sinter plant was restarted in May 2001. Reasons for delay were delay in design & engineering, civil & structural work and delay in supply of equipments.
- Coke Oven Battery No.3 of BOSP was rebuilt in October 2000 against schedule of August 1998. Delay was on account of industrial relation problem of Hindustan Steelworks Construction Limited (HSCL) and delay in supply of equipment.
- Argon Recovery in Oxygen Plant of BOSP was commissioned in November 1999 against schedule of August 1997. Delay accrued due to lack of resources

with Bharat Heavy Plate & Vessels Limited for civil works, delay in supply & erection of equipment.

- Third slab yard in Hot Strip Mill at BOSP was commissioned in December 1998 against schedule of November 1996 due to delay in supply of equipment by Heavy Engineering Corporation Limited, delay in structural erection work by HSCL and delay in completion of electrical sub-station work.
- Bio-Oxygen Demand Plant at DSP was commissioned in June 2000 against the schedule of April 1995 due to delay in equipment supply.
- Turbo-Alternator No.4 at DSP was revamped in July 2001 against the schedule of July 1998. Delay took place mainly due to delayed supply of equipment by Siemens and delay in providing shutdown by DSP.

The reasons attributed by the Management indicate that delay was avoidable in most of the cases if timely action would have been taken by the Management. Due to time over run, the schemes were completed at a cost of Rs.2789 crore against the sanctioned cost of Rs 2663 crore i.e. after a cost over-run of Rs.126 crore.

It was observed that cost over-run of Rs.126 crore and time over-run could have been avoided/minimised by taking suitable measures such as avoiding delay in placement of order/design and engineering work/equipment supply and by proper planning in arranging timely shutdown of mill/plant.

1.7.3 Infructuous investment of Rs.1.61 crore on Electric Repair Shop

Durgapur Steel Plant (DSP) of the Company spent an amount of Rs.1.61 crore on construction of Electrical Repair Shop (ERS) for the purpose of repair, rewinding and testing facility for repaired equipments, which had not been completed so far (August 2003). ERS was left incomplete (January 2000) due to foreclosure of work midway and, therefore, could not be utilised for the envisaged purpose due to non-procurement of necessary testing equipment. The procurement of testing equipment was not ordered due to higher prices quoted by the party.

Ministry stated (April 2003) that testing facilities envisaged for testing of repaired equipment in ERS could not be made available because of very high quoted price. In the absence of these, the quality of repair in ERS is not getting ensured properly. However, the created facilities would be utilised for repair and rewinding but without testing facilities.

The fact, however, remained that the expenditure of Rs. 1.61 crore incurred so far proved infructuous as the ERS had not been put to use for repair and rewinding work.

1.8 Sales and Marketing performance

1.8.1 Marketing Setup

Marketing of iron and steel materials is looked after by Central Marketing Organisation (CMO) consisting of 4 Regional Offices, 35 Branch Sales Offices, Branch Transport & Shipping Offices, several Stockyards, Consignment Agency Yards, Authorised Distributors and Conversion Agents.

1.8.2 Sales Performance

The table below indicates the sales during the last 5 years ended 31 March 2003.

(Qty. in lakh MTs, Value Rs. in crore)

		1998-99	1999-00	2000-01	2001-02	2002-03
1. Pig Iron						
	Quantity	6.11	6.19	2.59	2.80	1.90
	Value	349.39	365.23	183.03	197.80	149.11
2. Mild Steel						
i) Steel Ingot	Quantity	2.97	1.34	0.15	0.27	0.18
	Value	227.19	102.77	12.14	22.46	18.31
ii) Saleable Steel	Quantity	82.16	90.68	87.55	92.55	97.82
	Value	12077.24	13320.15	13837.22	13548.75	17053.39
3. Alloy Steel Saleable	Quantity	2.67	2.97	2.80	2.10	2.47
	Value	921.73	1025.98	930.04	736.55	885.26
4. Others	Value	1418.30	1436.03	1270.20	996.44	1101.03
Total value		14993.85	16250.16	16232.63	15502.00	19207.10

Sales turnover increased from Rs.14993.85 crore (1998-99) to Rs.19207.10 crore (2002-03). Sales turnover during 2002-03 was higher by 24 per cent over previous year mainly on account of 20 per cent increase in net sales realisation, higher sales of secondary products etc. During 2000-01 and 2001-02, there was downward trend due to reduction in prices.

1.8.3 Domestic Sales

The target of sale fixed by the Company for saleable steel and quantity actually sold during the years 1998-1999 to 2002-2003 in the domestic market are indicated below :

(Quantity in lakh MT.)

Saleable Steel	1998-99	1999 – 00	2000 – 01	2001 – 02	2002 – 03
Target	65.86	78.84	82.04	82.81	98.70
Actual	77.82	83.07	82.79	87.01	89.32
Percentage of target	118	105	101	108	90

It would be seen from the above that the Company could not fulfil its target of domestic sale during 2002-03 mainly due to surplus availability of materials and competition in the market.

1.8.4 Export

The target of export and quantity actually exported by the Company during the years 1998 – 1999 to 2002 – 2003 are indicated below :

(Quantity in lakh MT)

Year	Target	Actual
1998-99	10.00	4.34
1999 – 2000	5.48	7.61
2000 – 01	7.76	4.76
2001 – 02	7.75	5.54
2002 – 03	3.53	8.50

The Company could not achieve target of export during 1998-99, 2000 – 2001 and 2001 –2002. The constraints faced in export as stated by the Management (May 2003) were:-

i) Imposition of Anti-dumping/Anti-subsidy duties on Plates and HR Coils in USA, Europe and Canada. These were major markets for Hot Rolled Coils and Plates for the Company.

ii) Non-availability of Rails, slabs and structurals for export due to demand from Indian Railways, own requirements for making more finished steel and better realisation in domestic sales.

iii) Non-availability of export worthy quantity of Galvanised/Cold Rolled Coils in the proper size-mix required in international market.

iv) Depressed international market conditions.

1.9 Marketing Policy

The Company is marketing its products through booking under Memorandum of Understanding (MOU) Scheme and credit sale to its customers under secured as well as unsecured credit.

Under the prevailing system, Credit Rating and Monitoring Cell (CRMC) evaluates the credit worthiness of customers for sanction of the unsecured credit limit to the customers.

During the course of audit it had been noticed that in some cases unsecured credits were extended even without CRMC recommendations. Cases of overlooking the past performance of the customer had also been noticed as discussed in Para 3.1, 3.11 and 3.12 of Chapter 3.

A few interesting cases relating to sales are indicated below:

1.9.1 Payment of Turn Over Discount to ineligible MOU customers

Hero Cycle Limited (HCL), Ludhiana entered (February, 2000) in to Memorandum of Understandings (MOU) with the Company (BSO, Ludhiana) for lifting 48100 MT of HR Coil during 2000-01 as per MOU scheme effective from April, 2000. Though the lifting of HCL during the first two quarters was only 10938 MT i.e. 23 per cent, instead of short closing the MOU, the Company reduced the MOU quantity of HCL to 24000 MT in February 2001 to enable the party to be entitled for Turn Over Discount (TOD). The Company paid TOD amounting to Rs. 47.06 lakh at the rate of Rs. 175 per MT on 26891 MT lifted by HCL.

Further, as per the MOU scheme for 2001–2002, Amforge Industries Limited (AIL) entered in to MOU with the Company (BSO, Faridabad) in March 2001 for lifting of 6500 MT of HR Coil during 2001–02. Though there was no MOU scheme for HSM Plates, AIL was allowed to lift 1000 MT of HSM Plates in the MOU for HR Coil as an additional item. AIL actually lifted 5706 MT of HR Coil and 1105 MT of HSM Plates during the year. Since the lifting of HR Coil was only for 88 per cent of the MOU quantity, AIL was not eligible for getting TOD. However, considering the total lifting of AIL including HSM Plates to be above 90 per cent, they were paid TOD amounting to Rs. 8.49 lakh in May 2002 which was an undue favour to the party.

Thus, payment of TOD to the ineligible MOU customers in violation of the extant rules of the Company resulted in extra expenditure of Rs. 55.55 lakh.

1.9.2 Loss of Rs.56.08 lakh due to failure to utilise the credit value of DEPB

As per Exim Policy (1997-2002), the exporter was entitled to export incentive claim under Duty Entitlement Pass Book (DEPB) Scheme. Accordingly, against export of iron and steel materials, the Company was obtaining DEPB licenses on post export cases from the Director General of Foreign Trade (DGFT), New Delhi. The DEPB issued by the DGFT was valid for a period of 12 months from the date of issue. The DEPB licenses thus obtained were utilised by the Company for import of coking coal and import of stores and spares for steel plants. On the review of DEPB Register of Branch Transport & Shipping Office (BTSO), Visakhapatnam of the Company for the year 2000-2001, it was observed that in respect of nine DEPB licenses, the Company failed to utilise the full duty credit value within the validity period. As a result, the duty credit amounting to Rs.49.52 lakh expired. Similarly DEPB Credit amounting to Rs. 6.56 lakh got expired during 2001–2002 in BTSO, Kolkata. This resulted in loss of Rs 56.08 lakh to the Company.

Management stated (May 2002) that as per guidelines issued by Export Licensing Group (ELG), the licenses were transferred to Bhilai Steel Plant, which were received back unutilised from them.

The fact remained that due to non-utilisation of full value of DEPB within the validity period, the Company suffered a loss of Rs. 56.08 lakh.

1.9.3 Loss of Rs 3.10 crore due to non-collection of bank guarantee against sales tax for sale of raw materials to tube makers

The Company suffered a loss of Rs. 3.10 crore due to non collection of Bank Guarantee from tube makers. Government of Tamil Nadu exempted (March 1986) sales tax on sale of raw materials to steel re-rolling mills in Tamil Nadu. This exemption was not allowed to tube makers, as they were not treated as re-rolling mill. Tube makers of Tamil Nadu took up the matter with the Madras High Court by way of a writ petitions and the Court issued directives (November 1986) directing the Company not to charge Sales Tax from tube makers subject to the condition of the tube makers furnishing bank guarantee (BG) to the extent of sales tax as and when sales took place.

As per the Court's order, the Branch initially collected BG from the tube makers but it was stopped after a month without any recorded reasons. Even the BGs received from the tube makers were allowed to expire by not initiating any action for revalidation.

Madras High Court while dismissing the Writ Petitions filed by the tube makers in November 2000 authorised the Company to encash the BG held by it. Accordingly, the Company encashed BG amounting to Rs.3.00 crore and deposited Rs.2.39 crore after adjustment of Sales Tax of Rs.60.98 lakh for the year 1991-92 already deposited with sales tax authorities. But the balance amount of tax liability (Rs.3.19 crore) was not deposited, as Bank Guarantees were not obtained from tube makers. On receipt (September 2002) of sales tax assessment order for the year 1992-93 disallowing exemption to tube makers the Company accounted for this as expenditure. The Management, however, could collect sales tax amounting to Rs.9.49 lakh only from two tube makers and remaining amount of Rs 3.10 crore remained unrealised.

1.10 Manpower Management

1.10.1 Manpower position

Manpower is one of the important items and constitutes a significant portion of the cost of production of steel. The following table indicates the manpower position of the Company during the last five years: -

(Figure in number)

As on 31 March	Executives	Non-executives	Total
1999	18249	156487	174736
2000	16995	142945	159940
2001	16775	139944	156719
2002	16003	131598	147601
2003	15078	122418	137496

Note: **In the absence of documents indicating sanctioned strength, comparison between actual and sanctioned strength could not be made.**

In view of the losses suffered by the Company, the Government of India, with a view to improve the financial health of the Company, approved a business and financial restructuring package in February 2000, which, inter alia, envisaged downsizing the manpower by introduction of Voluntary Retirement Scheme (VRS). To finance the VRS, Government extended guarantee and 50 per cent interest subsidy on the loan amounting to Rs. 1500 crore to be raised from the market. Due to adoption of VRS and slow recruitment of new entrants, manpower decreased from 1.75 lakh in 1998-99 to 1.37 lakh in 2002-03. Though manpower had decreased, the manpower cost had been increasing year after year as indicated below:

(Rupees in crore)

Year	Manpower cost	Expenditure	Percentage of manpower cost to expenditure
1998-99	2571	13459	19.10
1999-00	3011	14074	21.39
2000-01	3379	14953	22.59
2001-02	3615	15342	23.56
2002-03	4217	15027	28.06

Note: --Figure of Expenditure did not include depreciation and interest cost.

The increase in manpower cost is due to wage revision. The manpower cost in TISCO was 18.32 per cent of the total expenditure during 2002-03 as against 28.06 per cent in case of the Company. The Company itself had admitted in the Directors Report for 2002-03 to the shareholders that the Company had the highest wages to sales turnover ratio of 20 per cent compared to 3 to 12 per cent of other steel companies in India.

1.10.2 Labour Productivity

Labour productivity is an indicator of the efficiency and effectiveness of the deployment of manpower. It is indicated in terms of production of crude steel per employee per year. Labour productivity of the Company during last four years ending 31 March 2003 stood as below

(Crude steel in MT per man-year)

Plants	1999-00	2000-01	2001-02	2002-03
Bhilai Steel Plant	121	129	137	153
Bokaro Steel Plant	105	115	116	127
Durgapur Steel Plant	88	100	108	120
Rourkela Steel Plant	55	60	67	77

Among the main steel plants of the Company, labour productivity in RSP was very low at 55 to 77 MT. On the other hand, the labour productivity in TISCO, under private sector, was ranging from 179 MT in 1999-2000 to 218 MT in 2001-02.

1.11 Material Management

1.11.1 Raw materials

Raw materials constitute major portion of the cost of production. For steel production, the major items of raw materials are coal, iron ore, limestone, dolomite, etc. Annual consumption of raw materials in the Company is around Rs.6,000 crore. The Company had its own captive mines to meet their substantial requirement of iron ore and limestone but the dolomite is generally procured from the outside sources. A review on the working of the captive mines of the Company is incorporated as Chapter 2 of this Report. The requirement of coal is met through purchase from domestic coal companies (Coal India Limited and its subsidiaries) and import mainly from Australia.

1.11.2 Consumption of major raw materials

The expenditure on consumption of major raw materials during the last five years by the Company was as under:

(Quantity in lakh MT and amount in crore of rupees)

	1998-99		1999-00		2000-01		2001-02		2002-03	
	Qty	Amt.	Qty	Amt.	Qty	Amt.	Qty	Amt.	Qty	Amt.
Coal	115.86	3148	112.71	2930	113.85	3112	115.02	3473	118.07	3904
Iron ore	182.36	679	179.93	740	183.53	826	185.66	833	197.13	891
Lime-stone	31.74	312	32.20	322	31.07	314	31.66	323	29.79	341
Dolo-mite	21.31	105	21.13	104	23.77	127	23.05	123	24.16	135

1.11.3 Unnecessary procurement of iron ore fines at a cost of Rs.78 lakh

RSP procured 27709 MT of iron ore fines at a cost of Rs. 78 lakh during 1999-2000 from Shabro Intrade, New Delhi violating the tendering procedure as the party was not registered with RSP for issue of tender enquiry and tender paper was issued on request just one day before opening of tenders. Purchase was made on the ground that there would be shortfall in supply from the captive mines, which was hypothetical as production in the captive mines increased (from 31947 MT in June 1999 to 63871

MT in August 1999) by the time purchase order was issued (6 September 1999). Though SAIL Corporate Office advised (21 September 1999) to avoid purchase in view of huge fines available with the Company, yet purchase was made.

The Ministry accepted the contention of audit and instituted enquiry by Chief Vigilance Officer (CVO) of the Company. The CVO found that interest of the Company got compromised and suggested that in future, procurement of items available from captive mines be procured only after prior clearance from Corporate Office.

1.11.4 Stores and Spares

Stores and spares included mainly refractories, bearings, rolls, ingot mould & bottom plates, lubricants/oil and other consumables.

The consumption of store and spares is one of the major cost items for the steel manufacturing companies. During the last five years, the consumption of stores and spares as well as year end inventory holding in the Company were as under: -

(Rs in crore)

Year	Indigenous	Imported	Total	Year end inventory holding	
				Amount	No. of months consumption
1998-99	1663.99	154.87	1818.86	1359.00	8.97
1999-00	1574.43	157.49	1731.92	1112.43	7.70
2000-01	1500.48	149.51	1649.99	978.46	7.12
2001-02	1445.88	145.14	1591.02	965.02	7.28
2002-03	1554.11	180.24	1734.35	976.46	6.76

It had been observed that: -

(i) stores and spares valuing Rs.165.26 crore were non-moving (more than five years old)

(ii) stores and spares valuing Rs.90.51 crore were obsolete and surplus as on 31 March 2003.

(iii) the Company could only dispose off stores valuing Rs.3.85 crore during 2002-03.

Disposal of these stores was required to be taken up expeditiously to improve the profitability and liquidity position of the Company.

1.12 Conclusion

The Company suffered losses during all the five years ending 31 March 2003 due to higher interest burden on loans taken for modernisation of the plants/projects, higher rate of coke consumption, low blast furnace productivity, non deriving of benefits from the uncompleted works causing blockade of funds of Rs. 110.40 crore, allowing unsecured credits to customers resulting in non realisation of dues and high manpower cost.

1.13. Recommendations

(i) Steps to be taken up to increase the efficiency of the steel plants particularly in coke consumption and blast furnace productivity to be competitive with the international steel producers.

(ii) Uncompleted works be reviewed for either completion or disposal thereof to avoid further blockade of funds.

(iii) Manpower cost required to be reduced by taking suitable steps including introduction of VRS schemes etc.

(iv) Increase the internal control system to avoid undue favour to the customers, parties etc.

CHAPTER : 2
REVIEW ON CAPTIVE MINES OF SAIL

Highlights

Steel Authority of India Limited (Company) operated (March 2003) 13 captive mines with annual rated capacity of 230.12 lakh MT iron ore and 71.83 lakh MT limestone and dolomite to meet raw material requirement of its four integrated steel plants.

(Para 2.1)

As per the decision of the Government (November 1987) a separate wing namely Raw Material Division (RMD) started functioning in 1989 and the mines attached to Bokaro (BOSP), Rourkela (RSP) and Durgapur (DSP) Steel Plants were transferred to it in 1990. However, work relating to management of four mines attached to Bhilai Steel Plant, modernisation of Bolani mines attached to DSP and purchase of raw material from outside sources were not transferred to RMD.

(Para 2.3)

Steel Plants at Bokaro, Rourkela and Durgapur purchased 8.15 lakh MT of iron ore fines and 8.74 lakh MT iron ore lumps during 1992-96 and 1999-2003 from other sources at a total cost of Rs.56.11 crore due to shortfall in the production in RMD Mines.

(Para 2.4.1)

The productions of iron ore fines from Bhilai mines (Rajhara and Dalli) were substantially more than that of Bhilai Steel Plant's actual requirement due to involvement of private contractors resulting in accumulation of 67.43 lakh MT stock of fines at mines valuing Rs.100.88 crore.

(Para 2.4.1)

RMD purchased (1996-98) 17 equipment valuing Rs.24.07 crore for iron ore mines without reviewing the overall availability and requirement of the equipment.

(Para 2.4.2)

Non-installation of crushing plant at Kalta mines despite the availability of supporting equipment and manpower resulted in manual production of 86.97 lakh MT iron ore during 1992-93 to 2002-03 through private contractors at a cost of Rs. 177.07 crore.

(Para 2.4.3)

Award of modernisation work at Bolani involving a huge investment of Rs.130.38 crore without obtaining forest/environment clearance and without prior soil test/investigation, resulted in time overrun of 47 months and cost overrun of Rs.71.01 crore.

Iron ore lumps were raised manually during 1992-93 to 2002-03 at an avoidable expenditure of Rs.22.21 crore.

(Para 2.4.4)

Delay in commissioning (August 1998) of crushing plant at Kuteshwar mines by six years, despite procurement of mining equipment worth Rs.9.92 crore in advance (upto December 1992), resulted in manual raising of limestone through contractors during 1993-94 to 1998-99 at an avoidable expenditure of Rs.36.17 crore.

(Para 2.5.3)

By not taking into account the quality and specifications of limestone before making investment at Bhawanathpur limestone mines, the management incurred an infructuous investment of Rs.40.55 crore on plant and equipment, township, non-residential buildings, railway siding and other assets (including capital work-in-progress).

Since utilisation of 1st line of OPP commissioned in August 1979 at Bhawanathpur was low due to poor quality of limestone, installation of 2nd line in 1988 at a cost of Rs.23.39 crore was not justified.

Management considered (July 1991) shifting of crushing plant and manpower from Bhawanathpur. However, no action had been taken so far resulting in avoidable payment of idle salaries and wages of Rs. 89.13 crore.

(Para 2.5.4)

The modification of railway siding at Satna mines was completed in March 1998 at a total cost of Rs. 1.99 crore, but just after four months, production at Satna mines was stopped (August 1998) on the ground that the off-take by steel plants was on the lower side due to higher freight as compared to procurement from Purnapani mines. Finally the mine was closed in July 2000.

(Para 2.5.5)

Baraduar mine remained unutilized for 15 years due to industrial relations problem. Board approved closure/surrender of mine in July 2000. Further, due to delay in closure of mine, there was an extra expenditure of Rs.2.58 crore towards payment of idle wages to staff and other establishment expenses during 1992-93 to 1999-2000.

(Para 2.6.2)

Strategy of the Company was to meet the requirement of raw material from captive mine either by increasing capacity utilisation or by development of new mines. The Company incurred capital investment of Rs.445.98 crore during 1992-93 to 2002-03 for development of mines, but investments made for augmenting capacity of limestone and dolomite ores was almost negligible.

(Para 2.7.2)

Due to non-installation of suitable capacitor banks and improper maintenance of the existing capacitors, power factor in Barsua, Bolani, Kuteshwar and Rajhara mines was much below the prescribed level, resulting in an avoidable payment of surcharge of Rs.1.93 crore to State Electricity Boards during the period from 1991-92 to 2001-02

(Para 2.8.3)

2.1 Introduction

Steel Authority of India Limited (Company) has four integrated steel plants with an aggregate annual capacity to produce 124.73 lakh MT of hot metal. To achieve rated capacity of production of hot metal, it required 202.04 lakh MT of iron ore, 38.62 lakh MT of limestone and 25.04 lakh MT of dolomite annually.

The Company held (March 2003) seven iron ore, four limestone and two dolomite mines leased from the State Governments of Jharkhand, Orissa, Chattisgarh and Madhya Pradesh with installed capacity of 230.12 lakh MT of iron ore, 62.23 lakh MT of limestone and 9.60 lakh MT of dolomite per year as indicated below:

(Qty. in lakh MT)

Sl.No.	Name of Mine	Rated Capacity		Actual production during 2002-03	
	Iron Ore Mines	**Lumps**	**Fines**	**Lumps**	**Fines**
1.	Kiriburu	12.50	30.00	13.78	22.22
2.	Meghataburu	13.40	29.60	11.32	20.51
3.	Bolani	11.95	18.05	11.31	19.50
4.	Bursua	7.56	12.60	4.41	5.86
5.	Kalta	6.00	4.50	4.65	4.67
6.	Rajhara	21.87	13.13	10.29	13.52
7.	Dalli	25.39	23.57	22.42	17.55
Lime Stones Mines					
1.	Bhawanathpur		29.00		0.79
2.	Kuteshwar		10.03		7.38
3.	Purnapani		8.20		0.91
4.	Satna*		--		--
5.	Nandini		15.00		7.06
Dolomite Mines					
1.	Tulsidamar		4.00		2.15
2.	Hirri		5.60		6.85

** Closed with effect from September 1998.*

For operation management of these mines the Raw Material Division (RMD) was formed (August 1989) with the main objective of planning the mining operation, timely supply of raw materials to the steel plants in adequate quantity and exploration activities for future development of mines.

2.2 Scope of Audit

Expenses on raw materials viz. iron ore, limestone, dolomite, coking coal etc constitute nearly one-third of the annual expenditure of the Company. Accordingly, an in-depth study on the working of captive mines covering production performance, maintenance and development of mines under Raw Materials Division and under Bhilai Steel Plant for the period 1992-93 to 1996-97 was undertaken from April 1997 to February 1998. The review was subsequently discussed with the Management of the Company on 9 December 1999 and with the Ministry of Steel on 31 January 2001 respectively. The review has been further updated for the year up-to 2002-03.

2.3 Non-implementation of Government decision

RMD was formed to take up the operations of mines attached to all the steel plants of the Company as well as the purchase of raw materials from outside sources. It started functioning from August 1989 with its headquarters at Kolkata. The management of mines attached to Bokaro, Durgapur and Rourkela Steel Plants were transferred to it between February 1990 and May 1990.

During the course of audit, it was observed that:

- the mines that were under the control of Bhilai Steel Plant viz. Dalli, Rajhara, Nandini and Hirri continued to remain so inspite of Government's decision to transfer them to RMD by the end of March 1990. The decision though deferred till March 1993, remained unimplemented (March 2003)
- the purchase of raw material from outside sources continued to be made by the respective steel plants
- project of setting up of crushing and screening plant at Kuteshwar commenced five years after the procurement of necessary mining equipment. (para 5.3).
- mechanisation of Kalta mines was kept in abeyance due to lack of infrastructural facilities like railway linkage, provision for water source etc. However, manual production through contractor at much higher cost continued during the period under review (para 4.3).
- production of limestone from captive mines under the control of RMD, declined drastically resulting in substantial purchase from outside sources (para 5.1).

Thus, the objective behind the formation of a separate Raw Material Division under a Board level Director was not achieved. Nor could self-sufficiency and economy be achieved in the raw material supply system.

Management replied (December 1999) that the stated decision had been put off because of labour problems and geographic situation of the mines. It also stated that the earlier decision to constitute RMD was not a sound decision. Ministry stated (November 2000) that reviewing certain decisions because of strategic reasons can not be construed as non-implementation of Government decision.

The contention of the Management/Ministry is not acceptable. The decision to form RMD and to entrust it with the composite responsibility of supplying raw materials to the steel plants through operation of captive mines and by purchasing ores from outside, was taken by the Government after due consideration of recommendations made by Public Investment Board and was in keeping with the practice being followed by steel plants in leading countries like USA, USSR, Australia etc. The production from mines and purchases from outside were inter-linked issues. Leaving the latter outside the scope of RMD created a situation of dissonance between RMD and the purchase organisation.

In the Audit Board meeting with the Ministry (January 2001), the Chairman, Audit Board desired to know whether setting up of RMD was a Cabinet decision, and whether the matter was referred back to the Government at any stage.

On this, the Secretary (Steel) stated that it couldn't be denied that it was a Government decision and the Company should have gone back to the competent authority, as the decision had not been implemented. In the opinion of audit, which is similar to the opinion of the Secretary (Steel), approval of the Government should have been obtained for not implementing any part of the decision.

The Chairman, SAIL stated that in view of the business restructuring approved by the Government of India, the mines would be directly linked with each integrated steel plant based on geographical location of mines and there was no need for a separate Raw Materials Division. The Heads of mines would report to the respective plant heads. It was observed that the restructuring proposed for implementation with effect from 1 April 2001 had not been implemented so far (March 2003).

The Company further added (March 2001) that procurement of raw material was not entrusted to RMD mainly because they were not equipped to tackle the entire raw materials procurement due to lack of infrastructure facilities.

2.4 Operation and Development of Iron Ore Mines

Operation in mines comprises of (i) raising of run of mine (ROM) through deployment of mining equipment; and (ii) production of lump and fines (breaking of ore into required sizes) from ROM so raised either through Ore Processing Plant (OPP) or manually through contract labour. The mines having OPP are called mechanised mines. All the iron ore mines in operation under the Company are mechanised mines except Kalta (manual mine).

2.4.1 Capacity utilisation

The average actual production of lump and fines from the seven iron ore mines under the Company for the years 1998-99 to 2002-03 was 75 per cent and 78 per cent of the capacity.

It had been observed that:

- the rated capacity of iron ore mines was 230.12 lakh MT per annum in 2002-03, whereas the maximum level of iron ore that can be consumed by the Company steel plants based on the capacity of the blast furnaces was 202.04 lakh MT in 2002-03. Thus, the capacity of captive iron ore mines was in excess of the maximum consumption by 28.08 lakh MT.

- the actual average production of iron ore mines during 1992-93 to 2002-03 was 74.93 lakh MT representing 75 per cent of the rated capacity for iron ore lump and 102.63 lakh MT representing 78 per cent for iron ore fines. The shortfall in production was attributed by the Management (December 1998) to low availability of plant and equipment, power problems, restriction of mining area in Bolani and difficulty in off take by steel plants from Kiriburu etc.

During the period 1992-93 to 1995-96 and again during 1999-2000 to 2002-03 the steel plants at Bokaro, Rourkela and Durgapur had purchased from outside, 8.74 lakh MT iron ore lump and 8.15 lakh MT iron ore fines at a total cost of Rs. 56.11 crore. The entire purchase involving extra expenditure and resultant loss of Rs. 20.79 crore could have been avoided had the production been met from the captive mines where sufficient capacity was available.

Management stated (December 1999) that purchase was made when there was no proper linkage. Ministry stated (November 2000) that procurement of iron ore from outside sources had reduced considerably and on overall basis, the percentage of purchase of iron ore from outside sources was low compared to its total consumption. The fact, however, remained that the purchases from outside sources could have been avoided by producing the iron ore from their own captive mines.

- Production from Kalta mines during 1992-93 to 2002-03 exceeded the target by 15.09 lakh MT, although Kalta being manual mine, the cost of production was abnormally high. The management had to make avoidable payment of Rs. 33.00 crore to private contractors due to excess production above target. Ministry stated (November 2000) that since Kalta is a manual mine, the target was kept low by intent. The intention of the management is to taper off production from Kalta till beneficiation facilities are improved at Barsua.

- The actual production in Rajhara and Dalli mines of Bhilai Steel Plant (BSP) exceeded the rated capacity during the year 1992-93 to 2002-03 by producing on an average 97.4 per cent (85.5 per cent for lump and 112 per cent for fines) of the capacity. Such high level of production was, however, attributable to involvement of contractors through whose labour 187.93 lakh MT of iron ore boulders were manually raised and processed into lump and fines in the Ore Processing Plant. As a result huge stock of iron ore fines got accumulated at mines during 1992-93 to 2002-03, which was 67.43 lakh MT valued at Rs.100.88 crore as on 31 March 2003.

In the Audit Board Meeting (December 1999), the Management accepted the fact and stated that they were taking necessary steps to reduce the involvement of contractors in the working of mines and the accumulated stock would be utilised within 4/5 years after commissioning of sintering plant III, which was actually commissioned in October 2001.

The fact, however, remained that the excess production due to involvement of contractor resulted in undue favour to the contractor, besides resulting in accumulation of stock.

2.4.2 Low utilisation of plant/equipment

The actual utilisation of plant/equipment in various mines for the years 1992-93 to 2002-03 were lower than the norms fixed by the Uniform Norms Committee (October 1988).

(Percentage utilisation)

	Norms	KIOM	MIOM	BOM	BIM	KIM
Drills	49	23 to 38	17 to 31	20 to 34	15 to 26	19 to 36
Dumpers	52	24 to 65	30 to 46	30 to 47	25 to 50	22 to 42
Shovels	45	21 to 37	06 to 41	17 to 44	18 to 30	26 to 32
OPP	72	35 to 68	46 to 64	54 to 61	40 to 62	No OPP

On being pointed out by Chairman Audit Board in the Audit Board meeting (January 2001) for poor performance of equipment, the Secretary (Steel) agreed that utilisation of plant and equipment could not be convincingly explained and the position needed to be reviewed.

Ministry stated (November 2000) that each mine had different make and capacity of equipment. The adverse age–mix of these items of equipment also contributed to low utilisation of equipment.

The reply is not convincing, as these aspects should be considered at the time of fixing of norm.

During 1996-97 and 1997-98, RMD purchased 17 items of equipment valuing Rs. 24.07 crore for iron ore mines without reviewing the overall availability and requirement of equipment.

The purchase of equipment could have been avoided by increasing utilisation of existing equipment in respective mines.

Management stated (December 1999) that during the period, average production through all the equipment was low because of higher number of old equipment and most of the new equipment were purchased to replace the old equipment. The contention of the management is not convincing, as actual equipment held in the mines was already more than requirement as per relevant DPR. Further, despite procurement of six items of equipment (value Rs. 9.61 crore) at Barsua for augmentation of the production, the actual production of ROM declined.

2.4.3 Kalta Mines

For production of iron ore, three drills, three dozers, five dumpers and two excavators/loaders valuing Rs. 3.50 crore were available at Kalta. However, only seven items were actually utilised during 1992-93 to 1996-97 for production purposes and the remaining equipments were lying idle. Thus, the actual utilisation of equipments was only 15 per cent (actual utilization 0.402 lakh hours against availability of 2.73 lakh hours). During 1998-99 to 2002-03, there was no departmental production and all the equipment remained idle as the entire ore was produced by private contractors.

Ministry stated (November 2000) that equipment and manpower were positioned for activities like development work, over burden removal, and other organisational functions. It was also stated that balance six items of equipment was procured in the eighties and all have crossed their economic life. The reply is not acceptable as utilisation of equipment was only 15 per cent against availability. This indicates that equipment were positioned for overburden removal as well as for departmental production. Further, there was no utilisation after 1998-99.

It had also been noticed that despite availability of supporting equipment and manpower, the crushing and screening plant was not installed. This necessitated production of 86.97 lakh MT of iron ore manually through the private contractors during 1992-93 to 2002-03 at a cost of Rs. 177.07 crore which was avoidable.

Ministry stated (November 2000) that for this scale of operation, putting up of crushing and screening plant is not techno-economically viable. The contention of the Ministry is not convincing as the Company has a crushing and screening plant at Bursua where production of iron ore was lower than that at Kalta during last two years.

It was also observed that RSP purchased 0.25 lakh MT of iron ore lump during 1999-2000 from a private supplier of Barsua area at basic price of Rs. 195.52 per MT, which was much lower than actual cost of production of Rs. 346 per MT (1999-2000) at Kalta manual mine and even lower than contract payment of Rs. 247 per MT paid to the contractor at Kalta.

In the Audit Board meeting (December 1999) the Management stated that they proposed to eventually close down Kalta mine because of lack of infrastructure facilities like railway linkage, provision for water source as well as due to problems relating to contractual labour. Contrary to this intention of the Management, the manual production through private contractor at Kalta was on the increase.

2.4.4 Modernisation of Bolani Mine

The Company approved (February 1989) a scheme for augmenting capacity of Bolani Iron Ore Mine from 22 lakh MT to 34.40 lakh MT run of mined ore (ROM) per year at a cost of Rs. 59.37 crore. The work (excluding tailing dam and slime pipeline) was completed through Hindustan Steelworks Construction Limited (HSCL) in February 1996. Though the final cost of the work was yet to be computed (March 2003), payments amounting to Rs. 130.38 crore had already been made to HSCL.

It had been observed that:

- The construction work was started without obtaining forest and environment clearance. Forest clearance for the crushing plant was obtained in July 1991. Forest clearance for additional mining area had not been obtained so far (March

2003) due to which the expenditure incurred on additional mining area proved infructuous.

- The delay of 47 months in partially completing the work was due to variation between soil and survey report as furnished in the tender documents and as per survey and test carried out at the post award stage. This resulted in redesigning of bunker and other critical items etc. and overall increase in volume of work.

- The delay in completion of work even partially and increase in volume/scope of work resulted in cost overrun of Rs. 71.01 crore.

- Due to delay in completion of modernisation scheme and shortfall in production even after modernisation, the Company raised 21.79 lakh MT iron ore lump manually through contractors at an extra expenditure of Rs. 22.21 crore during the period from April 1992 to January 2002.

- The work of tailing dam No.1 could not be started, as the forest clearance for tailing dam was not obtained (March 2003).

Ministry stated (November 2000) that environment and forest clearance for crushing plant area was obtained in July 1991. For tailing dam area, final clearance was still awaited (March 2003).

2.5 *Operation and Development of Limestone Mines*

2.5.1 *Low Capacity Utilisation*

Limestone mines at Bhawanathpur, Purnapani, Satna (closed from September 1998) under the control of RMD and Nandini under BSP were mechanised while Kuteshwar mine under the control of RMD was partly mechanised. The aggregate rated capacity of three limestone mines under RMD and one mine under BSP is 62.23 lakh MT comprising 52.20 lakh MT Blast Furnace (BF) grade (Bhawanathpur, Purnapani & Nandini) and 10.03 lakh MT Steel Melting Shop (SMS) grade (Kuteshwar).

It had been observed in audit that

- production target of RMD mines had been reduced gradually from 21.56 lakh MT in 1992-93 to 8.55 lakh MT in 2002-03. The actual production in RMD mines also decreased gradually from 14 lakh MT per annum (1992-93) to 8.29 lakh MT in 2001-02 and 9.08 lakh MT in 2002-03. The mines could not meet even the reduced production target since 1992-93 except during 2002-03.

Ministry attributed fixation of lower target and lower production to large scale use/recycle of the slag in iron making process. The reply is not tenable as the problem could have been resolved by taking necessary action.

- during 1992-93 to 2002-03, 148.10 lakh MT limestone was procured from outside sources. This included 5.39 lakh MT of BF grade and 142.71 lakh MT SMS grade valuing Rs. 30.11 crore and Rs.1671.52 crore respectively

Management attributed (December 1998) shortfall in production to poor off-take from the mines owing to change in quality and specifications by the steel plants. Shortfall was also attributed to failure of equipment and deployment of old earthmovers. The

Management's reply is not tenable as the steel plants, without carrying out any techno-economic study, changed specifications of limestone. Moreover, the change of specification, which restricted production from Bhawanathpur, Purnapani and Satna to a very low level and virtually resulting into their closure, did not have the approval of Board of Directors.

2.5.2 Poor utilisation of plant and equipment

The actual utilisation of plant and equipment in the flux[1] mines during the period 1992-93 to 2002-03 ranged between Nil to 53 per cent of available capacity.

It had been observed that:

- the utilisation of crushing and screening plant during 1992-93 to 2002-03 at Purnapani mine under RMD ranged between 24 and 39 per cent of the available capacity against the norms of 72 per cent.

- during the same period, the utilisation of crushing plant at Bhawanathpur mine under RMD was still worse and ranged between three per cent and 12 per cent. The utilisation of Crushing Plant at Bhawanathpur during 1999-00 to 2002-03 was Nil.

- the net utilisation of drilling, excavation and transportation equipment during 1992-93 to 2002-03 ranged between 10 and 35 per cent at Nandini, 16 to 49 per cent at Purnapani and just 1 to 21 per cent at Bhawanathpur. At Kuteshwar mine under RMD, dumpers and excavators were utilised for 6 to 39 per cent and 5 to 32 per cent during 1993-94 to 2002-03 against the norms of 52 and 42 per cent. The utilisation of new Crushing and Screening Plant at Kuteshwar during 2001-02 and 2002-03 was 22 to 53 per cent only.

Ministry stated (November 2000) that the net utilisation of equipment for drilling, excavation and transport were sufficient to meet the production requirements. The reply indicates that mines were having equipment more than their actual requirement. With the reduction in production of limestone due to technological change, the fleet of equipment should have been reduced and either shifted to other mines or disposed off, however, this was not done.

2.5.3 Kuteshwar Mines

Kuteshwar mines had a proven reserve of 151.43 million MT of SMS grade limestone. By December 1992, the mine was equipped with 14 drills, 18 dumpers, five dozers, five excavator/front end loaders, one crane and one water sprinkler valuing Rs. 9.92 crore. The work of installation of a 200 MT per hour (five lakh MT per annum) crushing and screening plant was awarded (April 1997) to M/s Fenner India Limited on a turnkey basis at a cost of Rs. 5.67 crore. The work was completed in August 1998 against scheduled completion date of November 1997.

Thus equipment worth Rs. 9.92 crore was procured upto December 1992 but the crushing and screening plant was commissioned only in August 1998. This resulted in gross underutilisation of the equipment for nearly six years. Besides due to non-installation of crushing plant, there was no departmental production and all the

[1] *Flux refers to limestone and dolomite, which are used in the steel making process.*

production was done manually through private contractors at an extra expenditure of Rs. 36.17 crore.

Management replied (December 1998 and 1999) that the delay in commissioning of crushing and screening plant was due to unprecedented rains, delay in approval of drawings by Centre for Engineering & Technology etc. Management's contention is not tenable as the work of installation of crushing and screening plant was awarded only in 1997 i.e. five years after the equipment was purchased

2.5.4 Bhawanathpur Mines

Bhawanathpur mining area had a proven reserve of 97 million MT BF grade limestone. Two independent lines of crushing and screening plants with a capacity of 14.50 lakh MT each were commissioned in August 1979 and May 1988 at a total cost of Rs. 37.02 crore. The mine was also having equipment valuing Rs. 3.43 crore and manpower strength of 14 executives (47 in March 1997) and 421 non-executives (1132 in March 1997) as on 31 March 2003.

It had been observed that :

- There was no production from the mechanised system during 1999-2000 to 2002-03.

- the production of additional 12.49 lakh MT limestone which could have been produced departmentally was made manually through private contractors during 1992-93 to 2002-03 keeping the departmental plants and labour idle. This resulted in avoidable extra payment of Rs. 23.27 crore to the private contractors.

- the low production was attributed by the Management (December 1998) to poor off take by steel plants due to the poor quality of limestone available in Bhawanathpur mines having high hardness and high alkali content. Thus by not taking into account the quality and specifications of limestone available in the mines before making the investment, Management incurred an infructuous investment of Rs. 40.55 crore on plant and equipment, township, non-residential buildings, railway siding and other assets (including capital work-in-progress),

- utilisation of Ist line of OPP commissioned in August 1979 was abnormally low due to poor quality of limestone, installing 2nd line in 1988 at a cost of Rs. 23.39 crore was not justified.

- Management considered (July 1991) shifting of the two lines of crushing plants to other mines such as Kuteshwar, Baraduar, or Bhilai mines. However, no action was taken for shifting the crushing plants from Bhawanathpur or to dispose them off so far (March 2003). This resulted in avoidable payment of idle salaries and wages amounting to Rs. 89.13 crore for the period 1992-93 to 2002-03.

Ministry stated (November 2000) that crushers at Bhawanathpur became idle assets, as cost of shifting it to Kuteshwar was not favourable.

Management stated (March 2001) that the justification for installing the 2nd line was based on meeting the total requirement of BF grade limestone for Bokaro and Durgapur Steel Plants as per the prevailing quality specifications. Subsequently, the quality specifications had undergone drastic change for all steel plants.

The contention is not acceptable as maximum off-take by Bokaro Steel Plant was only around 50 per cent of the capacity of 1st line. Though, DSP was already in existence there was no off-take for it. Hence, installation of 2nd line was not at all justified. A proposal for closure of Bhawanathpur limestone mines was put up to Board of Directors for consideration on 29 January 2002 but no decision had yet been taken (March 2003).

2.5.5 Satna Mines

Satna mechanised mines were started (1961) for supply of limestone to Rourkela and Durgapur Steel Plants. The mine was mechanised for rated capacity of 4.20 lakh MT ROM (3.15 lakh MT limestone) per annum at a total investment of Rs. 9.49 crore in March 1995. The manpower consisted of 19 executives and 377 non-executives. The production from Satna mine was suddenly stopped in August 1998 though barely 15 per cent of the leased mining area had been touched for mining purposes.

Ministry stated (November 2000) that the crushing and screening plant at Satna was commissioned in March 1995 along with modernisation of Rourkela Steel Plant. The limestone available in the lower formation is of cement grade with average silica content of 8.94 per cent. As production of cement grade limestone at a high cost of production was uneconomical, Board of Directors approved the proposal for closure of the mines in July, 2000.

Contention of the Ministry lacks justification as the decision for installing crushing and screening plant at Satna was approved just 3 years before closure of the mines. It was also observed that the production was stopped from August 1998 by local management 2 years prior to the approval of the Board. It would thus appear that due to lack of proper work of prospecting of the mining area, faulty preparation of Detailed Project Report, etc, Satna mine was closed within three years of its commissioning, as required quality of limestone was not available. Thus, an investment of Rs. 9.49 crore had become infructuous.

It had also been observed that at Satna Mines, modification of the railway siding was sanctioned (July 1996) at an estimated cost of Rs. 1.36 crore. The work was completed in March 1998 at a total cost of Rs. 1.99 crore.

Just after four months of completion of railway siding, the management stopped production from the mine in September 1998. Finally, the mine was closed in July 2000 on the ground that the limestone in deeper zone was of very low quality. Thus, the modification of railway siding and investment of Rs.1.99 crore thereon became infructuous.

Management stated (December 1999) that the modification of railway siding was done as a safety measure as insisted upon by the Railways. The reply is not tenable because in absence of any production from the mine the question of safety would not have arisen. Thus there was really no need for modification of the Railway siding as a safety measure.

2.6 Production and Development of Dolomite Mines

2.6.1 Low capacity utilisation

Rated capacity of Hirri and & Tulsidamar dolomite mines as on 31 March 2003 was 9.60 lakh MT (excluding Baraduar mines not in operation since 1983) whereas requirement of various steel plants was 25.04 lakh MT. The captive mines were thus capable of meeting only one third of its requirement. Both the captive mines were manual and production was made through private contractors.

It had been observed in audit that the average production from Hirri dolomite mines under BSP during 1992-93 to 1994-95 was only 16 per cent of the rated capacity. During 1995-96 to 2002-03, the average production, however, increased to 76.5 per cent of the rated capacity due to semi- mechanisation of the production process.

Management stated (December 1999) that reasons for low utilisation of capacity was reduction of manpower due to introduction of VRS. The Ministry further stated (November 2000) that the rated capacity of 5.6 lakh MT per year was based on the strength of 2564 DPR (daily piece rate) workmen. The strength was reduced to 459 in 1992-93 and 350 in 1994-95.

The reply is not convincing. When large scale reduction in workmen was made, the mines should have gone for semi-mechanised contract system from 1992-93 itself. With semi-mechanised system and 231 DPR workmen, actual production during 2000-01, 2001-02 and 2002-03 was 5.71 lakh MT, 6.33 lakh MT, and 6.85 lakh MT respectively. Hence, the delay in introducing the semi-mechanised system resulted in less production of Dolomite during these years, which necessitated purchase of Dolomite from outside sources.

As the demand for dolomite was 250 per cent of the rated capacity and no new captive source was developed. steel plants had to procure 171.12 lakh MT of dolomite from outside sources at total cost of Rs. 756.90 crore during 1992-93 to 2002-03.

Purchases from outside could have been avoided had the existing mines been utilised to the rated capacity and production from Baraduar continued and developed as per plan as discussed below

2.6.2 Non-production from Baraduar mines

Baraduar mines had a reserve of 75 million MT of SMS grade dolomite. Rourkela Steel Plant, in December 1970, obtained mining lease over an area of 523.35 hectare for a period of 20 years. Manual production in Baraduar mines was started through contractors during 1972-73 and continued till June 1983 when the mining operation was stopped due to labour unrest.

No efforts were made to resume the production. Request made by the Company (January 1993) for extension of the lease was rejected by the State Government on the ground that the mines had not been operated since June 1983. On being challenged by the Company in the Mining Tribunal, the order was set aside (March 1996). The Tribunal asked the State Government to reconsider the case for extension of lease to the Company. The decision of the State Government had not been communicated to the Company so far (March 2003).

National Mineral Development Corporation Limited (NMDC) prepared a report (January 1997), which indicated that Baraduar mines had the potential of meeting completely the requirement of dolomite by the Company steel plants. The report had suggested reopening of mines with mechanisation at an investment of Rs. 71.80 crore for an output of 15 lakh MT per annum. The pay back period of the project was 3-4 years. A few interesting points noticed in audit are given below.

- Mine remained out of operation since 1983 due to labour unrest. The situation did not change even though labour union had expressed willingness (1993) to co-operate with the management unconditionally provided the mine was restarted. In that case, with the mechanised operations, purchase of 165 lakh MT dolomite by steel plants from outside sources during 1992-93 to 2002-03 at an extra expenditure of Rs. 177.73 crore could have been avoided. The Board, however, approved (July 2000) closure/surrender of the mine.

- The Company incurred an expenditure of Rs.2.58 crore during the closure of the mine (1992-93 to 1999-2000) towards payment of idle wages, rents for commercial plots, office buildings and surface/dead rent etc. without any return.

- An officer of the Company gave permission (June 1993) to a private party (M/s Prakash Industries) for utilization of Company's railway siding for one year without the approval of the Board. The private party extended the siding through deposit work by railway and encroached 1.5 acre of land adjacent to siding leased to the Company. The party was utilising the siding/land without any payment/permission of the Company for the last 7 - 8 years.

- South Eastern Railway issued a notice to the Company (October 1997) terminating the license for using nine commercial plots for stacking and loading of dolomite due to failure of the Company in offering traffic.

- Land leased to the Company at Baraduar was being unauthorisedly cultivated on a massive scale by the employees of the Company as well as others. They have also built up hutments. Forest department have taken up tree plantation over 50-60 acres land under social forestry scheme and the magazine house is used as office / residence for their guards.

The Chairman, SAIL stated (January 2001) that the decision to close Baraduar mines was taken in view of labour problem as well as the fact that it was not economically prudent to continue production there. The fact, however, remained that the mine was kept closed for 17 long years without resolution of the labour dispute and steel plants continued to buy entire quantity of dolomite from private parties operating from the same area.

2.7 Corporate Plan and Performance

2.7.1 'Strategy' and 'Plan Outlay' for mines

The Corporate plan 2005, prepared by the Company (February 1992), identified the targets and strategies to be followed by the Company during VIIIth and IXth Five Year Plan. The important strategies were:

- to meet the increase in iron ore requirement from 18 million MT in 1991 to 33 million MT by 2004-05 through better capacity utilisation of existing mines, development of Rowghat and Chiria mines and modification of Dalli and Bolani mines,
- to moderate the demand for limestone so as to meet 50 per cent requirement from existing captive mines and balance 50 per cent from development of Kuteshwar mine for a capacity of 3 million MT by 2004-05,
- to develop Arki (low silica) limestone mine in association with NMDC for production of 1 million MT by 2001-02 and 1.3 million MT by 2004-05,
- to develop Hasaldag (Palamau) mine for dolomite production to achieve 3.7 million MT mark by 2004-05, and
- the approved 9th plan outlay inter-alia provides for modernisation of Kalta , Satna & Kuteshwar mines , development of Baraduar mine and modification of railway siding at Bolani & Kuteshwar at an estimated cost of Rs.132.60 crore

Thus, the long term strategy of the Company was to meet the requirement of raw material from their captive mines either by increasing its capacity utilisation or by development of new mines. However, no scheme for development of Chiria, Kuteshwar, Arki and Hasaldag mines has been initiated so far (March 2003).

- Rowghat Project was sanctioned (February 1996) at the cost of Rs.12 crore but actual expenditure upto March 2003 was only Rs.1.42 crore towards cost of DPR preparation, ecological study, consultancy fee and enabling work etc. There was no expenditure during 2002-03. Forest clearance for carrying out exploration and prospecting work was obtained only in November 1998.
- Satna mine was closed; lease area of Baraduar mine was surrendered; and development of railway siding at Kuteshwar was kept in abeyance.

2.7.2 Plan outlay

The following table summarises plan outlay for RMD & BSP mines and actual expenditure there against for the VIII plan (1992-93 to 1996-97) and IX plan (1997-98 to 2001-02) and annual plan of 2002-03.

(Rs. in crore)

Sl. No	Name of the scheme	Plan outlay	Actual expenditure
(i)	Mines		
	I. 8th Plan outlay	256.03	154.30
	II. 9th Plan outlay	742.38	57.71
	III.Modernisation of Bolani (included in the outlay of DSP)	105.23	130.38
	IV. Annual Plan 2002-03	15.00	7.15
(ii)	**Bhilai Mines (8th & 9th Plan)**	96.86*	96.44
	Total	**1215.50**	**445.98**

* *This does not include plan outlay for schemes below Rs.2 crore included in the outlay of Bhilai Steel Plant*

An examination of plan outlay and expenditure there against revealed that:

- There was no expenditure against Rs. 251 crore provided in the 9th Plan outlay towards expansion of Barsua, Kalta, Chiria, Bolani, and flux mines of Ghatitanagar, Satna, Kuteshwar, Baraduar etc,

- the Company incurred capital expenditure of Rs.445.98 crore in captive mines during 1992-93 to 2002-03, but investment for expansion/development of flux (limestone and dolomite) mines was negligible i.e. Rs. 8.95 crore {Rs.5.75 crore for crushing plant at Kuteshwar; Rs.2.00 crore for railway siding at Satna and Rs.1.20 crore for diversion of road at Tulsidamar}.

Contention of the Ministry (November 2000) that investment had been made for limestone and dolomite mines as per the techno-economic requirement of steel plants, is not convincing. The corporate plan envisaged for supply of major flux materials from captive source. But in-practice, Satna & Bhawanathpur mines were closed and Arki & Baraduar were surrendered. No alternate mine for flux materials was opened during 12 years tenure of RMD. Thus, the Company is leading towards total dependence on outside sources for these materials, a clear deviation from approved corporate plan.

In the Audit Board Meeting, the Secretary (Steel) stated (January 2001) that there was not much deviation from the objective of dependence upon captive mines. However, the change in specification of limestone required by the steel plants necessitated purchases from outside.

2.8 *Cost Control System*

2.8.1 Uneconomical production from Tulsidamar dolomite mine

The total cost of dolomite purchased by Bokaro Steel Plant during 1996-97 to 2002-03 was cheaper than the variable cost of production plus railway freight from Tulsidamar to Bokaro. There was steady increasing trend in rate difference from Rs. 17.14 per MT in 1996-97 to Rs.183 per MT in 2002-03. If the production from Tulsidamar had been stopped from 1996-97 and requirement purchased for 18.03 lakh MT of dolomite from outside, there would have been a saving of Rs.19.67 crore. The Management has not analysed the relative cost of production vis-à-vis purchase.

Ministry stated (November 2000) that it is difficult to stop production due to labour unrest. The market force may come into action and market price may increase disproportionately if production in captive mine is stopped. The contention of the Ministry is contradictory as the local management decided to stop production at Satna on the ground of higher cost of production. But under similar circumstances, management had taken different stand for Tulsidamar and thus there was no uniformity in the decision. Further, a proposal for closure of Tulsidamar Dolomite Mines was put up to Board of Directors for consideration on 29 January 2002 but no decision had been taken (March 2003).

2.8.2 High cost due to manual production

RMD was formed in view of high cost of production due to high level of manual operations and very low equipment utilisation in the captive mines of the Company. After it came into existence RMD did not take any concrete steps to discontinue manual operations either by improving the utilisation of existing equipment and plants or by installing new crushing plants.

RMD had invested huge amount on mechanisation of Kuteshwar, Bhawanathpur, Purnapani and Satna limestone mines. Even after incurring this expenditure, production was undertaken in these mines manually and through contractors. The actual payment made to the contractors for manual production in these mines during 1992-93 to 2002-03 was Rs. 190.41 crore which could have been saved to a large extent if mechanised production was made.

Ministry stated (November 2000) that manual operation in flux mines cannot be avoided due to nature of deposits, on account of which selective mining is done by engaging contract labour and also due to socio-political reasons.

Contention of Ministry is not tenable as no serious effort was made even to minimise contract expenses through a joint operation under which boulders could be raised manually and sized in the departmental crushing plant.

2.8.3 Avoidable payment on purchase of electricity

The contract demand of 1450 KVA for the township of Rajhara mines was increased to 2400 KVA (September 1994). However, the consumption of electricity during October 1994 to March 2002 was more than the increased contract demand resulting in payment of penal charges amounting to Rs. 1.47 crore. This could have been avoided by increasing the contract demand suitably after making proper assessment. Further due to non maintenance of power factor at prescribed level, surcharge amounting to Rs.1.93 crore was paid by Barsua, Kuteshwar, Rajhara & Bolani mines to respective Electricity Boards during the period 1991-92 to 2001-02. The payment of power factor surcharge could have been avoided by installing power capacitor banks and their proper and timely maintenance.

The Management stated (December 1998) that power factor remained low due to breakdown of capacitor banks at Barsua. However, reasons for payment of maximum demand charges and penalty for exceeding contract demand and shortfall in power factor at other places were not furnished.

2.9 Conclusions

- RMD was formed to take up the operation of all the mines of the Company but the mines under the control of Bhilai Steel Plant were not transferred so far. The purchase of iron ore from outside sources were kept outside the scope of RMD

- Production from the mines were less than the rated capacity resulting in procurement from outside sources.

- In some of mines the production was arranged through private contractors instead of executing through departmental sources.

2.10 Recommendations

- SWOT analysis should be done for different activities viz. mining, purchase of raw materials, purchase of flux, purchase of plant and machinery and modernisation to find out whether centralization or decentralization of these activities would be better considering the cost benefit analysis. The decision taken after these analysis should be implemented in a phased manner and proper delegation of power should be laid down.

- The Company should prepare a long term plan for consumption of flux materials so that better flux may be purchased from suppliers only when it is beneficial. The cost benefit analysis should also ensure that it also takes into consideration the Company's own mines becoming redundant.

- Technology should be developed to make use of the raw materials from captive sources.

- Manual production through contractual system should be avoided particularly where departmental crushing and screening facilities are available. Contractual system should be resorted to only in exceptional circumstances, where it is economical.

- In case departmental mining operation is not found economical and respective raw materials can be obtained at cheaper rates from outside sources, the production should be discontinued after proper study and idle/surplus men-power, plant & equipment and other resources should be transferred to other mines for their gainful utilisation.

CHAPTER 3
MAJOR FINDINGS OF TRANSACTION AUDIT

3.1 Non-realisation of Rs. 14.55 crore from private parties

Increasing/extending the limit of unsecured credit to two private parties without verifying their credit worthiness resulted in non realisation of dues of Rs. 14.55 crore by the Company.

In case of two private parties the Company extended/increased the limit of credit without verifying their creditworthiness and evaluation by Credit Rating and Monitoring cell, which resulted in non-payment of dues of Rs 14.55 crore by them.

The Central Marketing Organisation of the Company from time to time signed Memorandum of Understandings (MOU) with the customers for sale of steel products of a fixed quantity during a particular period. Credit both secured and unsecured was allowed on the basis of creditworthiness of the parties. For sanction of credit limit, Credit Rating and Monitoring Cell of the Company was to evaluate the creditworthiness of the customers.

A test check of the records had revealed the following points:

1. In case of Branch Sales Office, Indore, M/s Steel Tubes of India Limited (STIL) was enjoying unsecured credit limit of Rs. 10 crore till December 1998 as per MOU of 25 March 1998. The limit was increased (7 January 1999) to Rs 14 crore till January 1999 by Director (Commercial) without getting it evaluated from Credit Rating and Monitoring cell. It was further extended upto 10 February 1999 on the promise of STIL to make payment of Rs. 4 crore by that date. Against the credit limit, material worth Rs 14.47 crore was lifted by STIL. STIL failed to make payment by extended period. Post dated cheques valuing Rs 13.12 crore finally deposited with the Bank on 27 March 2000 were returned by the Bank on account of insufficient funds.

   The Branch could adjust/realise only a sum of Rs 1.82 crore during 1999-2000 leaving a balance amount of Rs 12.65 crore unrealised as on 31 March 2000. For realisation of the dues, Company filed winding up petition before Madhya Pradesh High Court.

2. Similarly the Branch Sales Offices, Kolkata and Bangalore extended (May-December 1999) unsecured credit to M/s Guest Keen Williams Limited ignoring the recommendations of the Credit Rating and Monitoring Cell. This resulted in non realisation of dues of Rs 1.90 crore. To recover this amount, the Company had filed (June 2002) civil suit in the High Court of Kolkata.

Ministry stated (January 2003) that in a commercial organisation like SAIL where the turn over is more than Rs 16000 crore certain minor aberrations may take place on account of market forces.

The reply is irrelevant and not tenable as allowing unsecured credit and increasing the credit limit without evaluating the credit worthiness of the customer cannot be treated as a minor aberration. Rather it is a serious system lapse, which resulted in non realisation of dues of Rs 14.55 crore.

3.2 Loss of Rs. 7.93 crore due to non-maintenance of schedule for preventive overhaul of equipment

By not carrying out the scheduled overhaul there was breakdown of Air Separation Unit and the Company had to purchase oxygen from outside at an extra expenditure of Rs. 7.93 crore up to January 2001.

The Company had suffered a loss of Rs. 7.93 crore up to January 2001 on account of not carrying out the preventive overhaul, which resulted in total break down of the Air Separation Unit.

The Bokaro Steel Plant of the Company has five Air Separation Units (ASU). The unit ASU-5 broke down in May 1999 and was recommissioned after repairs in January 2001. Although, the Company had decided to overhaul ASU-5 and had placed the purchase order in July 1995 for the necessary spare parts at a cost of Rs.86.35 lakh, which were received in May 1996, yet the overhauling was not carried out till the date of breakdown (May 1999) of the unit. During the period of breakdown the plant had to procure 11960 MT of oxygen from outside sources amounting to Rs.8.37 crore.

Ministry stated (August 2002) that the ASU-5 could not be overhauled as other units of Air Separation had problems during this period. Further, the parameter like flow vibrators, etc. of the ASU 5 were found perfect and well within the norms and the extra cost for purchase of oxygen was partially offset by energy saved during breakdown. The contention of the Ministry is not tenable as there should have been systematic programme for overhaul of the five units as one of them was a stand by. It was observed that during April to August 1997 all the units were working and the overhaul, which required only 25 days shut down, could have been carried out during this period. The cost of energy saved was only Rs. 0.44 crore.

By not carrying out the preventive overhaul as planned, the Company incurred an avoidable expenditure of Rs. 7.93 crore (Rs.8.37crore –Rs.0.44 crore being the cost of electricity saved).

3.3 Loss of Rs. 15.46 crore during the period ending January 2002 due to fiscal mis-management

The Company made an avoidable payment of Rs. 15.46 crore during September 1999 to January 2002 on account of surcharge on freight due to dishonour of cheques issued by the Company.

During the period from September 1999 to January 2002, the Bokaro Steel Plant (BOSP) of the Company issued cheques amounting to Rs. 154.77 crore to Railways for freight which were dishonoured on account of inadequate funds in the bank account resulting in additional recovery of Rs. 15.46 crore by Railways towards surcharge on freight.

BOSP entered (March 1999) into an agreement with Railways for payment of railway freight through credit note-cum-cheques system under Security Bond. Under this system, credit note-cum-cheques were accepted by Railways in lieu of cash payment of freight at the time of booking of material. Agreement further provided that in case of dishonour of cheques, surcharge on freight was also payable to Railway. During the period September 1999 to January 2002, without ensuring adequate funds in their account or as per drawing limit, BOSP issued cheques amounting to Rs. 154.77 crore which were dishonoured by the drawee bank on the ground that they exceeded the drawing limit. Subsequently, payments were arranged within a period of two to 10 days either by enhancing the drawing limit or by depositing the amount with the banks. Railways, however, recovered Rs. 15.46 crore as surcharge on freight from the bills of Central Marketing Organisation of the Company.

Ministry stated (July 2003) that the amount required could not be maintained in bank account due to acute liquidity crisis arising out of sluggish steel market and the matter had been taken up with the Railways for refund of the surcharge.

The reply is not tenable as prudent financial management required that when cheques were issued sufficient funds should have been ensured to avoid their dishonour.

3.4 Idle investment of Rs. 4.92 crore in Bokaro Steel Plant

Due to improper planning, the de-dusting system installed in May 1997 at a cost of Rs 4.92 crore is still lying idle

The Company installed a de-dusting system in May 1997 at Bokaro Steel Plant (BOSP) at a cost of Rs 4.92 crore but could not derive any benefit as the equipment was put to use only in June 2002, and it broke down in July 2002 after which the system is still lying idle.

The Company awarded (July 1994) a contract to Andrew Yule & Company Limited (contractor) for installation of de-dusting system in two cast houses of Blast Furnace (BF) No. 5 of BOSP at a cost of Rs.4.85 crore. The work was completed (May 1997) by the contractor after a delay of 24 months and payment of Rs 4.92 crore was made to the contractor. Since BF-5 was not in operation at that time, the integrated trial of the scheme was done in August/September 2000 i.e.after a delay of 3 years but the commissioning of the system could be done only in June 2002 on recommissioning of BF-5. The de-dusting system could be run barely for a month when the system became inoperative due to a breakdown (July 2002). Since then the de-dusting system is lying idle (August 2003)

Ministry stated (August 2002) that completion of the work was delayed due to non-availability of shut-down/clearance due to running of BF-5.The capital repair of BF-5 was undertaken in January 1997, recommissioning of which was done only in April 2002 due to prevailing market condition. The de-dusting system had been commissioned in June 2002 and the plant is deriving all the expected benefits from the system.

The reply of Ministry is not tenable in view of the fact that the availability of shut down of BF-5 should have been ensured before finalization of the completion schedule of the system. Moreover, the system although commissioned after a delay of five years was in operation barely for a month and broke down in July 2002 and has not been in operation since then.

3.5 Infructuous expenditure of Rs 2.98 crore on transfer of assets

Due to shifting of two furnaces from Visvesvaraya Iron and Steel Plant to Bokaro Steel Plant without evaluating any techno-economical viability, the Company suffered a loss of Rs 2.98 crore.

The Company incurred (2001-02) an expenditure of Rs 2.98 crore on dismantling, transportation and erection of two Ferro-Silicon furnaces shifted from Visvesvaraya Iron and Steel Plant (VISP) to Bokaro Steel Plant (BOSP). As the furnaces were shifted without evaluating the economical viability, these furnaces are lying idle and the expenditure incurred became infructuous.

VISP modernized two Ferro-Silicon furnaces during 1993 to 1997 at cost of Rs 22.21 crore. While one furnace (Furnace-B) was commissioned and started production from January 1996, the second furnace (Furnace-A) was not commissioned though ready for commissioning in July 1997. Furnace-B was also stopped from operation from January 1998 due to increase in power tariff. These furnaces being power intensive, the variable cost of production was found to be more than the market price of ferro-silicon and it was decided (April 1999) to sell these furnaces. As the highest price offer received was only Rs 1.75 crore against the book value of Rs 20.66 crore, the furnaces were not disposed of. In January 2000, it was decided to shift the furnaces to BOSP but no economic viability was worked out before taking the decision. An expenditure of Rs 1.24 crore was incurred on dismantling, stacking and transportation of furnaces during 2000-01.

While the works relating to installation were in progress, the captive power plant of BOSP was sold in September 2001. The power tariff in BOSP was increased by three times and prices of ferro-silicon reduced significantly in the market that affected the techno-economics of the project adversely. The work of installation was held in abeyance (November 2001) after incurring expenditure of Rs 1.74 crore and since then there is no change in the status of the work. Moreover, due to change in the demand from ferro-silicon to silicon-manganese in the market, the chances of use of these furnaces are remote in near future.

Thus shifting of furnaces from VISP to BOSP without techno-economic viability had resulted in infructuous expenditure of Rs 2.98 crore.

The para was issued to the Management/Ministry in May 2003, the reply is awaited (August 2003).

3.6 *Undue favour to a private party on procurement of material at higher rates*

The Company incurred an extra expenditure of Rs. 1.65 crore during 1996 to 2002 due to procurement of taper roller bearings from a private party at higher rates.

The Company procured roller bearings at higher rates during 1996 to 2002 from a private party at an additional expenditure of Rs 1.65 crore resulting in undue favour to the private party.

Bokaro Steel Plant (BOSP) of the Company procured (June 2002) from National Engineering Industries Limited (NEIL) 24 bearings at landed cost of Rs 5.97 lakh each where as these were available at Rs 5.03 lakh each as per purchase orders placed in May 2002 on two other firms. This involved an extra expenditure of Rs 22.56 lakh. It had also been observed that on earlier occasions also BOSP had procured the bearings from the same party at higher rates. In May 1996, to meet the requirement of 200 bearings, 30 bearings were procured from NEIL on repeat order basis at a landed cost of Rs 5,39,419 each. For balance 170 bearings, limited tender enquiries to 10 parties were issued (May 1996) and nine parties submitted their bids in June 1996. The rates of GPZ Samara Bearings, Russia was lowest at Rs 3,57,328 (landed cost) each while NEIL had quoted the rate of Rs 4,94,115 (landed cost of Rs 5,93,321) each. On negotiations with all the parties on 20 November 1996, only NEIL reduced the rates to Rs. 3.70 lakh each (landed cost of Rs 4,44,701) and became L-2. Though NEIL did not agree to supply at L-1 rates, a purchase order for 56 bearings was placed (May 1997) on them involving additional cost of Rs 48.93 lakh, while purchase order for 68 bearings only was placed (January 1997) on GPZ, Russia. Procurement of 30 bearings in May 1996 involved additional cost of Rs. 54.63 lakh.

Similarly in January 1998, BOSP floated further global tender enquiries for 119 bearings and fourteen parties submitted the quotations. Purchase orders were issued (June 1998) to two firms – NEIL (45 bearings) and Samara (66 bearings). This time also the rate of NEIL (Rs 4.31 lakh) was higher than that of Samara (Rs 3.46 lakh), which resulted in excess payment of Rs 38.43 lakh.

Ministry in their reply admitted (September 2001) that the order for 30 bearings which were curtailed from earlier purchase order and restored subsequently as repeat order on the request of supplier was a gesture of goodwill. At the time of placing repeat order, downward trend in prices were not known to the Company. Ministry further added that for items of critical application, Company decided to have two sources of supply simultaneously, preferably at least one Indian source which was proven with the Company. Orders were placed in view of past performance of the bearings supplied by NEIL.

Ministry's reply is not tenable as placement of repeat order for 30 bearings in May 1996 at 1992 rates was not prudent when the Company was going in for global tender and prices quoted by many suppliers would be available for comparison. Besides, the performance of bearings supplied by Samara was also found to be satisfactory and thus placing the order for part supply at higher rate was not justifiable.

Thus due to imprudent decision, the Company incurred a loss of Rs 1.65 crore and provided undue favour to a private party.

3.7 Loss of Rs. 9.30 crore on machining work of Wheels done through outside agencies

The Company lost Rs.9.30 crore during 1999 to 2002 by outsourcing rather than utilising the rated capacity even after modernization of wheel plant at a cost of Rs.44.37 crore.

The Company suffered a loss of Rs.9.30 crore during 1999-2000 to 2001-2002 on getting the machining jobs of wheels done through outside agencies instead of utilising the installed capacity of the plant even after modernization at a cost of Rs.44.37 crore.

Wheel and Axle Plant (WAP) at Durgapur Steel Plant (DSP) producing Broad Gauge wheels and axles for locomotives, coaches and wagons, was modernised during 1992-93 to bring up the machining capacity of WAP to 1,00,000 equivalent BG coaching wheels per annum. The Management, however, considered the output as 70,000 equivalent Broad Gauge coaching wheels due to revised specifications by Railways. In spite of modernisation at a cost of Rs. 44.37 crore and its production being well below the revised installed capacity, 16430 nos. of wheels were machined from outside sources at a cost of Rs. 10.37 crore during 1999-2000 to 2001-2002. The suppliers were also allowed to keep the scrap removed in the course of machining amounting to Rs. 1.69 crore. Thus the machining job, which cost Rs. 12.06 crore to the Company, could have been done in-house at a cost of Rs.2.76 crore only.

Management stated (July 2002) that since projected requirement of Railways was more than internal machining capacity of 70,000 equivalent Broad Gauge coaching wheels per year, remaining wheels were offloaded to outside parties.

Management's reply is not tenable as the year wise despatch of equivalent coaching wheels, including outside machined wheels, during 1999-2000 to 2001-02 was only 52797, 69703 and 56328 respectively which was less than the capacity of WAP i.e. 70,000 equivalent Broad Gauge coaching wheels per year.

Thus by getting the machining job done from outside sources, even when sufficient in-house capacity was available, the Company suffered a loss of Rs. 9.30 crore.

Para was issued to the Ministry in June 2003; reply is awaited (August 2003).

3.8 Loss of Rs. 92.76 lakh during October 1996 to May 2000 due to not following the tendering procedure

The Rourkela Steel Plant of the Company, without following the tendering procedure, placed repeat orders on a firm of Jamshedpur for Ladle additive compounds during October 1996 to May 2000 resulting in loss of Rs. 92.76 lakh.

The Rourkela Steel Plant (RSP) of Company placed repeat orders on M/s. Hi-Tech Chemicals (P) Ltd., Jamshedpur (Hi-Tech) for supply of Ladle additive compound during October 1996 to May 2000, without following the tendering procedure. This resulted in procurement at higher rates and the Company suffered a loss of Rs. 92.76 lakh.

RSP placed (September 1995 to September 1996) trial orders on three parties including M/s Hi-Tech for supply of Ladle additive compound to be used in hot metal ladles in Blast Furnace Department of the Plant to minimise ring jam and skulling to improve ladle availability, carrying capacity and life. First regular order was, however, placed in October 1996 on M/s Hi-Tech and they supplied 194.488 MT of Bottom Compound and 458.312 MT of Top Cover at the rate of Rs. 12700 and Rs. 8970 per MT respectively. Though Managing Director (RSP) desired (January 1997) a review of use of the compound, the procurement and use of the material continued. Thereafter four repeat orders were placed on M/s Hi-Tech between June 1997 to May 2000, for 223.25 MT of Bottom Compound at the rate of Rs. 12,700 and 852.537 MT at the rate of Rs. 12,650 per MT and 2497.782 MT of Top Cover at the rate of Rs. 8,970 per MT without following the tendering procedure and conducting any market research for alternative source of supply.

Only in June 2000, an order on the basis of limited tender enquiry was placed on M/s. Metaflux Company Private Limited, Calcutta for supply of 304 MT of bottom compound and 710 MT of top cover at the rate of Rs. 10,500 and Rs. 7,300 per MT respectively. After supply of 71.760 MT of top cover and 161.423 MT of bottom compound, M/s. Metaflux Company Private Limited was not allowed to work in the plant by some people even though the performance of material supplied was considered good.

Limited tender enquiry were issued (December 2000) to four parties including M/s Hi-Tech but techno commercial bids of only one firm i.e. M/s Hi-Tech was opened on 3 January 2001 with a proposal to open bids of other parties on 10 January 2001 (Actually opened on 22 January 2001). After negotiation, M/s Hi-Tech was issued order (February 2001) for 391.5 MT of top cover and 918.9 MT of bottom compound at the rates of M/s. Metaflux Company Private Limited i.e. Rs.10,500 and Rs. 7,300 per MT respectively.

Thus by placing the repeat order without following the tender procedure, the Company could not procure the material at competitive rates resulting in a loss of Rs. 92.76 lakh.

Ministry, while accepting the facts & figures of the draft para, stated (November 2002) that the Company had been asked to investigate the matter.

3.9 Loss due to change of specification of limestone

The Company started using costly limestone purchased from Jaisalmer instead of from its own captive mines resulting in extra expenditure of Rs. 37.32 crore without getting commensurate benefits.

Bokaro Steel Plant of the Company was using limestone from its captive mines of Kuteshwar, blending it with small quantity of costly low silica limestone purchased from Jaisalmer for making special heats. The plant switched over to100 per cent use of limestone from Jaisalmer from 2000-2001, after carrying out a trial in March 2000, which was stated to be successful.

The basis for switch over was a techno economic study which indicated that there would be an additional expenditure of Rs. 1.57 crore per annum which would be compensated by improvement in lining life of converters by 25 heat per campaign and increase in percentage of Magnesium oxide in slag. The techno economics did not consider the fact that Kuteshwar mine had sufficient capacity to produce the limestone, and that it would become idle in case Jaisalmer lime were used.

The actual additional expenditure considering the actual cost of limestone from Jaisalmer and variable cost of limestone from own mine was Rs. 37.32 crore (as compared to Rs. 3.14 crore as per techno economic study) during the years 2000-01 and 2001-02.

Ministry stated (January 2003) that there was increase in average lining life of converters by 304.27(1027.27-723) and 403.42(1115.42-712) heats per campaign in Steel Melting Shop (SMS)-I and II respectively which resulted in a saving of Rs. 11.03 crore which was more than sufficient to offset the additional expenditure.

The reply of the Ministry is not tenable as there were other factors also for the increase in heat per campaign viz. (a) Use of Magnesia carbon bricks (b) application of gunning material (c) slag splashing and nitrogen purging. Further the Management had not carried out any cost benefit study after trial showing the costs being incurred earlier and after the trial after duly considering the effect of idling of capacity of its captive mines.

Thus, the change of specification of limestone had resulted in unnecessary expenditure of Rs.37.32 crore. Even if the savings, stated to be fully on account of this switchover, are considered, the Company had incurred an avoidable expenditure of Rs. 26.29 crore.

3.10 Idle Investment Of Rs.7.08 Crore

The Company could not derive any benefits so far from Computerised Combustion Control System installed at the cost of Rs 7.08 crore due to non rectification of defects in the system.

The Bokaro Steel Plant of the Company could not derive the envisaged benefits so far (August 2003) from Computerised Combustion Control System installed at a cost of Rs. 7.08 crore as the supplier had not rectified the defects so far and system is lying idle since the installation of the system.

The system was installed in December 1998 with a view to save energy, improve productivity and prolonged battery life at its Coke Oven Battery. An annual saving of Rs.2.03 crore was envisaged on completion of the scheme in form of reduction in energy consumption, increase in productivity and increase in life of battery by 5 years. Though Door Extractor No. 12 (DE-12) was not installed the management issued commissioning certificate on 17 December 1998. The system went under breakdown from 22 December 1998 and became inoperative due to lack of proper maintenance and back up support. Since the Performance Bank Guarantee (PBG) had already expired in October 1997, the Company was left with no alternative but to depend upon the supplier (M/s R. OY, Finland) for rectification of the system. The system had not been rectified and recommissioned by the supplier so far (August 2003). The Company had not raised any claim against the foreign firm for the loss of expected annual savings of Rs 2.03 crore due to non-completion of the scheme.

Ministry stated (July 2003) that commissioning of the entire system was done with proper trial run excluding DE-12 as it was possible to derive sufficient benefits from the system without DE-12 and on this consideration partial commissioning certificate was issued. It stated further that the supplier had agreed to complete the work by 31 December 2003.

The fact, however, remained that the system could not be made operative till date (August 2003) and no benefits could be derived from the investment of Rs 7.08 crore made on installation of this system.

Thus, due to failure of the Company to enforce the supplier to make the system operative or to make alternative arrangement for the revival of the system, the entire investment of Rs.7.08 crore remained idle and infructuous.

3.11 Irrecoverable loss

Violation of laid down procedure for credit sales resulted in sales dues of Rs.2.56 crore and penal interest of Rs. 1.41 crore on defaulted payments becoming irrecoverable from a customer.

Salem Steel Plant (SSP) of the Company extended unsecured credit to M/s. Master Strips Private Limited, Banglore (MSL) between 16 March 2000 and 4 April 2000, in violation of criteria laid down in guidelines for application of marketing tools. MSL defaulted in making payments for over two years and SSP filed a petition (June 2002) for winding up of MSL, which was rejected by the High Court of Karnatka. This resulted in non-recovery of sales consideration of Rs. 2.56 crore and penal interest of Rs. 1.41 crore on the defaulted payments.

Marketing guidelines issued by the Company laid down that only those regular and reputed customers were eligible for unsecured credit in exceptional cases who had not defaulted in making payments as per agreed terms in the past and after verification of their credit worthiness. MSL was incurring losses and had accumulated losses amounting to Rs. 7.89 crore as on 31 March 1999. However, SSP released 1517.9 MT of HR coils worth Rs. 2.72 crore on 60 days unsecured credit during the short spell of 20 days in March/April 2000. Further, SSP accepted MSL's request for (a) waiver of need for submission of post dated cheques and (b) non-submission of Banker's Report pertaining to credit worthiness before the despatches were made. SSP released the goods merely on the strength of a Corporate Guarantee, which was beyond the delegated powers and violated the Guidelines.

SSP also failed to initiate action under Negotiable Instruments Act by holding a stale instrument of the customer for Rs.1.00 crore since November 2000. MSL eventually defaulted in making payments for over 2 years and SSP filed a petition (June 2002) for winding up of MSL under the provisions of the Companies Act. High Court of Karnataka rejected (October 2002) the petition on the grounds that order had already been passed (September 2002) for winding up on petition filed by other creditors. Thus the Corporate Guarantee, the only security available with the Management, became null and void. SSP requested (January 2003) the Official Liquidator to register its claim as an unsecured creditor for Rs. 3.97 crore on account of sales dues and interest on defaulted payments.

Management in their reply (June 2003) concurred that the action of SSP in waiving the condition of submission of post-dated cheques was not covered in the Credit Policy. Further, it sought to justify the action of SSP by stating that waiver of condition for submission of post-dated cheques was made with a view to continue business relations with the customer.

The matter was referred to Ministry (June 2003); their reply was awaited (September 2003).

3.12 Non- recovery of outstanding dues

The lapse in evaluating customer's creditworthiness and monitoring the debtors resulted in non-recovery of dues amounting to Rs. 1.98 crore including interest of Rs. 0.87 crore.

Salem Steel Plant (SSP) of the Company allowed (July 1999) unsecured credit to M/s Sahil Steel Tubes Private Limited, Bangalore (SSTL) on the strength of corporate guarantee and post dated cheques. However, SSP had not obtained opinion of the Bankers to verify the credit worthiness of the customer, as required in the credit policy of the Company. This has resulted in non-recovery of sales dues amounting to Rs. 1.11 crore (July 2003) and penal interest amounting to Rs. 0.87 crore.

As per Marketing guidelines issued by the Company regular and reputed customers who had not defaulted in making payments as per agreed terms in the past and after verification of their credit worthiness were eligible for unsecured credit in exceptional cases. Although SSTL had outstanding overdue of Rs. 1.25 crore SSP allowed unsecured credit to SSTL (July 1999) and released 626.22 MT Hot Rolled Coils valued at Rs. 1.11 crore during the period from December 1999 to April 2000. As SSTL defaulted in making payments, SSP issued two legal notices (February/September 2002) asking them to clear the outstanding sales dues of Rs. 1.11 crore and interest amounting to Rs. 0.87 crore (upto January 2002). Both the notices were returned undelivered. Left with no other option, the Company filed a petition in the High Court of Karnatka, Bangalore for winding up (February 2003) of SSTL. Outcome of the case was awaited (July 2003).

Management stated (July 2003) that regular discussions were held with SSTL, which was persuaded continuously to make payments for the outstanding dues. However SSP did not offer reasons for the unjustified deviation from the laid down credit policy which resulted in non-recovery of Rs. 1.98 crore and unnecessary litigation. This was a reflection of a poor monitoring system for following up outstanding dues of the defaulting customers.

The matter was referred to the Ministry (June 2003); their reply was awaited (September 2003).

Section - II
MECON LIMITED

CHAPTER : 4
REVIEW ON THE WORKING OF MECON LIMITED

Highlights

Metallurgical & Engineering Consultants (India) Limited was incorporated as a separate Company in May 1978 and was later renamed as MECON Limited in April 1999. The Company was primarily set up to help the development of iron and steel industries in the Public Sector and later on diversified its activities to emerge as a multi-disciplinary agency providing complete Engineering, Procurement and Construction services.

(Para 4.1)

The Company is functioning without Chairman-cum-Managing Director since February 2002 and there is no Director (Finance) since inception.

(Para 4.2)

The Company had incurred losses during all the five years ending 31 March 2003.

(Para 4. 3)

Job valuing Rs 51.93 crore was lost due to wrong calculation of energy consumption.

(Para 4.4.3)

Out of 612 consultancy jobs completed upto 31 March 2003, the Company suffered loss in 398 cases with overall net loss of Rs. 102.91 crore during five years. Similarly in respect of supply jobs the Company suffered loss of Rs 48.95 crore during the period.

(Para 4.5)

As per purchase procedure, the vendors are to be selected out of the list maintained by Central Vendor Development Cell (CVDC) but in case of major contracts of TNEB coal handling plant and 2nd launch pad of ISRO, the vendors were selected out of the list provided by the clients.

(Para 4.6.2)

In execution of work of modernisation of plant of Bokaro Steel Plant of SAIL the Company had incurred extra expenditure of Rs 6.27 crore for four years beyond the contract period and the client had not paid the same so far.

(Para 4.6.3)

The work on New Note Press Project of Reserve Bank of India was continued beyond the scheduled date of completion without settlement of fee for extended period resulting in non recovery of Rs 99.96 lakh.

(Para 4.6.4)

In execution of work of supply of steel structurals to Kudremukh Iron and Steel Company Mangalore, the Company suffered a loss of Rs 59.77 lakh due to wrong estimation.

(Para 4.6.5)

By taking up work of coke oven battery of Bokaro Steel Plant of SAIL without firm order, the Company could not recover Rs 93 lakh from the customer.

(Para 4.6.6)

Due to delay in execution of work, Madras Aluminum Company Limited reduced the scope of work resulting in loss of Rs 0.81 crore.

(Para 4.6.8)

Though the Company diversified its activities to non steel sector, it suffered loss of Rs.74.70 crore in this sector.

(Para 4.7.2)

The Company reduced the quoted price for the work of modification/upgradation of Group Gathering stations at Balol of Oil and Natural Gas Commission and suffered loss of Rs 9.99 crore in execution of the work.

(Para 4.7.3)

Due to wrong estimation, the Company suffered loss Rs 1.23 crore in execution of civil works of Butane-I revamp project of Maharashtra Gas Cracker Complex of IPCL.

(Para 4.7.5)

4.1 Introduction

Metallurgical & Engineering Consultants (India) Limited was registered (1973) as a subsidiary Company of Steel Authority of India (SAIL) with an Authorised capital of Rs 4 crore. Subsequently it was de linked from SAIL and incorporated as a separate Company in May 1978 and was later renamed as MECON Limited (Company) in April 1999.

The Company was primarily set up to help the development of Iron and Steel Industries in Public Sector. Beginning with ferrous metallurgy, it subsequently diversified during 1980 to emerge as multi-disciplinary agency for providing complete Engineering, Procurement and Construction (EPC) services in the field of mining agglomeration, non-ferrous metal, coal and chemical, petro-chemicals, refractories, power plants including high voltage power transmission, ocean engineering, computer software development, etc.

4.1.1 Mission

The Mission of the Company is to develop into an internationally recognised centre of excellence for providing quality services in technical, consultancy, design and engineering, design and supply of plant, equipment and systems for ferrous and non-ferrous metallurgical enterprises and industrial project in other sectors. The main objectives of the Company are:

- To provide appropriate "State of the Art" technology as also quality services at competitive prices to customers.
- To implement and maintain total quality management in all spheres of Company operation
- To promote research and development activity and end user oriented indigenous technology.

4.2 Organisational Set Up

Chairman-cum-Managing Director (CMD) with the help of four functional Directors and three part time Directors manages the business of the Company. The Company is functioning without regular CMD since February 2002 and without Director (Finance) since inception though its financial position is deteriorating fast.

4.3 Financial Position

The table below indicates the financial position of the Company during the last five years ending 31 March 2003.

(Rs. in crore)

Sl.No		1998-99	1999-00	2000-01	2001-02	2002-03
1	Paid up Capital	2.42	2.42	2.42	2.42	2.42
2	Reserve &surplus	90.55	109.07 *	56.19*	36.19	30.91
3	Borrowings	40.60	51.76	74.36	88.72	126.23
4	Fixed Assets (Net Block)	31.43	73.69 **	73.20	67.93	68.06
5	Working capital	88.25	75.69	42.33	(94.28)	(142.86)
6	Investment	4.49	5.74	6.98	6.98	6.98
7	Turnover services rendered	207.93	235.04	273.80	272.10	283.50
8	Profit/(Loss) before tax	(11.17)	(20.27)	(52.68)	(146.06)	(70.83)
9	Profit/(Loss) after tax	(11.17)	(20.27)	(52.68)	(146.06)	(70.83)
10	Sundry Debtors	146.91	148.63	143.31	134.37	142.41

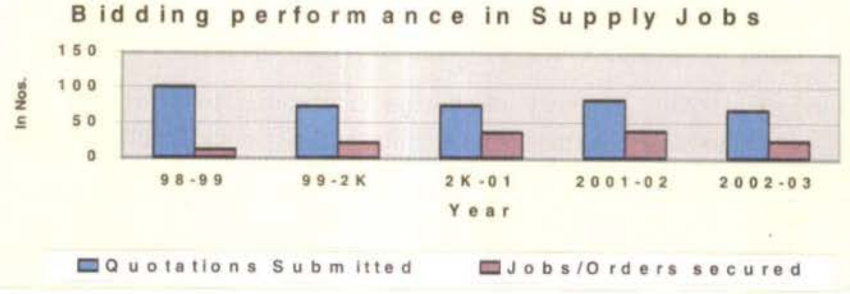
** Includes Rs. 38.79 crore and Rs.38.62 crore on account of revaluation Reserve.*

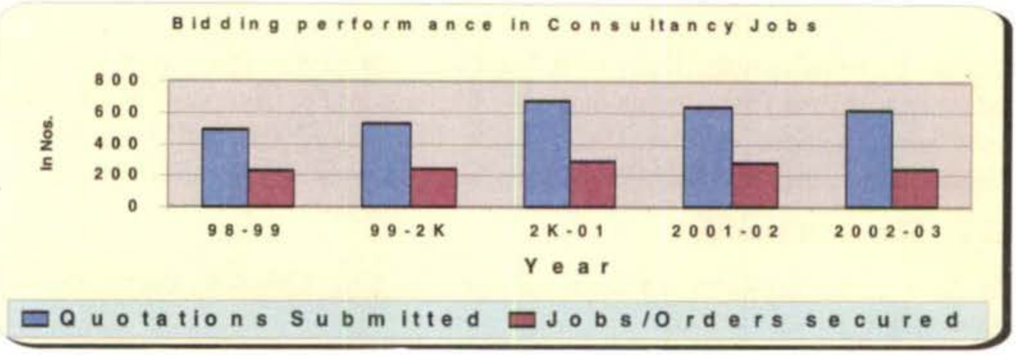
*** Includes Rs. 20.59 crore due to revaluation of some of the assets viz. Lands & Buildings as on 31.3.2000.*

Though turnover of the Company had been steadily increasing during last five years, its financial position had worsened with increasing losses.

4.4 Bidding Performance

4.4.1 The position of the quotations submitted, orders secured during the years 1998-03 in respect of consultancy as well as supply jobs are exhibited as per the graph shown below.





4.4.2 Analysis of lost bids

It had been observed that the Company could secure only 38.83 per cent and 35.29 per cent of consultancy and supply jobs respectively during 2002-03.

The Company failed to compete even in the field of steel sector, an area in which it had been working since inception.

Ministry stated (July 2003) that the prices of competitors are available only where bids were opened publicly. It was further stated that during lost bid analysis, each element is analysed in presence of all concerned and corrective action is taken in future based on the experience.

Though the management reviews the cases of lost bids no corrective measures have been suggested so far.

Following interesting cases were noticed during scrutiny of lost bids

4.4.3 Loss of bid due to wrong calculation

In a bid submitted to Gujarat Water Supply & Sewage Board (GWSSB) for execution of pumped water supply scheme from Navda to Vallabhipur, Company was placed L1. GWSSB, however, further desired the bidder to offer their bids evaluating on the basis of 20 years' operation. While submitting the revised bid, the Company made an error in calculation of energy consumption and became L2 due to which it lost the job.

The job valued Rs.51.93 crore could not be secured due to wrong calculation of energy consumption, which was taken as 38750 instead of 19778 KWH/day

Management while admitting the fact of error stated (February 2002) that sufficient time was not available to have a recheck on the matter and due to last minute inclusion of the revised procedure by the client, such a calculation error had taken place. Ministry stated (July 2003) that a report on the subject had been called for and if required responsibility for the error would be fixed.

4.4.4 Loss of bid due to huge variation from customer's estimate

In January 1998, Company submitted quotations to Northern Coalfields Limited (NCL) for design & construction of Industrial Effluent Treatment Plant (ETP) at different sites. The relevant details are as under:

(Rs. in crore)

Name of site of NCL	Estimated Cost of			Price quoted by MECON	L1 Price
	Customer	MECON	Variation (In percentage)		
Nigahi	0.96	1.96	104	2.26	0.949
Jayant	1.47	N.A.	N.A.	4.25	3.15
Dudhichua	0.63	1.55	147	1.83	0.86
Bina	1.36	5.03	270	5.40	1.30
Jhingarda	0.72	1.97	173	2.11	0.68
Total	5.14	10.51	104.47	15.85	6.93

Inspite of the estimated cost being made available by the customer, the Company's estimate was abnormally high and the same ranged between 104 and 270 per cent of the estimated project cost. The quotations submitted were still higher as the same contained profit margin over and above the estimated price. The options given by the client for re-look in view of the price decrease of chemicals was also ignored and the job was lost.

Management stated (February 2002) that it was not prudent to go by the estimates of the client and an independent working was required to be done based on the specifications provided in the bid. They further stated that the review expected was only marginal and there was no possibility of reduction. The Ministry also expressed (July 2003) the same views.

Reply of the Management/Ministry is not tenable as the price at which jobs were secured by Company's competitors was by and large within the estimated price of the client.

4.5 Performance In Execution Of Orders

4.5.1 Negative contribution in respect of jobs completed by the Company

The table below indicates the performance of the Company in respect of completed jobs during the year 1998-99 to 2002-2003.

Consultancy Jobs

(Rs. in crore)

Year	No. of Jobs completed	No. of jobs with margin	Amount Of Margin	No. of jobs with Neg. Margin	Amount of Neg. Margin	Net effect
1998-99	113	31	6.86	82	10.67	(3.81)
1999-00	143	69	2.79	74	14.23	(11.44)
2000-01	69	30	0.84	39	16.28	(15.44)
2001-02	95	24	0.91	71	21.20	(20.29)
2002-03	192	60	8.00	132	59.93	(51.93)
Total	**612**	**214**	**19.40**	**398**	**122.31**	**(102.91)**

Supply Jobs

(Rs. in crore)

Year	No. of Jobs completed	No. of jobs with margin	Amount Of Margin	No. of jobs with Neg. Margin	Amount of Neg. Margin	Net effect
1998-99	7	2	0.01	5	7.95	(7.94)
1999-00	7	2	0.03	5	7.71	(7.68)
2000-01	11	3	2.30	8	17.63	(15.33)
2001-02	30	14	4.68	16	28.80	(24.12)
2002-03	14	5	11.90	9	5.78	6.12
Total	**69**	**26**	**18.92**	**43**	**67.87**	**(48.95)**

The Company completed 612 consultancy jobs of which it suffered losses in 398 jobs. Although in 214 jobs there was contribution of Rs.19.40 crore, the net financial loss was Rs.102.91 crore. The Company's performance towards turnkey /supply jobs were also not good as in 43 out of 69 completed jobs there was no contribution resulting in overall loss of Rs.48.95 crore. In nine turnkey/supply jobs, the Company could not even recover its direct cost to the extent of Rs. 3.22 crore (excluding direct man hour cost). In respect of 137 jobs the Company continued its services even after completion and incurred an expenditure of Rs. 6.33 crore after completion.

Management stated (February 2002) that due to general economic recession and lack of investment in core business activities i.e. Iron & Steel, the Company had diversified its business activities into new areas. In order to utilise the vast technical manpower and under severe competition, the Company had secured jobs at a lower fee. The above factors contributed to poor and negative margins in some jobs. It was further stated that substantial portion of the cost incurred in execution of consultancy contracts related to the manpower costs, which more or less remained fixed. The fee earned out of consultancy jobs can be treated as contribution to these fixed costs.

Ministry stated (July 2003) that the Company is implementing Voluntary Retirement Scheme to prune surplus manpower, which will help it to manage its margins on contract.

4.6 Offloading Of Contracts

4.6.1 The Company had neither its own manufacturing facilities nor requisite infrastructure for carrying out site services etc. It got the order of its clients executed by sub contracting to suppliers who in turn manufacture the equipment on the basis of its manufacturing drawings, technical specifications. The Company entered into 109 individual contracts ranging between Rs. 1 crore and Rs.5 crore and 23 contracts beyond Rs. 5 crore during the period 1997 to 2001.

An audit analyses revealed that two contracts valuing Rs.20.45 crore and Rs 16.74 crore were entered into on the basis of pre-tender tie up without following the Company's purchase procedure of conducting rate analysis, basis of estimate and past order of similar package.

The Company entered into MOU with private firms on nomination basis and made them business associates without verifying their credentials and off loaded the entire work on back to back basis retaining only a nominal percentage of commission.

Ministry stated (July 2003) that the Company's purchase procedure does not apply to pre-tender tie up and MOUs with strategic partners. Selection of such partners is based on consideration such as qualifying requirements of the tender, technical know-how, past experience of similar work, price competitiveness etc.

Reply is not tenable in view of the fact the Company's purchase procedure is also applicable in case of pre-tender tie-up/MOU/Co-operation/collaboration agreement/propriety items and steps were required to be taken up to safe guard the interest of the Company.

4.6.2 Irregularities in placement of purchase order

As per the Company's purchase procedure, vendors are short listed out of the list maintained by Central Vendor Development Cell (CVDC) with a view to get capable and genuine vendors, to adhere to time schedules and advantage of competitive prices.

Examination of records of the Company revealed that:

- In execution of major contracts like Tamil Nadu State Electricity Board (TNEB) coal handling plant and 2^{nd} launch pad of Indian Space Research Organisation (ISRO), the vendors were selected out of the list provided by TNEB and ISRO.
- In seven cases, the tender enquiries were issued to the firms outside of the CVDC list. Thus, there was deviation from its own purchase procedure.
- In two cases not only the orders were placed on the firms not registered with CVDC but these were also placed at higher cost of Rs. 45.92 lakh as compared to estimated cost of the Company.
- In all the cases examined in audit there was delay in finalisation of order ranging between one month and 10 months from the prescribed time limit of 1.5 months to 2 months.

Ministry stated (July 2003) that the final list of vendors for any particular package is selected on the basis of vendors listed by the client. To increase the competition, the Company, in consultation with the clients, adds more vendors on the basis of Company's own experience in various packages. It was further stated that since most of the enquiries are for specific requirements to suit a particular project, it becomes necessary to ensure by way of technical observations and meetings to obtain technical clarifications from the bidders before accepting them on technical grounds. This process often takes more than two months, even though attempts are always made to reduce this time as much as possible.

4.6.3 Modernisation of Bokaro Steel Plant

Bokaro Steel Plant (BOSP) of SAIL appointed the Company as its consultants for modernisation of its plant at a fee of Rs.42 crore for the period from 1 January 1992 to 31 March 1999. It was observed that though the period of consultancy expired at the end of March 1999, the Company was still providing services as some of the schemes relating to modernisation were yet to be commissioned (March 2003). The client had not agreed (September 2003) for extra fees towards services beyond the contract period. The Company had already utilised 77932 and 27009 Engineering and Design Assistant hours respectively equivalent to Rs 6.27 crore up to March 2003 over and above the contracted fee. But neither any invoice had been raised nor any amount could be realised in the absence of settlement of fee beyond the contract period.

Management stated (February 2002) that the matter has been taken up for settlement of the fee for the extended period of the contract.

The fact, however, remained that fee for the extended period is yet to be settled and the work was taken up for four years without any commitment for additional payment.

4.6.4 Commissioning of New Note Press

In the work of providing detailed engineering & consultancy services for commissioning of New Note Press Projects of Reserve Bank of India at Salboni and Mysore there was delay in completion of the work as it could not be completed within the extended period of October 1999.

It was observed that the work relating to Mysore continued up to 30 April 2000 and that of Salboni up to the year 2001-02 without any settlement of fee for the extended period. The expenditure incurred on work of Salboni during extended period worked out to Rs. 32.96 lakh for which no claim had been raised. The extra claim for Rs. 67.00 lakh in respect of the work done up to the year 2000-01 was yet to be settled.

Management stated (February 2002) that all obligations under the contract for the Note Presses at Salboni and Mysore have been fulfilled. The Ministry added (July 2003) that increase in manpower consumption is due to multilocational activities undertaken and long project duration. The client is being pursued for payment of additional fee for the extended period. The fact remains that the Company has not claimed Rs. 32.96 lakh for the period 2001-02 and the client has not yet agreed to pay additional fee (July 2003) although the Company has been continuing to render service since October 1999.

Test check of records relating to completed jobs revealed the following:-

4.6.5 Imprudent Estimation of Cost

The Company received an order from Kudremukh Iron & Steel Company Limited (KISCO) Mangalore for manufacture & supply of 1500 MT of steel structurals at Rs.31000 per MT and for erection at the rate of Rs. 4,500/- per MT. The Company engaged M/s. Fenner (I) Limited for fabrication and supply of said structures at the rate of Rs.28040 per MT and for erection at the rate of Rs.3200 per MT. The entire work was completed after incurring expenditure of Rs.6.53 crore. However the client paid Rs.5.93 crore only, thus causing a loss of Rs.59.77 lakh.

Management stated (February 2002) that on the basis of competitive bidding Company placed order on M/s Fenner (I) Limited at the rates of Rs.28040/- per MT for supply of structures and Rs. 3,200/- per MT for erection of structures thereby generating a surplus of Rs.70.33 lakh for 1651 MT.

Ministry stated (July 2003) that Audit observation takes into account only the supply and fabrication portion.

The above replies are not tenable in view of the following facts:-

1) The Company had worked out generation of surplus of Rs. 70.33 lakh on the basis of 1651 MT of quantity supplied, whereas the client had paid for 1616.389 MT only and the Company had thus suffered loss of Rs. 59.77 lakh.
2) The Company's estimates for bidding does not include any expenditure towards design and engineering etc. whereas it had to incur expenditure to the extent of Rs.39.66 lakh.
3) Though the sub-contractor, M/s. Fenner(I) Limited delayed the supplies, no liquidated damage was levied by the Company despite having liquidated damages clause in the contract with the supplier.

4.6.6 Loss due to negligence

The Company took up (October 1995) an assignment for detailed engineering and consultancy services, tendering activities and designers supervision etc. of coke oven Battery No. 9 & 10 of Bokaro Steel Plant (BOSP) without finalising the scope of service fee, terms of payments etc. Against the request of Re. 1 crore as ad-hoc advance, an amount of Rs. 24 lakh only was released by BOSP in March 1996 and the work was ultimately stopped from January 1997.

In November 1997, though Company agreed for full and final settlement of its claim of Rs.1.17 crore at Rs.45 lakh, no amount could be realised as the BOSP Management did not agree for the same.

Ministry observed (July 2003) that it was highly irregular to spend over Rs. 1.00 crore on a job for which there was no firm order. The Ministry further stated that the Company had been asked to investigate the matter in detail and fix responsibility.

4.6.7 Non realisation of dues due to non achievement of Performance Parameter

The Company received an order from Ordnance Factory Board in June 1991 for supply, erection and commissioning of four High Reversible Cold Rolling Mills at a contract price of Rs 15.03 crore. The contract, inter alia provided that the Company would ensure thickness tolerance of the rolled product +/- 0.0125 mm. failing which it would be liable to pay an amount equal to 10 per cent of the contract value. Since the Company could not provide the thickness tolerance to the desired level as per provisions of the contract the client withheld Rs. 1.50 crore being the 10 per cent of the contract value. The performance guarantee test had since been conducted satisfactorily in January 2003, however, final payment had not yet been received (September 2003).

Ministry stated (July 2003) that exact status of release of withheld amount would be intimated later.

4.6.8 Loss of margin due to delay in completion of job

The Company received an order from Madras Aluminum Company Limited (MALCO) in July 1997 for rendering services on turnkey basis for design, engineering, procurement, fabrication/manufacture, transport, construction of civil structure, mechanical, electrical and instrumentation and to conduct all works/ modifications as required for upgradation of alumina plant at a total contract price of Rs 11 crore. The work was to be completed within 12 to 14 months from 1 August 1997 i.e. between July 1998 and September 1998. In December 1997, the client reduced the scope of work and contract fee to Rs 7.28 crore

Examination of the records revealed that

- There was delay in completion of job by more than one year. As a result of which, the client deducted a sum of Rs 36.42 lakh towards liquidated damages and Rs.8.53 lakh towards risk purchase.
- The actual cost of execution of the job was Rs.7.64 crore against realisation of Rs.6.83 crore. Thus the job was completed at a loss of Rs.0.81 crore.

Management stated (February 2002) that MALCO had been requested to waive imposition of liquidated damages. The Ministry stated (July 2003) that the Company was left with a margin of Rs.1.35 crore after meeting direct cost.

The reply is not tenable as no amount could be realised so far and an engineering concern working on commercial pattern cannot ignore the manpower cost treating the same as fixed cost as this is the main input cost of the Company.

4.7 Diversification

The Company was primarily set up to provide design & engineering related technical and consultancy service for the ferrous and non-ferrous metallurgical enterprises. However, the Company started its diversification activities around 1983 and had been executing job in the diverse fields of Defence, Environment Projects, Oil & Gas, Petrochemicals, Infrastructure, Ocean Engineering, etc.

4.7.1 Performance of Company in steel sector and non steel sector

The following graph indicates the diminishing number of consultancy and Supply/Turnkey jobs secured in the steel sector and in the non steel sector.

The following table indicates the value of job secured in steel & non steel sector during 1998-99 to 2002-03.

(Rs. in crore)

	Steel sector			Non steel sector			Over-seas	Grand Total
Year	Supply	Consult-ancy	Total	Supply	Consult-ancy	Total	Value	
1	2	3	4	5	6	7	8	(4+7+8)
1998-99	14.60	13.44	28.04	255.41	19.84	275.25	5.42	308.71
1999-00	14.41	4.15	18.56	28.73	53.34	82.07	1.81	102.44
2000-01	41.15	8.74	49.89	117.70	55.79	173.49	1.03	224.41
2001-02	19.98	10.33	30.31	98.95	47.94	146.89	2.79	179.99
2002-03	7.28	16.80	24.08	111.81	56.93	168.74	1.32	194.15
Total	**97.42**	**53.46**	**150.88**	**612.60**	**233.84**	**846.44**	**12.38**	**1009.70**

It would be observed that the Company had been increasingly getting orders from the non-steel sector during last few years both for supply and consultancy jobs. Thus the Company is shifting increasingly from its core activities of steel sector. The Company had not been able to secure any major job of more than Rs. 100 crore either in steel or non-steel sector.

4.7.2 Unproductive jobs in non steel sector

The following table indicates performance of the Company in respect of completed jobs in the non steel sector during 1998-99 to 2002-03.

Consultancy Jobs

(Rs. in crore)

Year	Total No. of Job completed in Non Steel Sector	No. of Jobs with Margin	Total Margin	No. of Jobs with Neg. Margin	Negative Margin	Net Amount
1998-99	84	22	4.81	62	6.06	(-)1.25
1999-00	110	57	2.13	53	9.47	(-)7.34
2000-01	48	22	0.50	26	7.82	(-)7.32
2001-02	48	13	0.44	35	17.20	(-)16.76
2002-03	144	46	7.15	98	37.39	(-)30.24
Total	434	160	15.03	274	77.94	(-)62.91

Supply Jobs

(Rs in crore)

Year	Total No. of Job completed in Non Steel Sector	No. of Jobs with Margin	Total Margin	No. of Jobs with Neg. Margin	Negative Margin	Net Amount
1998-99	1	0	Nil	1	0.02	(-)0.02
1999-00	4	1	.01	3	5.44	(-)5.43
2000-01	6	2	2.29	4	3.99	(-)1.70
2001-02	24	13	4.34	11	17.21	(-)12.87
2002-03	10	4	11.70	6	3.47	(+)8.23
Total	45	20	18.34	25	30.13	(-)11.79

The above table indicates that the Company suffered loss of Rs. 62.91 crore and Rs. 11.79 crore in execution of Consultancy and Supply jobs in Non Steel Sector. It also shows that although the Company is increasingly taking up non steel sector supply and consultancy orders, it is incurring losses in these contracts, reasons for which have not been analysed by the Management.

Ministry stated that due to stiff competition it is necessary to work at very low margin, which often turns into negative taking into account manpower cost. It was further added that various austerity measures taken by the management would result in reduction of manpower cost making the operation of the Company viable.

Results of scrutiny of some of the major jobs in the diversified sectors are detailed below

4.7.3 Loss of Rs. 9.99 crore due to incorrect estimate

Against the tender enquiry of Oil & Natural Gas Commission (ONGC) for modification/upgradation of Group Gathering stations at Balol II, III & IV, the Company offered (February 1997) a price of Rs.29.22 crore. It was subsequently revised to Rs.24.85 crore and finally to Rs.22.80 crore (June 1997) and the Company got the order in November 1997. The Company incurred direct expenditure of Rs.23.16 crore and man-hour expenditure of Rs 9.63 crore up to March 2003 thereby suffering a loss of Rs 9.99 crore.

Management stated (February 2002) that the revised price submitted after technical discussions reflected the actual offer made to the client. The price of Rs.29.22 crore submitted for the above project to ONGC should, therefore, be considered only a preliminary price. Percentage reductions considered on various items like civil works, electrics, valves, etc were based on the statistical judgment derived from the actual value of orders placed. The Ministry stated (July 2003) that price reductions were made to enable the Company to enter into a new business area. The Company will, however, be advised to ensure greater care and commercial prudence while bidding for contracts.

The above reply is not tenable in view of the fact that the data base utilised by management for considering reduction in price were related to projects which were executed in past and the reduction in prices were made without proper evaluation. As a result the Company had to incur huge loss of Rs. 9.99 crore up to 31 March 2003.

4.7.4 Integrated application software rejected by the client

Bhartiya Reserve Bank Note Mudran Ltd. (BRBNML) appointed the Company in August 1996 for development of an integrated application software for full computerisation of the BRBNML at a lump sum fee of Rs. 67.00 lakh. The work was to be completed within 18 months i.e. by February 1998. Since the work could not be completed as per schedule the client rejected the software being unsuitable to its requirements. Advance of Rs.37.19 lakh was adjusted by encashing the Bank Guarantee.

Ministry stated (July 2003) that the project got delayed for various reasons attributable to both BRBNML and MECON and the stand taken by the client that the software jobs completed were not suitable to their requirement was not correct as the client was making progress payment based on certification of progress made by the client's official.

The fact remained that entire expenditure i.e. Rs 86 lakh incurred in this regard became infructuous.

4.7.5 Faulty Estimation

The Company received a turnkey job from Indian Petro Chemical Corporation Limited (IPCL) for engineering, procurement and construction of Butene-1 revamp project of Maharashtra Gas Cracker Complex at Nagothane in September 1997 at their quoted fee of Rs.6.20 crore. The work was completed at an expenditure of Rs. 7.43 crore resulting in loss of Rs 1.23 crore.

A test check in audit revealed that as against the estimated cost of Rs.30.05 lakh (valves and pipes), Rs.37.40 lakh (instrumentation) and Rs 27.58 lakh (electrical equipment), the same were actually procured at Rs.61.84 lakh, Rs 56.30 lakh and Rs. 32.06 lakh respectively. Improper estimation of the quantity and wide time gap between budgetary quotations and awarding of procurement contract, resulted in extra expenditure of Rs.55.17 lakh towards procurement of aforesaid three items.

Ministry stated (July 2003) that the bids were kept low in order to win a contract in a new area. Further cash flows from the project have been positive after meeting direct expenses.

The above reply is not tenable as the Company's estimates were based on limited engineering and the rates prevailing at the time of bidding. Further the quantity of work got firmed up after detailed engineering and approval by the client.

4.8 Human Resource

4.8.1 Top Heavy Organisation

The Company had no manpower planning based on any scientific study as its requirement was assessed purely on ad-hoc basis. Whenever any new job(s) particularly in the diversified field was/were likely to be received, the personnel were recruited. There was also no cadre-wise number of posts sanctioned up to Deputy General Manager level. The Company had been recruiting personnel and promoting them without ascertaining the actual vacancy.

Management stated (February 2002) that even when it goes into various diversified field of business only the bare minimum strength is recruited in order to assure the prospective client.

Ministry stated (July 2003) that business per employee had increased by 63.71 percent during 1994-95 to 2001-02.

The fact, however, remained that promotion and recruitment is made on adhoc basis without ascertaining the sanctioned strength.

4.9 Conclusion

Due to wrong calculation in estimates and quoting of higher rates, the Company has lost several bids. It could secure only 38.83 per cent and 35.29 per cent of consultancy and supply jobs respectively. Company even suffered loss of Rs. 102.91 crore in execution of consultancy jobs and Rs 48.95 crore in supply jobs during five years ending 31 March 2003.

Even after diversifying its activities to non-steel sector the Company had suffered loss of Rs. 74.70 crore during five years ending 31 March 2003 in execution of these jobs.

4.10 Recommendations

With a view to increase its share in the market the Company may adopt innovative measures and make strategies to reduce the input cost, which in the case of the Company, is mainly man-hour cost.

In the fast changing economic scenario, the Company may review the policies to be adopted for competing in the market by reducing competitive costs and improving quality of services/work.

In addition, the Company should also bring in financial discipline as well as good managerial control including strengthening of internal control and audit.

Section - III
HINDUSTAN STEELWORKS CONSTRUCTION LIMITED

CHAPTER : 5
HINDUSTAN STEELWORKS CONSTRUCTION LIMITED

5.1 Introduction

Hindustan Steelworks Construction Limited (HSCL) was incorporated on 23 June 1964 as a wholly owned Government Company to mobilise capability for construction of Steel plants in the country.

The main idea behind formation of the Company was-

(a) reduction in construction prices by breaking contractor's cartels;

(b) conservation of trained personnel in specialised jobs of steelworks construction; and

(c) sophistication, better quality, greater productivity and economy in the construction of steel plants.

5.2 Organisation Set-Up

The administrative and overall functional control of the Company is vested with the Board of Directors headed by the Chairman and Managing Director who is assisted in day to day function of the Company by Director (Finance).

5.3 Investment and returns

Against the authorised share capital of the Company of Rs 150.00 crore, the paid up capital of the Company as on 31 March 2003 is Rs.117.10 crore, wholly owned by Government of India. During last three years ending 2002-03 the Company had not paid any dividend due to heavy losses suffered by the Company.

5.4 Financial Performance

The financial results of the Company for the last three years ending 31 March 2003 were as below:

(Rs. in crore)

Particulars	**2001-01**	**2001-02**	**2002-03**
Income from Operations	247.57	250.37	266.40
Income from other sources	43.13	9.95	25.45
Expenditure	420.46	390.47	407.80
Interest	7.06	11.31	22.59
Profit before tax and prior period adjustments	(136.82)	(141.46)	(138.54)
Prior period adjustments	(35.74)	(0.62)	2.19
Profit before tax	(172.55)	(142.08)	(136.35)
Tax provision	Nil	Nil	Nil
Profit after tax	(172.55)	(142.08)	(136.35)
Proposed dividend	Nil	Nil	Nil

5.5 Manpower

The total manpower strength of the Company as at the end of each of the last three years ended 31 March 2003 is given below

Year	Group A	Group B&C	Group D	Total Manpower
2000-01	946	5949	407	7302
2001-02	853	4804	280	5987
2002-03	407	2248	116	2771

A review on Offloading of contracts in the Company is discussed as Chapter No. 6 of the Report.

CHAPTER : 6
REVIEW ON OFF-LOADING OF CONTRACTS IN HINDUSTAN STEELWORKS CONSTRUCTION LIMITED

Highlights

Hindustan Steelworks Construction Limited was incorporated in June 1964 as a wholly owned Government Company with main objective of creating indigenous capacity and capability for construction of steel plants in the country.

The Company had suffered losses during all the five years ending 31 March 2003. The accumulated loss as on 31 March 2003 was Rs 982.54 crore even after waival of interest of Rs 957.81 crore during 1999-2000 by Government of India.

(Para 6.3)

Though the Company was incorporated with the main objective of construction of steel plants, orders secured for steel plants ranged between 16.6 to 29.9 percent of the total orders despite the fact that the manpower at steel plants was in the range of 81.3 to 86.7 percent of the total manpower.

(Para 6.4)

Contract works executed through contractors/piece rate workers ranged between 91.6 to 93.4 percent of total works executed during last four years.

(Para 6.5)

The Company awarded the work of construction of pipeline at Neelachal Ispat Nigam Limited Duburi to M/s Patra Fabrication instead of awarding to lowest contractors, resulting in extra expenditure of Rs 1.60 crore.

The Company awarded the civil work of basic oxygen furnace of Neelachal Ispat Nigam Limited to private parties on single tender basis at higher rates as compared to approved rate structure involving extra expenditure of Rs 0.75 crore.

The work of National Thermal Power Corporation Limited for its Simhadri project was off loaded to a private party without calling for any open/limited tender resulted in loss of Rs 20.58 crore to the Company.

In execution of work of Inter Plant Service Pipeline the Company incurred an additional expenditure of Rs 7.67 crore which had not been accepted by the client so far.

(Para 6.6)

6.1 Introduction

Hindustan Steelworks Construction Limited (Company) was incorporated (June 1964) as a wholly owned Government Company with main objective of creating indigenous capacity and capability for construction of steel plants in the country. Necessity for a separate construction organization in the public sector was felt mainly for (a) reduction in construction prices by breaking contractor's cartels; (b) conservation of trained personnel in specialized jobs of steelworks construction; and

(c) sophistication, better quality, greater productivity and economy in the construction of steel plants.

6.2 Scope of Audit

The working of the Company upto March 1988 was reviewed in the Report (No. 6) of the Comptroller and Auditor General of India (Union Government –Commercial) 1989. The present review covers mainly the activities of the Company relating to off loading of contracts during the period 1998-99 to 2002-03

6.3 Financial Performance

The following table indicates the financial performance of the Company for the last five years ending 31 March 2003:

(Rs. in crore)

Year	Turnover i.e. (Contract Receipts)	Net Loss (-)	Percentage of Net Loss to Turnover	Sundry Debtors (good)	Percentage of S. Debtors to Turnover
1998-99	217.39	(-)281.58	129.5	668.10	307.3
1999-00	291.21	(-)106.08	36.4	598.28	205.4
2000-01	247.57	(-)172.55	69.7	564.89	228.2
2001-02	250.37	(-)142.08	56.7	520.59	207.9
2002-03	266.40	(-)136.35	51.2	505.17	189.6

A test check of the record revealed that:

The Company suffered losses during all the five years and percentage of loss to turn over ranged between 36.4 and 129.5.

- In the year 1999-2000, there was a waiver of interest payable by the Company on the loans sanctioned by the Government of India, under the Financial Restructuring–cum-Financial Assistance Package with effect from April 1999.
- The accumulated loss of the Company upto 2002-03 was Rs. 982.54 crore after taking into consideration interest waival of Rs. 957.81 crore under the restructuring package referred to above. Otherwise, actual accumulated loss would have been Rs. 1940.35 crore.

The Ministry stated (August 2003) that Sundry Debtors is an area of concern and the poor financial position of the Company is on account of slow down and increased competition in the steel sector, low margin due to severe competition, and high manpower and other costs.

6.4 Marketing Performance

The value of orders secured by the Company in steel/non-steel sectors and the total turnover during the years 1998-99 to 2002-03 were as follows:

(Rs. in crore)

Year	Value of Tenders submitted	Value of orders secured			Percentage of orders received for Steel Sector	Percentage of orders against Tender submitted.
		Steel Sector	Non Steel Sector	Total		
1998-99	2520.73	78	238	316	24.7	12.5
1999-00	1387.84	60	301	361	16.6	26.0
2000-01	N.A.	60	141	201	29.9	N.A.
2001-02	640.95	52	190	242	21.5	37.8
2002-03	704.07	82	226	308	26.6	43.7

Though the Company was incorporated with the main objective of construction of steel plants and manpower of the Company available at steel plants were in the range of 81.3 percent to 86.7 percent of the total manpower, the Company's performance in securing orders from steel plants was poor as it ranged between 16.6 percent and 29.9 percent of the total orders received. As a result major portion of workforce in the steel plant construction remained idle or underutilized. The management had not taken any action for redeployment of the workforce.

Ministry stated (August 2003) that the principal strategy for reviving the Company had been manpower reduction and thus maintaining an appropriate profile of workforce had become secondary.

6.5 Methodology for Execution of Contract Works

The main activities of the Company was to secure construction works and to implement the same through departmental workforce and departmental machinery, sub-contractors/associates; and piece rated workers (PRWs), etc registered with the Company.

A test check of the record, however, revealed that:

- Even after lapse of 35 years of incorporation, the Company had not evolved a clear policy laying down criteria for off loading/sub-letting of the contracts. Works undertaken by the Company were off loaded /sublet on random basis.

- There was no system to analyse, after securing a job, the alternatives of execution through different agencies viz departmental resources, sub-contractors or PRWs at the most economical cost.

- There was no proper planning for utilization of departmental manpower and machinery.

- The Company had not fixed any minimum percentage of overhead and profit element for off loading/sub let of contracts. Percentage of overhead & profit varied from 2.5 to 25 per cent of value of work during the period under review.

- Normally major contracts valuing Rs.10 crore or more were executed through MOU/Business Associates. To secure high value contracts, the Company entered into pre tender tie–up with the contractors through MOU and awards the whole or substantial work to them for execution.

- The Company offloaded the work to sub contractors on single tender basis.

- Normally, for work valuing less than Rs.5 crore, agencies were selected through limited tender procedure from empanelled agencies. However, in certain cases, though the party was not empanelled at the time of limited tender it was subsequently got empanelled in the Company and the work awarded.

6.5.1 The value of orders executed through sub contractors/PRWs and through departmental resources during the period 1999-00 to 2002-03 were as follows:

(Rs. in crore)

Year	Total Turnover	Execution through contractors/PRWs	Execution through departmental sources	Percentage executed through contractors/PRWs
1999-00	291.21	272.03	19.18	93.4
2000-01	247.57	227.15	20.42	91.8
2001-02	250.37	229.24	21.13	91.6
2002-03	266.40	245.25	21.15	92.1

It may be seen that the works executed through sub-contractors/PRWs were very high and ranged between 91.6 and 93.4 percent during 1999-00 to 2002-03 even though sufficient manpower was available with the Company.

Ministry stated (August 2003) that execution by departmental workforce is more expensive in terms of operating cost. The reply is not tenable as departmental work force and machinery costs are mostly in the nature of fixed cost and the Company is bound to incur such expenditure irrespective of its utilisation or otherwise.

6.5.2 Off-loading Pattern of construction activity

The most logical policy from a financial viewpoint would be to utilise its own departmental infrastructure in the shape of machinery and workforce instead of contracting out.

A test check of 171 contracts valuing Rs.1378.45 crore (One contract valuing Rs. 5.80 crore secured from private sector and remaining 170 contracts from public sector/Governments) executed by the Company during the period 1995-96 to 2002-03 revealed that:

- only two contracts valuing Rs. 6.91 crore were executed departmentally,
- 25 contracts valuing Rs. 610.00 crore were got executed on the basis of MOU/Business Associate to nominated private agencies on single tender basis without following any tendering procedure or without verifying credentials of contractors;
- 18 contracts valuing Rs. 51.71 crore were awarded on single tender basis while 90 contracts valuing Rs. 444.18 crore were off-loaded on limited tender basis to sub-contractors;
- in only four contracts valuing Rs. 32.98 crore, open tender system was followed;
- 21 contracts valuing Rs. 192.66 crore were executed partially through contractors/PRWs and partially through departmental workers, and
- 11 contracts valuing Rs. 40.01 crore were executed through deployment of PRWs.

Thus, execution of work departmentally was for a value of Rs. 6.91 crore only (one per cent) and through piece rate works was for Rs. 232.67 crore i.e. 16.88 per cent of the total orders received.

6.6 Award and execution of the contracts

On a scrutiny of major contracts, irregularities had been noticed in the following cases:

6.6.1 Infrastructural water supply facilities at Neelachal Ispat Nigam Limited, Duburi

The Company awarded (July 1998 and August 1999) the work of laying of pipeline at Neelachal Ispat Nigam Limited (NINL) Duburi, to two contractors for Rs 4.52 crore instead of lowest offers of Rs 2.92 crore received from three parties for three different works. Awarding of work at higher rate as compared to individual lowest rates for individual works separately resulted in extra expenditure of Rs 1.60 crore.

Ministry stated (August 2003) that technically the work involved in all three schedules was integrated and interdependent on one another and the decision was taken to award the work on over all lowest basis. The reply of the Ministry is not tenable as the management itself had divided the work into 3 schedules in notice inviting tenders and separate rates were invited.

6.6.2 Construction of MLA quarters at Chennai

For execution of work of construction of residential quarters for MLAs (Tower Block, Amenity Block, compound wall etc.) at Government Estate, Chennai awarded by Tamil Nadu Housing Board (TNHB), the Company issued 428 work orders to PRWs on the basis of approved rate structure. While 45 work orders for Rs.3.75 crore were issued to Shri P.Thangavel and 27 works orders to M/s Abi Engineers for a value of Rs.2.32 crore, no agreement was signed with them.

The work of supply of Ready Mix concrete for construction of Tower Block was awarded (October 1998) to M/s L&T at the rate of Rs. 3186/cum for a value of Rs. 117.90 lakh even though actual cost of concrete mix on using departmental crane, specifically purchased for the work was Rs. 2768.65/cum only. This had resulted in loss of Rs. 22.12 lakh at the rate of Rs.417.35/cum for supply of 5300.70 cum.

As per agreement with TNHB, cement and steel was to be supplied by the client on cost recoverable basis at the rate of Rs. 19500/MT for steel and Rs. 3160/MT for cement. Due to non-supply of part quantity by the client, the Company procured steel and cement at the rate of Rs. 15638/MT and Rs. 2470/MT, which was much lower. Thus the Company would have saved Rs. 1.05 crore if the Company had purchased the entire quantity of cement and steel.

Ministry stated (August 2003) that supply of Ready Mix concrete was awarded to L&T considering the urgency, quality and fast performance of concreting work. Contention of the Ministry is not acceptable as the same results could have been achieved by using departmental crane, concrete mixture etc., which were specifically purchased for the work and available with the management.

6.6.3 Civil Work in Basic Oxygen Furnace of Neelachal Ispat Nigam Limited

For execution of civil engineering works of Basic Oxygen Furnace (BOF), Gas Cleaning Plant (GCP) and Continuous Casting Plant (CCP) of Neelachal Ispat Nigam Limited (NINL) the Company awarded (June, July and December 2000) the work to three parties for a sum of Rs. 4.05 crore, Rs.4.97 crore and Rs. 1.67 crore on single offer basis. The Company had not invited open tenders and works valuing Rs.10.69 crore were awarded on single offer basis.

While awarding the works to private parties on single offer basis, the approved rate structure for payment to PRWs had not been considered. Due to awarding the work at higher rates as compared to approved rate structure, the Company suffered a loss of Rs 0.75 crore.

Ministry stated (August 2003) that the department got very little response from the empanelled agencies. As the client was insisting for immediate award of work to resourceful agencies, the work was awarded. It was also stated that completion of the work by PRWs was not possible. Contention of the Ministry is not tenable in view of the fact that no efforts were made to get the work executed through PRWs.

6.6.4 Make-up Water System Project of NTPC at Simhadri

National Thermal Power Corporation Limited (NTPC) awarded (August 1999) the Company, the work for supply of make-up water system turnkey package for its project at Simhadri at Rs. 62.55 crore and transportation, insurance and erection works at Rs. 50.19 crore plus Japanese Yen 5.53 crore (Rs 2.00 crore). For execution of the work, the Company associated M/s Navayuga Engineering Company Limited (NEC) on four per cent margin. The work scheduled for completion by August 2002, had not been completed so far (March 2003).

It had been noticed that:

- The major part of the work involving procurement and supply of equipment, transportation, etc, was not executed departmentally, for which they had adequate expertise. By executing the above work departmentally, the Company would have increased the profit margin by Rs. 14.31 crore.
- The work order received from the client was for a value exceeding Rs.100 crore. However the Company did not call for any open tender for off-loading the work.
- In terms of clause 7.1 of the special conditions of the contract, the Company was entitled to 15 percent advance on the total value of contract, whereas no advance was payable to the suppliers. The Company, however, passed on the same to Navayuga Engineering Company Limited (NEC) resulting in undue benefit to contractor.
- NTPC passed on export benefits to the Company, which was further passed on to NEC without any specific work done by them resulting in an undue favour to the private party and a loss of Rs.6.27 crore to the Company.

Ministry stated (June, 2002) that the Company had a transparent bidding procedure and award was made against open tender invitation for empanelment of agencies. As the concerned work was of technical nature involving construction in open turbulent sea, it was awarded to NEC in view of their specialisation in such type of work.

Ministry 's reply is not tenable, as the Company did not invite any tender whether open or limited. Moreover the agency was asked to get itself empanelled just before submission of tender. Thus, the Company's decision to off-load a work of more than Rs. 100 crore to a private party without calling for any open/limited tender had not only vitiated the sanctity of the transparent tendering procedure, but also led to a loss of Rs.20.58 crore (Rs. 14.31 crore plus Rs 6.27 crore).

6.6.5 *Construction of Multi-storied Secretariat Building at Dispur, Guwahati*

Public Works Department (Building), Assam, awarded (February 1999) the work of construction of multistory building at Dispur at a total value of Rs.69.58 crore. The work was scheduled for completion in 36 months i.e. by February 2002.

For execution of the work, the Company appointed M/s. R.S.K. Builders as Business Associate and awarded the work at a margin of 12.5 percent. Due to slow progress, the Government of Assam decided (October 1999) to withdraw the work from the Company and award the work to another agency.

The Company's writ petition for restoration of work was dismissed by the Hon'ble High Court and the Company had gone for redressal to the Hon'ble Supreme Court. Further developments of the case are awaited. In the mean time, the client took ex-parte measurement and assessed the value of work done as Rs.31.93 lakh. The client encashed bank guarantee for Rs. 0.68 crore (March 2001).

Thus, slow progress of work by Business Associate and lack of proper monitoring by the Company resulted in foreclosure of contract by the client and led to loss of margin of Rs.8.70 crore (Rs. 69.58 crore x 12.5 per cent).

Ministry stated (August 2003) that the Company has no comment on loss of business, as execution of jobs is tough due to adverse law and order situation in the region. Contention of the Ministry is not acceptable as law and order situation was known at the time of taking up the work.

6.6.6 *Processing of slag at Bokaro*

Bokaro Steel Plant awarded the work of processing of slag to the Company in April 1997 for Rs.4.69 crore. For processing of 100 MT slag per day, the Company assessed the requirement of nine Mates with 153 workers and seven trucks/dumpers along with departmental crushers. The Company had requisite manpower and machinery at that station. Instead of taking up the entire work departmentally, the Company got the work executed partly through PRWs.

The work executed upto December 2000 was 1.24 lakh MT, out of which 0.87 lakh MT were executed by PRWs. Due to not executing the entire work through departmental resources the Company suffered loss of revenue of Rs.58 lakh.

Ministry stated (August 2003) that though there was a large workforce at Bokaro city, it was not possible for the Company to carry out work of large quantity with these manpower and departmental labour may not always guarantee quality of work. Ministry's reply is vague and not acceptable in audit.

6.6.7 *Loss of Rs. 56.93 lakh due to acceptance of uneconomic rate*

The work of construction of Blast furnace complex at Mangalore was completed in December 1999 for Rs. 13.11 crore. Against above contract receipt, total variable expenditure alone was Rs.13.68 crore, consisting of contract payment to PRWs Rs.

3.52 crore, consumption of materials worth Rs. 9.44 crore and interest paid on advance from client for Rs.0.72 crore. This had resulted in loss of Rs. 57 lakh.

Ministry (August 2003) stated that the Company would be advised to comply with necessary cost control measures.

6.7 Non recovery of dues from the contractors /PRWs

The Company was supplying materials on cost recovery basis and equipment on hire charges basis. Apart from this, advances were also given to various contractors for different works. However, cost of material, hire charges, advances etc. were not recovered from running Bills regularly. This resulted in accumulation of amounts recoverable from the contractors. At the end of work, amount recoverable worked out to be more than the amount payable to contractors, which made the recovery doubtful.

A test check of the records revealed that an amount of Rs. 3.53 crore remained unrealized from 250 contractors of Bokaro and Vizag units for the last 5 to 10 years as under: -

Sl. No.	Name of unit	Name of work	No. of contractors	Amount outstanding (Rs. in lakh)	Remarks
1	Vizag	Civil Eng. Works	1	14.80	Non realisation of arbitration award
2	Bokaro	Site works	13	71.89	Cost of balance materials
3	-do-	-do-	234	213.48	Negative bills of contractors
4	Vizag	-do-	2	53.07	-do-

Ministry stated (August 2003) that the Company has been taking steps for recovery of these amounts.

6.8 Conclusion and Recommendations

- Taking of jobs of mere civil and ancillary nature, offloading the major jobs to private parties on extraneous considerations, non-observance of transparent tendering procedure and lack of close monitoring led to low profit margin and low turn over of the Company.

- Lack of optimum utilisation and non maintenance of appropriate profile of workforce resulted in awarding the works to the contractors instead of executing the same departmentally.

There is immediate need for redeployment of the workforce according to the requirement, preparation of control estimates after receipt of work orders and before awarding to the sub contractors, inviting open tenders in respect of major works and close monitoring for realization of sundry debtors.

Section - IV
RASHTRIYA ISPAT NIGAM LIMITED

CHAPTER : 7
RASHTRIYA ISPAT NIGAM LIMITED

7.1 Introduction

Rashtriya Ispat Nigam Limited (RINL) was formed in February, 1982 under the Administrative Control of Ministry of Steel, Government of India, to take over the Visakhapatnam Steel Plant (VSP) from Steel Authority of India Limited (SAIL) and to construct a 3.4 million tones integrated steel plant comprising Coke Oven Batteries, Blast Furnaces, Steel Melt Shop, Rolling Mills, Thermal Power Plant etc.

The Company started full year's operation in 1993-94 and is also operating 3 captive mines at Jaggayyapet, Madharam and Garbham for meeting its captive consumption of Lime Stone, Dolomite and Manganese respectively.

7.2 Organisation set-up

The administrative and overall control of business activities of the Company is vested with the Board of Directors headed by Chairman-cum-Managing Director who is assisted in day to day management by four functional Directors i.e. Director (Commercial), Director (Operations), Director (Finance) and Director (Personnel).

7.3 Investment and Return

Against the authorised share capital of Rs. 8000.00 crore, the paid-up capital as on 31 March 2003 was Rs. 7827.32 crore wholly owned by Government of India as per details given below:

		Rs. in crore
a)	Equity Shares	4889.85
b)	Cumulative redeemable preference shares	2937.47
	Total Paid-up Capital	**7827.32**

The Company had not so far paid any dividend to the Government of India due to losses suffered by the Company.

7.4 Production Performance

(in thousand MT)

Performance Indicator	Installed Capacities	Actual Production		
		2000-01	2001-02	2002-03
Hot metal	3400	3165 [93]	3485 [103]	3942 [116]
Pig iron	556	258 [46]	374 [67]	517 [93]
Liquid steel	3000	2909 [97]	3083 [103]	3357 [112]
Blooms	2820	2724	2892	3155

		[97]	[103]	[112]
Billets	1857	1756 [95]	1861 [100]	1987 [107]
Bar products	710	604 [85]	715 [101]	799 [113]
Wire rods	850	827 [97]	868 [102]	915 [108]
MMSM Products	850	671 [79]	782 [92]	908 [107]
Saleable Steel	2656	2507 [94]	2757 [104]	3056 [115]

Figures in square bracket indicates percentage of actual production to installed capacities.

7.5 Financial performance

The financial results of the Company for the last three years ending 31 March 2003 were as below:

			Rs. in crore
Particulars	**2000-01**	**2001-02**	**2002-03**
Income from operations	3436	4081	5058
Income from other sources	283	90	(-) 50
Expenditure	3656	3928	4304
Interest	349	290	186
Profit/Loss (-) before tax and prior period adjustments	(-) 286	(-) 47	518
Prior Period adjustments (-) indicates Net Credit	(-) 5	(-) 28	3
Profit before tax	(-) 291	(-) 75	521
Tax provision	Nil	Nil	Nil
Profit/Loss (-) after tax	(-) 291	(-) 75	521
Proposed dividend	Nil	Nil	Nil

7.6 Manpower

The total manpower strength of the Company as at the end of the last four years ended on 31 March 2003 is given below:

Year	**Executives**	**Non-executives**	**Total Man-power**
2000-01	4027	13104	17131
2001-02	4203	12823	17026
2002-03	4308	12586	16894

The major findings in the course of transaction audit are discussed in subsequent chapter.

CHAPTER : 8
MAJOR FINDINGS OF TRANSACTION AUDIT

8.1 Avoidable payment of surcharge Rs. 1.67 crore due to failure to maintain the power factor at the prescribed level

The failure of the Company in maintaining correct power loads resulted in avoidable expenditure of Rs.1.67 crore towards penalty.

A review of the bills of the Company for the four years period from 1998-99 to 2001-02 revealed that in 8 months, the power factor (PF) recorded was less than the prescribed level of 0.90 and it ranged between 0.37 and 0.86. As a result the Company paid Rs.1.67 crore to Transmission Corporation of Andhra Pradesh Limited (AP TRANSCO) as penalty due to low power factor (PF). The Company's request (February 1999) to waive the penalty has not been considered by the APTRANSCO so far (May 2003).

In terms of Tariff Regulations of AP TRANSCO, every consumer has to maintain a power factor (PF) of not less than 0.90 during any month. If the PF falls below 0.90 during any month, the consumer has to pay a surcharge ranging from one to three percent of current consumption charges of that month for every 0.01 fall in the power factor.

Management stated (July 2003) that import of active power required to improve the power factor to 0.9 would have been costlier than paying penalty for low power factor. Further, during the above months it was not economically feasible to improve the power factor to 0.9 and as such it was unavoidable for the Company to pay the surcharge.

The contention of the Management is, however, not tenable as despite higher import of power ranging between 46,000 and 38,04,910 kWh from APTRANSCO, PF could not be maintained during April 1999, January and June 2000, March, April and August 2001. This shows that there was no necessity to import additional power to maintain power factor at the stipulated level as contended by the Management.

Thus failure on the part of the Management to maintain correct power load resulted in avoidable expenditure of Rs.1.67 crore towards penalty for low power factor.

The matter was referred to the Ministry in July 2003, their reply is awaited (September 2003).

8.2 Avoidable expenditure of Rs.1 crore towards penalty for non compliance with Forest Conservation Act

The Company started mining operations without prior approval of Central Government, which resulted in levy of Rs.1 crore towards compensatory afforestation charges

The Company was accorded (August 1999) permission by the Government of India to dereserve 900 Hectares (Ha) of forest land as against its permission sought (May 1997) to dereserve 1800 Ha of forest land. As the Company started its mining operations without prior approval of Central Government, the latter while according the above approval, also imposed normal compensatory afforestation charges of Rs.5.40 crore and penal compensatory afforestation charges amounting to Rs.1 crore in violation of the Forest Conservation Act 1980 (the Act). Accordingly, the Company paid (March 2000) Rs.6.40 crore.

As per Section 2 of the Forest Conservation Act 1980 (which came into force from 25th October 1980), prior approval of the Central Government is required before dereserving any forest area. As clarified (May 1985) by the Law Ministry such prior approval is required if the said land is not already broken up or cleared before the commencement of the Act. Further the Act also stipulates levy of penal compensatory afforestation charges over the area worked/used in violation of the Act.

The Company entered into (August 1980) a lease agreement for 2195 Ha of land with Government of Andhra Pradesh for mining limestone in Jaggayyapeta mining area for a period of 20 years and started its mining operations in 1989 on 83.03 Ha of forestland without the requisite approval. The Forest Department objected (January 1994) to the mining operations. The Company, however, based on a stay order obtained from the High Court continued the mining operations. These were finally stopped in March 1997 in response to the notice given by the Forest Department citing the Supreme Court Order of December 1996 in another writ petition.

Management stated (July 2003) that it did not come under the purview of the Act since its lease was granted before the Act became effective and it started the activities like prospecting, exploration, site survey, demarcation of boundary, etc before commencement of the Act. Accordingly it had contested the orders of the Forest Department through a writ petition.

Management's reply is not tenable. The Act was quite clear that prior approval was required in cases where the land was not already broken or cleared by the time the Act came into effect. Since the Company had not started mining operations by the time the Act came into effect, the Management's contention was not accepted by the Forest Department and it imposed penal charges. The Company, as a responsible corporate, should have obtained prior permission as per Statute. In effect the Company had to pay penal levy of Rs. 1 crore and also lost precious time in afforestation efforts.

The matter was referred to the Ministry in July 2003, their reply is awaited (September 2003).

Section - V
MSTC LIMITED

CHAPTER : 9 MSTC LIMITED

9.1 Introduction

MSTC Limited (formerly known as Metal Scrap Trade Corporation Limited) was incorporated as Public Limited Company under the Companies Act, 1956 on 9 September 1964. In February 1974 it was made a subsidiary of Steel Authority of India Limited (SAIL). It was converted into fully owned Government Company during 1982-83 by transferring the shares in the name of the President of India. The main objectives of the Company are to procure, purchase, process, convert, sell, import and export all types of metal scrap. The objectives of the Company are also to act as selling/purchase and/or handling agents, commissioning agents, canalizing authority for export, import, stock, purchase sell etc. for all types of metal scrap.

9.2 Organisation set up

The administrative and overall functional control is vested with the Board of Directors headed by Chairman-cum-Managing Director who is assisted in day to day affairs of the Company by officers of the Company.

The Company has two major operational divisions.

Marketing Division: This division deals with import and export of various commodities as inputs (raw materials) for industries. Commodities include steel scrap, HR coils, etc.

Selling Agency Division: This division deals with selling of scrap from steel plants, Public Sector Undertakings and private sector organizations on commission basis. Also sales are made through e-auction within the country.

9.3 Investment and returns

Against the authorised equity share capital of Rs.5.00 crore, the paid-up capital as on 31 March 2003 was Rs.2.20 crore, of which Rs 1.98 crore had been invested by the Government of India. The return on the above investment in form of dividend paid by the Company was 35 per cent, 42 per cent and 83 per cent during the last three years ending 31 March 2003. Accordingly Government of India received Rs. 69.18 Lakh, Rs. 83.02 Lakh and Rs. 164.06 Lakh during 2000-01, 2001-02 and 2002-03 respectively as dividend from the Company.

9.4 Financial performance

(Rs. in crore)

Particulars	2000-01	2001-02	2002-03
Income from operations*	336.21	434.12	2058.81
Income from other sources	13.11	19.62	20.52
Expenditure	335.53	440.94	2046.31
Interest	7.46	5.66	16.28
Profit before tax	6.33	7.15	16.74
Tax provision	2.53	2.61	7.69
Profit after tax	3.80	4.54	9.05
Proposed dividend	0.77	0.92	1.83

9.5 Manpower

Total manpower strength of the Company as on 31 March 2003 is 287 as given below:

Category	Number of Employees
Group A	125
Group B&C	135
Group D	27
Total	287

CHAPTER : 10
MAJOR FINDINGS OF TRANSACTION AUDIT

10.1 Loss of Rs. 8.49 crore due to non recovery of sale considerations and interest

Decision of the Company to sell the material to a loss making Company on credit in April 1997 without any financial guarantee led to loss due to non recovery of sale consideration and interest amounting to Rs. 8.49 crore.

MSTC Limited (Company) filed (July 2001) a claim of Rs. 3.80 crore with the Official Liquidator (OL) of M/s Tamil Nadu Steels Limited (TNSL), which was ordered (June 1998) for closure by the State Government, as it was unable to proceed with its operations on account of continuous and huge losses since 1994-95.

In fact the Company had sold a quantity of 4609.190 MT of shredded scrap valuing Rs. 3.80 crore to TNSL between April 1997 to June 1997 with interest free credit upto 26 August 1997. In case the payment was not made by the due date, the outstanding would attract interest at the rate of 24 percent per annum. As TNSL was facing a severe financial crunch since 1994-95 and had stopped production in their steel melting shop and rolling mill with effect from 26 June 1997 and 17 August 1997 respectively, the Company could not recover their dues of Rs. 3.63* crore on account of sale consideration and Rs.4.86 crore towards interest upto March 2003. In the absence of any security, the Company absorbed the loss by writing off principal from their accounts and the claim of the Company was included in the list of unsecured creditors.

Management/Ministry, while accepting the loss (June/September 2002) pleaded that the Company sold the material without obtaining any financial guarantee by trusting the words of a State Government Company.

The replies of the Ministry/Management is not tenable as the decision of the Company to trust the State Government Company (which was already under severe financial crunch) was neither commercially prudent nor in the financial interest of the Company.

Thus due to sale of material on credit to a loss making Public Sector Undertaking or State Government Company without observing commercially prudent practice of financial safeguards, the Company sustained a loss of Rs. 3.63 crore towards material value besides loss of interest of Rs. 4.86 crore for the period from September 1997 to March 2003.

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* *After adjusting Rs. 17 lakh of TNSL lying with the Company related to other transactions.*

Section - VI

NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED

CHAPTER : 11
NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED

11.1 Introduction

National Mineral Development Corporation Limited, Hyderabad was incorporated on 15 November 1958 with the main objective of exploring and exploiting mineral resources (other than oil, natural gas and coal) in the country. The Company started its operations with a 2 million MT capacity of sized iron ore by development and operation of Kiriburu Iron Ore Project, Bihar and has now grown to a 15.5 million MT capacity organisation with three major iron ore mines at Bailadila-14/11C, Bailadila-5 in Chattisgarh and Donimalai in Karnataka. The Company also operates India's only diamond mine at Panna in Madhya Pradesh.

11.2 Organisation set up

The administrative and overall functional control of the Company is vested with the Board of Directors headed by the Chairman and Managing Director who is assisted in day to day function of the Company by four functional Directors i.e. Director (Production), Director(Finance), Director (Technical) and Director (Commercial).

11.3 Investment and returns

Against the authorised share capital of the Company of Rs 150.00 crore, the paid up capital of the Company as on 31 March 2003 is Rs.132.16 crore of which Rs 130.03 crore (98.38 percent) is held by Government of India. During last three years ending 2002-03 the Company paid a dividend of Rs.26 crore, Rs.26 core and Rs.39 crore respectively.

11.4 Financial performance

The financial results of the Company for the last three years ending 31 March 2003 were as below:

(Rupees in crore

Particulars	2000-01	2001-02	2002-03
Income from operations	1015.05	1130.05	1214.23
Income from other sources	59.95	99.87	97.15
Accretion/(Decretion) to Finished Goods/Work In Progress	12.86	38.19	(17.95)
Expenditure	770.69	919.46	873.51
Interest	--	5.07	--
Profit before tax and prior period adjustments	317.17	343.58	419.92
Prior period adjustments	(1.13)	0.36	0.26
Profit before tax	316.04	343.94	420.18
Tax provision	81.06	92.64	111.71
Add: Deferred Tax Asset	--	5.24	3.73
Profit after tax	234.98	256.54	312.20
Proposed dividend	33.04	33.04	39.65

11.5 *Operational Performance*

The Company's operational performance during last three years is given below:

Performance indicator/Year	2000-01	2001-02	2002-03
Iron Ore	1,50,54,959 WMT	1,56,34,280 WMT	1,69,71,569 WMT
Diamonds	56,955 Carats	81251 Carats	84,348 Carats
Silica sand	--	--	46,800 MT

11.6 Manpower

The total manpower strength of the Company as at the end of each of the last three years ended 31 March 2003 is given below

Year		Executives	Junior Officers	Workmen	Total Manpower
2000-01	Iron Ore Deposit	681	190	4179	5050
	Diamond Mining Project	70	25	438	533
2001-02	Iron Ore Deposit	634	160	4061	4855
	Diamond Mining Project	67	23	415	505
2002-03	Iron Ore Deposit	629	179	3952	4760
	Diamond Mining Project	68	23	391	482

The major findings in the course of transaction audit are discussed in subsequent chapter.

CHAPTER : 12
MAJOR FINDINGS OF TRANSACTION AUDIT

12.1 Avoidable loss of Rs.60.71 lakh due to supply of CLO in lieu of Lump Ore

Due to supply of high value CLO at the price of lower value lump without due approval, the Company suffered a loss of Rs.60.71 lakh during 2000-2001

National Mineral Development Corporation Limited (NMDC), the Company, agreed to supply 30 lakh Wet Metric Tones (WMT) of Lump Ore and 13 lakh WMT of Fine Ore to Japan Steel Mills (JSM) during 2000-01 at a price of Rs.814.16 and Rs.649.66 per WMT respectively from Bailadila Sector. While the Company supplied Lump Ore and Fine Ore as per above agreement, it also supplied 0.82 lakh WMT of Calibrated Lump Ore (CLO) – a high value ore at Rs.814.16 per WMT i.e. at the price of lower value lump. The CLO or Graded Lump Ore was produced through further processing of lump at an additional cost of Rs.74.09 per WMT. Thus, the Company suffered an avoidable loss of Rs.60.71 lakh on this injudicious supply of 0.82 lakh WMT of CLO.

The Management stated (June 2003) that JSM indicated that Bailadilla Lump in the size range of 6.3 to 31.5 mm would be the product for supply during the following long term contract (2001-2005). Therefore, the Company had taken initiative to send a trial consignment of Bailadilla Lump before the commencement of the next contract. This had led to acceptance of its new product in the Japanese Market. As there was no agreed price for the new product it was supplied at the price of an existing product.

The Management reply is, however, not tenable in view of the following:

- There was no indication that JSM sought a sample of new product for its acceptance.
- If the Company wanted to send a sample for acceptance it should have been done as a separate agreement.

The matter was referred to the Ministry in July 2003, their reply is awaited (September 2003).

12.2 Loss of Rs.3.01 crore due to incorrect classification of the iron ore dispatched from Donimalai Mines

The failure of the Company in adopting the nomenclature as per Goods Tariff resulted in higher rate of freight charges of Rs.3.01 crore

The Company dispatches iron ore extracted from its mines at Donimalai Iron Ore Project (DIOP) by rail in train loads (TL) to ports in Chennai and Goa. The tariff for the rail transport is paid on the basis of classification and rates specified in the Goods Tariff notifications of Railways. In terms of such notifications the tariff applicable for iron ore till 31 March 1999 was categorized under class 125 TL. However from 1.4.2000 onwards the classification of Iron Ore was changed to class 120 TL, which entailed payment at lower rate of freight.

A review of the freight payments made on the dispatches of Iron Ore Lump during 2000-01 and 2001-02 revealed that the dispatches from DIOP were charged under class 125 TL by the Railways. This was because the Company classified its ore from DIOP mines as Doni *Lump* which the railways equated with Calibrated *Lump* Ore (CLO). Despite clarification (April 2001) from Railway that tariff applicable to Iron Ore would be under class 120 TL as long as Iron ore is referred to as 'Non-calibrated Lump Iron Ore', the management continued to declare the dispatches from DIOP as 'Iron Ore Lump' till 20 February 2002, which put it in higher tariff class i.e. 125 TL. As a result the Company incurred avoidable expenditure of Rs.3.01 crore as indicated below:-

Year	Seaport	Tariff/MT under		Quantity	Freight paid	Freight payable under class 120	Additional Expenditure
		Class 120 TL Rs.	Class 125 TL Rs.	WMT	Rs. lakh	Rs. Lakh	Rs. Lakh
2000-01	Chennai	390.00	404.80	885146.5	3583.07	3452.07	131.00
	Goa	220.30	228.50	240210.2	548.88	529.18	19.70
2001-02	Chennai	401-70	416.90	871701.4	3634.12	3501.62	132.50
	Goa	226.90	235.40	206631.3	486.41	468.85	17.56
	Total						300.76

The Management stated (June 2003) that the nomenclature 'Doni Lump', which in true sense was not a CLO, was used in forwarding notes to get the lower tariff of class 120 TL. But Railways had charged it under class 125 TL equating it with CLO as per tariff classification. The Company represented (September 2000 and July 2001) to Railways that equating Doni Lump Ore with that of CLO was not correct because the ore had not undergone any manufacturing process/treatment. The Company had started to use the description 'Non Calibrated Iron Ore' from 21 February 2002 after the Railways clarified vide letter dated 18 February 2002 that the Company should classify its product as either 'Non-Calibrated Lump Ore' or 'Calibrated Lump Ore' as there was no classifications called 'Iron Ore Lump' or 'Doni Lump' in the railway classification.

The reply of the Management is not tenable because Railways have been advising the Company to adopt the nomenclature as provided in the Goods Tariff. Instead of acting as per their advice, the Company preferred to prolong the correspondence with the Railways, resulting in the payment of freight at higher rate to the Railways.

Thus, due to non adoption of the nomenclature as per Goods Tariff and / or delay on the part of the management in declaring the Iron Ore being exported from its DIOP as 'Non-Calibrated Lump Iron Ore' the Company had to forego the benefit of lower tariff and, incurred avoidable freight charges of Rs.3.01 crore on the dispatches made during 2000-01 and 2001-02.

The matter was referred to the Ministry in July 2003, their reply is awaited (September 2003).

Section - VII

KUDREMUKH IRON ORE COMPANY LIMITED

CHAPTER : 13
KUDREMUKH IRON ORE COMPANY LIMITED

13.1 Introduction

The Company was incorporated on 2 April 1976 with registered office at Bangalore for the implementation of the Kudremukh Iron Ore Project for manufacturing iron ore concentrate. The Company took over the Kudremukh iron ore Mining Project from the Steel Authority of India Limited to fulfil the terms and conditions of the 'Sale and Purchase Contract' entered into by the Steel Authority of India Limited, with the National Iranian Steel Industries Company of Iran on 4 January 1975, and of the related financial agreement centered on the 4 November 1975 between the Steel Authority of India Limited and the Imperial Government of Iran for the advance of \$630 millions. The Pellet Plant was established in April 1987 to utilise three million MT of concentrate. Main objectives of the Company were:

(a) To acquire mines, mineral and mine contracts

(b) To process and prepare for market ore, metal, mineral and mineral substances of all kinds.

(c) To establish the Company in the domestic and international market as suppliers of quality iron ore concentrate and pellets.

13.2 Organisation Set Up

The Board of Directors manage the affairs of the Company and the day-to-day work is looked after by the Chairman-cum-Managing Director (CMD) assisted by three functional Directors viz., Director (Finance), Director (Production and Projects) and Director (Commercial) in charge of sales activities of the Company. CMD is also assisted by Executive Director (Personnel Administrative & Technical Services) for administrative matters and technical services and Executive Director (Materials) for purchase activities.

13.3 Investment and returns

Government of India is holding equity shares of Rs 628.14 crore of the Company.

Dividend received by the Government during the last three years;

Year	Dividend (Rs. in crore)	Percentage
2000-2001	21.98	3.5
2001-2002	21.98	3.5
2002-2003	21.98	3.5

13.4 Production Performance

Actual production of concentrate and pellets during the last three years are indicated below:

Performance Indicator/Year	Installed Capacity (Qty. in million MT)		Production (Qty. in million MT)		Capacity Utilisation in percentage	
	Concentrate	Pellet	Concentrate	Pellet	Concentrate	Pellet
2000-01	7.500	3.500	5.000	2.737	75	78
2001-02	7.500	3.500	5.410	3.215	81	92
2002-03	7.500	4.000	5.532	3.451	74	86

13.5 Financial performance

The following table indicates the financial performance of the Company for the last three years:

(Rs. in crore)

Particulars	2000-2001	2001-2002	2002-2003
Income from operations	583.03	721.69	714.58
Income from other sources	28.81	18.71	37.29
Expenditure	568.82	639.18	621.36
Interest	0.12	0.03	0.18
Profit before tax and prior period adjustments	65.86	102.51	109.77
Prior period adjustments	1.09	(-) 0.34	6.22
Profit before tax	66.95	102.17	115.98
Tax provision	8.45	13.81	28.45
Profit after tax	58.50	88.37	87.53
Proposed dividend	22.21	22.21	22.21

13.6 Manpower and productivity

The following table indicates the manpower position and productivity per employee during the three years ending 31 March 2003:

Year	Group A	Group B&C	Group D	Total Manpower	Total production (Rs. In lakh)	Productivity per employee (Rs. In lakh)
2000-01	457	1632	201	2290	60586.74	26.457
2001-02	468	1609	202	2279	72298.37	31.723
2002-03	458	1536	187	2181	70640.78	32.389

The major findings in the course of transaction audit are discussed in subsequent chapter.

CHAPTER : 14
MAJOR FINDINGS OF TRANSACTION AUDIT

14.1 Unfruitful expenditure of Rs.1.42 crore due to creation of excess oil storage capacity and avoidable payment of service charges of Rs.96.46 lakh

Creation of excess oil storage capacity by the Company resulted in its underutilisation and unfruitful expenditure of Rs.1.42 crore. Besides, due to time overrun in completion of oil storage tanks, it paid avoidable service charges of Rs.96.46 lakh to Indian Oil Corporation Limited from September 2000 to July 2001.

The Company incurred unfruitful expenditure of Rs.1.42 crore as on May 2001 due to creation of excess oil storage capacity at Mangalore. In addition there was also delay in completion of oil storage tanks resulting in avoidable payment of service charges of Rs.96.46 lakh to Indian Oil Corporation Limited (IOC) from September 2000 to July 2001.

The Company had been using furnace oil (oil) for its pellet plant and captive power plant (CPP) at Mangalore. The Company imported oil through Indian Oil Corporation Limited (IOC) and stored it at latter's terminals. The oil for pellet plant and CPP was drawn from the Company's own tank of 9000 KL capacity and replenished from the IOC tank through the pipeline. For storing and transporting of oil, the Company was paying service charges to IOC.

The Company decided to set up two additional storage tanks of its own of 20000 KL capacity at a cost of Rs.5.57 crore to save on service charges payable to IOC. Subsequently, considering the requirement of the proposed CPP at Kudremukh/Miyyar the storage capacity was enhanced (October 1999) to 30000 KL with revised cost estimates of Rs.7.30 crore. Against the target of August 2000, the project for construction of oil tanks was completed in May 2001 and commissioned in July 2001 at a cost of Rs.6.99 crore.

The average monthly consumption of oil was 6160 KL (1997-98) and 6990 KL (2002-03) and average monthly occupancy level of tanks since commissioning was 10903 KL. Thus, on an average only 28 per cent capacity of the tanks (39000 KL) was utilised. The total capacity of 29000 KL would have been sufficient to cater to the need of the Company for 50 days taking into account the projected oil requirement of 2.10 lakh KL per year. Hence construction of oil storage tanks of 30000 KL instead of 20000 KL resulted in unfruitful expenditure of Rs.1.42 crore (Rs.6.99 crore minus Rs.5.57 crore).

The Management stated (April 2003) that the decision to go in for 30000 KL capacity was based *inter alia* on proposed requirement of the CPP plant at Kudremukh/Miyyar. Non-renewal of mining lease and consequent non-materialisation of CPP at Kudremukh/Miyyar resulted in underutilisation of storage capacity. The Management further stated that it had achieved huge savings of Rs.2.82 crore till March 2003 towards storage/service charges payable to IOC. Ministry endorsed (August 2003) the views of the Management adding that the Company had saved Rs.3.44 crore upto June 2003 towards storage/service charges payable to IOC.

Reply of the Management/Ministry is not tenable as they were aware of the problems in getting further extension of mining lease at the time of approving the project for construction of oil storage capacity of 30000 KL in 1999. The savings cited by the Management/Ministry could have been achieved even at the additional capacity of 20,000 KL.

14.2 Irregular expenditure on foreign travel amounting to Rs. 47.93 lakh

Failure of the Company in regulating foreign travel claims of its employees and Government nominated director in accordance with the instructions of the Department of Public Enterprises resulted in irregular expenditure of Rs.47.93 lakh as on March 2003.

The Company incurred irregular expenditure of Rs.47.93 lakh as on March 2003 due to its failure to regulate foreign travel claims of employees and Government nominated Directors in accordance with the DPE's instructions.

With a view to bringing about economy in expenditure on foreign travel by the officers of the Public Sector Undertakings (PSUs), the Department of Public Enterprises (DPE) issued (September 1995) instructions according to which the consolidated amount paid in respect of foreign travel as per the guidelines of the Reserve Bank of India (RBI) was to cover room rent, taxi charges, entertainment, official telephone calls and other contingent expenditure apart from daily allowance. This consolidated amount was only an upper limit of foreign exchange one could draw and was not one's entitlement. On return from tour, the officials were required to render accounts for all items of expenditure other than daily allowance (DA) prescribed by the Ministry of External Affairs (MEA).

Contrary to the instructions of DPE, foreign travel rules of the Company provided for payment of daily allowance which was more than MEA rates without supporting vouchers. A scrutiny of foreign travel claims of the officials from October 1995 to March 2003 revealed that it admitted such claims amounting to Rs.46.32 lakh. Moreover, Government Director who was Joint Secretary, Ministry of Steels was also paid more than MEA rates without supporting vouchers from January 2001 to March 2003 resulting in irregular expenditure of Rs.1.61 lakh.

Management stated (July 2003) that the Company officials were paid much lower daily allowance than US$ 500 per diem as prescribed by RBI. As the Government servant was nominated to the Board the rates applicable to the Directors of the Company were paid.

The reply is not acceptable as

(i) the RBI instructions envisage the procedure for release of foreign exchange for travel abroad and maximum quantum of foreign exchange that could be drawn per day;

(ii) the rates allowed by the Company were higher than MEA rates as such vouchers should have been obtained for excess amount paid in comparison to MEA rates; and

(iii) as per DPE instructions, the claims of Government servants nominated to the Board should be regulated as per his entitlement under Government instructions.

The matter was referred to the Ministry in July 2003, their reply was awaited (November 2003).

Sudha Rajagopalan

(SUDHA RAJAGOPALAN)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

New Delhi
Dated: 30 December 2003

Countersigned

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

New Delhi
Dated: 31 December 2003