P.U.C. Unit

Reference Copy.

Presented to the Legislature

on 24-2-1981

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR 1978–79

GOVERNMENT OF KERALA

(COMMERCIAL)

SIXTH KERALA LEGISLATIVE ASSEMBLY

Fifth Session

BULLETIN—PART I

(Brief record of proceedings)

Tuesday, February 24, 1981

No. 57

The Assembly met at 8.30 a.m. with Mr. Speaker in the Chair.

Questions

Seven questions in the list of questions posted for the day were answered orally.

Statement by the Chief Minister

The Chief Minister made a statement regarding the death of some persons in Pathanapuram Taluk by liquor poisoning and informed the House that a judicial enquiry will be conducted to enquire into the matter.

Adjournment motion

After hearing the Minister of Home, the Speaker withheld consent to the moving of an adjournment motion given notice by Shri E. Ahamed and eight other members regarding the serious situation reportedly arisen as a result of the murder of a person belonging to Indian Union Muslim League at Manjeswar in Cannanore District.

As a mark of protest against the attitude of the Government in the matter, the members belonging to Indian National Congress (I), Indian Union Muslim League, Kerala Congress (J), Janata Party and National Democratic Party staged a walk out.

Calling attention

1. Shri P. Karunakaran called the attention of the Minister of Community Development and sports to the serious situation reportedly prevailing in Valiaparambu, Padanna, Trikaripur and Cheruvathoor Panchayats in Cannanore District due to scarcity of drinking water. The Minister made a statement thereto.

2. Shri A. V. Thamarakshan called the attention of the Chief Minister to the serious situation reportedly arisen as a result of unemployment among coir workers. The Chief Minister made a statement thereto.

Papers laid on the Table:

The following papers were laid on the Table:

1. G. O. MS. 538/80/GAD dated 25th November 1980 (S. R. O. No. 1276/80).
2. G. O. (P) No. 563/80/GAD dated 16th December 1980 (S. R. O. No. 1253/80).
3. G. O. (P) No. 562/80/GAD dated 16th December 1980 (S. R. O. No. 1252/80).
4. G. O. (MS) No. 412/80/AD dated 30th October 1980 (S. R. O. No. 1071/80).
5. Notification No. 54788/FS2/80/AD dated 2nd January 1981 (S. R. O. No. 29/81).
6. Annual Report and Accounts of the Kerala State Handloom Development Corporation Limited for the year 1978-79.
7. Fourth Annual Report and Accounts of the Steel Industrials Kerala Limited for the year 1978-79 together with the Review.
8. Thirty-third and Thirty-fourth Annual Reports and Accounts of the Forest Industries (Travancore) Limited for the years 1978-79 and 1979-80 together with the Review.
9. Fifteenth Annual Report and Accounts of the Kerala Ceramics Limited for the year 1978-79 together with the Review.
10. Third Annual Report and Accounts of the Kerala State Detergents and Chemicals Limited for the year 1978-79 together with the Review.
11. Fifteenth Annual Report of the Travancore Plywood Industries Limited for the year 1978-79 together with the Review.
12. Fifteenth Annual Report of the Kerala Soaps and Oils Limited for the year 1978-79 together with the Review.
13. Report of the Comptroller and Auditor General of India for the year 1978-79 (Commercial), Government of Kerala.
14. G. O. (P) No. 825/80/Fin. dated 31st October 1980 (S. R. O. No. 1217/80).
15. Notification No. 37243/N3/77/RD dated 31st October 1980 (S. R. O. No. 1021/80).
16. G. O. (P) No. 1326/80/RD dated 31st October 1980 (S. R. O. No. 1022/80).
17. Notification No. 37243/N3/77/RD dated 30th December 1980 (S. R. O. No. 1301/80).

18. Notification No. 1433/80/RD dated 30th December 1980 (S. R. O. No. 1302/80).
19. G. O. (MS) 141/80/F&PD dated 29th November 1980 (S. R. O. No. 1141/80).
20. G. O. (P) 151/80/F & PD dated 8th November 1980.
21. G. O. (MS) 306/80/LA&SWD dated 22nd December 1980 (S. R. O. No. 78/81).
22. G. O. (MS) 304/80/LA&SWD dated 22nd December 1980 (S. R. O. No. 77/81).

Also relaid:

23. G. O. (MS) No. 516/80/GAD dated 3rd November 1980 (S. R. O. No. 1122/80).
24. Notification No. 54021/FS2/79/AD dated 21st November 1980 (S. R. O. No. 1134/80).
25. Notification No. 54787/FS2/80/AD dated 25th November 1980 (S. R. O. No. 1184/80).
26. Notification No. 73131/FS2/80/AD dated 19th November 1980 (S. R. O. No. 1133/80).
27. Notification No. 11848/N2/80/RD dated 1st November 1980 (S. R. O. No. 1126/80).
28. Notification No. 37243/N3/77/RD dated 1st December 1980 (S. R. O. No. 1163/80).
29. G. O. (P) No. 1397/80/RD dated 1st December 1980 (S. R. O. No. 1164/80).
30. Notification No. G. O. (P) 51/80/W&T dated 4th November 1980 (S. R. O. No. 1051/80).

Discussion on the Motion of Thanks to the Governor's Address

The discussion on the Motion of Thanks to the Governor's Address was resumed. Shri E. Ahamed moved his amendment. The following members took part in the discussion:—

Shri M. P. Gangadharan
,, K. Anirudhan
,, A. C. Jose
,, K. P. Prabhakaran
,, E. Ahamed
,, Thomas Kallampally
,, K. Sivadasan
,, C. K. Thankappan

Shri T. M. Jacob
,, K. P. Raman
,, K. P. Noorudeen
Smt. M. Kamalam
Shri M. K. Joseph
,, P. Seethi Hajee
,, M. K. Kannan
,, R. Sundaresan Nair
,, M. C. Cheriyan
,, K. K. Balakrishnan
,, V. K. Rajan
,, Vaikom Viswan

The discussion had not concluded.

The House adjourned at 2.07 p.m. to meet again at 8.30 a. m. on Wednesday, February 25, 1981.

DR. R. PRASANNAN,
Secretary.

ERRATA

Report of the Comptroller and Auditor General of India for the year 1978-79 (Commercial), Government of Kerala.

Sl. No.	*Page No.*	*Para No.*	*Line*	*For*	*Read*
(1)	(2)	(3)	(4)	(5)	(6)
1	(iv)	6	3 of para	Corporations	Corporations,
			4 of para	the Kerala Financial	The Kerala Financial
	6	1.05	9 of page (in italics)	commissiom	commission
2	9	2.01.3	6 of 2nd sub-para	Undertakings (1976-77.)	Undertakings (1976-77).
3	11	2.03	3 of page	Besides loans	Besides, loans
4	14	2.05.4 (b)	5 of para	project esti-	project, esti-
5	16	2.05.5	2nd heading of table	initiated	initiated in
6	24	2.07.5	1st heading of table	Catogory	Category
			Figure against Textiles in 3rd column	117.28	177.28
7	25	2.07.5 (c)	2 of para	Governent	Government
8	26	2.07.5 (d)	16 of para	institutions the	institutions, the
			5 of 2nd sub-para	Company being	Company, being
9	29	2.10	6 of page	Merger	merger
10	42	3.06.1	3 of page	has	had
11	46	3.07.3	9 of 3rd sub-para	desires.	desire.
12	50	3.11	3rd from bottom of page	ie.	i.e.
13	55	3.14.2 (b)	2nd of table	100 tin containers	100 tin containers)
			Figure against excess consumption (per cent) in 4th column	15.00	15.05
14	58	3.15.6	2nd from bottom of page	tripple	triple
15	61	(vii)	4 of para	155.45	155.457
16	62	(xvi)	Bottom line	lakhs) Rs. 70	lakhs) and Rs. 70

102/9019/MC

Sl. No.	*Page No.*	*Para No.*	*Line*	*For*	*Read*
(1)	(2)	(3)	(4)	(5)	(6)
17	70	4.06	item (e) under Assets	advance	advances
18	74	Para	..	5.07.5	4.07.5
19	79	4.08.1	11 of 2nd sub-para	was to be.	was to be
			1st of last sub-para	However these	However, these
20	80	4.08.3 (i)	5-6 of para	Company however	Company, however,
21	83	(xvi)	4 of para	Sales Act	Sales Tax Act
22	89	6(ii)	8 of para	steel dum	steel dumb
			bottom line	May 1978)	(May 1978)
23	91	6 (v)	3 of para	Government 30	Government, 30
			2nd of last sub-para	and have been deposited	and deposited
24	111	16.01.5 (ii)	4 of para	takenover	taken over
25	116	17.01	5 of page	Act has been	Act had been
26	117	18	4th from bottom	1977-88	1977-78
27	118	18	5 of 2nd sub-para	enagaged	engaged

Examination of paras by CPU

Section	Subject	Date of examn.	Receipt of draft Report	Approval of draft Report	Committee's Report No.
I	Govt Corps - Introduction	not discussed	Ketdon		
II	Kerala State Indl. Dev Corpn Ltd	9-12-82 10-12-82	3-7-86 10-11-86	24-11-86	60th 86-87
III	The K.S. Cashew Dev Corpn Ltd	15.12.82 16.12.82	19/7/85 3-1-86	18-3-86	XXX Rep CPU(84-86) 24/3/86
IV	Handicrafts Dev. Corpn of Kerala Ltd	5.1.83 6.1.83	19/7/85	25/6/86	43rd Rep CPU(84-86)
V	Trivandrum Rubberworks Ltd	10.1.83	21/3/85	17-9-85	24th Rep CPU-84-86
VI	Kerala Inland Navigation Corpn Ltd	11.1.83	13/3/85	9/7/85	19th Rep CPU 84-86
VII	Sitaram Textiles Ltd	3.2.83	13/3/85	8-4-85 (9/7)	IV Rep CPU 84-86
VIII	The K.S Dev. Corpn. for S.C & S.T Ltd.	4.2.83	11/3/85	8-4-85	V Rep CPU 84-86
IX	The Kerala State Coir Corpn Ltd	3.2.83	16-4-84 11-6-84	8.4.85	III Rep CPU 84-86
X	Kerala Shipping Corpn Ltd	29.4.83	8/3/85	~~21/3/85~~ 8/4/85	I Report CPU 84-86
XI	Pallathra Bricks & Tiles Ltd	24.2.83	11.11.83 VeHxd 2-12-83	19-1-84	25th Rep CPU 82-84
XII	K.S. Handloom Dev. Corpn Ltd	24.2.83		19-1-84	26th Rep. CPU 82-84
XIII	K.S. Civil Supplies Corpn Ltd	19.x.81	17 8/82	18 2/83	XI Report CPU 82-84
XIV	The Kerala Ceramics Ltd	24.2.83	16/3/85	9/7/85	18th Rep CPU 84-86
XV	Introduction - Statutory Corpn.	Not discussed			
XVI	K.S.E. Board	25/8/83 26/8/83	25-11-86		X (87-89) 17-7-87
XVII	K.S.R.T.C	29.4.83	8/3/85	~~21/3/85~~ 8/4/85	2nd Rep CPU 84-86
XVIII	Kerala State Warehousing Corpn.	2-6-83	16-9-85 28/x/85	18/3/86	28th Rep CPU(84-86) 24/3/86

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PREFATORY REMARKS

Government commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General of India, may be categorised as:

— Statutory Corporations;

— Government Companies; and

— Departmentally-managed commercial undertakings.

2. This Report deals with the results of audit of the accounts of Government Companies and Statutory Corporations. The Report of the Comptroller and Auditor General of India (Civil) contains the results of audit relating to departmentally-managed commercial undertakings.

3. The cases mentioned in the Report are those which came to the notice of Audit during the year 1978-79 as well as those which had come to notice in earlier years but could not be dealt with in the previous Reports; matters relating to the period subsequent to 1978-79 have also been included, wherever considered necessary.

4. In the case of Government Companies, audit is conducted by Company auditors appointed on the advice of the Comptroller and Auditor General, but the latter is authorised under Section 619 (3) (b) of the Companies Act, 1956 to conduct a supplementary or test audit. He is also empowered to comment upon or supplement the report submitted by the Company auditors. The Companies Act further empowers the Comptroller and Auditor General to issue directives to the auditors in regard to the performance of their functions. In November 1962, such directives were issued to the auditors for looking into certain specific aspects of the working of Government Companies. These were revised in December 1965 and February 1969.

5. There are, however, certain companies where Government have invested funds but the accounts of which are not subject to audit by the Comptroller and Auditor General. A list of 7 such undertakings where Government investment is more than Rs. 10 lakhs as on 31st March 1979 is given in Annexure 'A'.

6. The Comptroller and Auditor General is the sole auditor for Kerala State Road Transport Corporation and Kerala State Electricity Board, which are Statutory Corporations while he has the right to conduct an audit of the Kerala Financial Corporation and Kerala State Warehousing Corporation, independently of the audit conducted by Chartered Accountants appointed under the respective Acts.

7. The points mentioned in this Report are those which came to notice during test audit of the accounts of the above undertakings. They are not intended to convey or to be understood as conveying any general reflection on the financial administration of the undertakings concerned.

Chapter I

GOVERNMENT COMPANIES

Section I

1.01. Introduction

There were 69 Government Companies (including 19 subsidiaries) as on 31st March 1979, as against 65 companies (including 11 subsidiaries) as at the end of March 1978. During the year 1978-79, two new Companies, *viz.* Malabar Cements Limited and Foam Mattings India Limited, were incorporated. Two other Companies, *viz.* Carbon and Chemicals India Limited (incorporated in July 1974) and Astral Watches Limited (incorporated in Febraury 1978) became Government Companies by virtue of their becoming subsidiaries of Kerala State Industrial Development Corporation Limited from 19th June 1978 and 11th August 1978 respectively. The accounts of these two subsidiaries were not, however, subjected to audit under Section 619 (4) of the Companies Act, 1956 during the year .

One Company, *viz.* Kerala Water Transport Corporation Limited, was under liquidation.

A synoptic statement showing the summarised financial results of 50 Companies for 1978-79 and of 7 other Companies with reference to the latest available accounts is given in Annexure 'B'. The accounts of the following 16 Companies are in arrears (April 1980):

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Year(s) for which accounts are in arrears*
1	The Kerala State Coir Corporation Limited	Industries	19th July 1969	1975-76 to 1978-79
2	Handicrafts Development Corporation of Kerala Limited	Industries	16th November 1968	1977-78 and 1978-79
3	Kerala Livestock Development and Milk Marketing Board Limited	Agriculture	14th November 1975	1976-77 to 1978-79

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Year(s) for which accounts are in arrears*
4	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	Health	8th September 1975	1977-78 and 1978-79
5	The State Farming Corporation of Kerala Limited	Industries	15th April 1972	1977-78 and 1978-79
6	Kerala State Small Industries Development and Employment Corporation Limited	Industries	6th November 1975	1977-78 and 1978-79
7	The Kerala Premo Pipe Factory Limited	Local Administration and Social Welfare	12th September 1961	1978-79
8	The Kerala State Cashew Development Corporation Limited	Industries	19th July 1969	1978-79
9	The Kerala Fisheries Corporation Limited	Development (Fisheries)	12th April 1966	1978-79
10	Kerala Fishermen's Welfare Corporation Limited	Development (Fisheries)	31st January 1978	1978-79
11	Kerala Tourism Development Corporation Limited	General Administration (Political)	29th December 1965	1978-79
12	The Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	Development	7th December 1972	1978-79
13	The Kerala State Civil Supplies Corporation Limited	Food	25th June 1974	1978-79
14	Kerala State Construction Corporation Limited	Public Works	25th March 1975	1978-79
15	Scooters Kerala Limited	Industries	15th November 1976	1978-79
16	Foam Mattings India Limited	Industries	18th December 1978	1978-79

Kerala State Small Industries Corporation Limited (incorporated on 21st July 1961) was amalgamated with Kerala State Small Industries Development and Employment Corporation Limited with effect from 18th March 1977; but the accounts of the Company for the period 1st April 1976 to 17th March 1977 have not been finalised. The accounts for 1975-76 in respect of Packaging Paper Corporation Limited (incorporated on 29th June 1962) which went into voluntary winding up in 1976-77 are also awaited.

The arrears in the finalisation of accounts were brought to the notice of Government in February 1980.

1.02. Paid-up capital

Total investment by Government by way of share capital in 58 Companies (excluding 11 subsidiaries) at the end of March 1979 was Rs. 7,296.73 lakhs*

1.03. Working results

1.03.1. Out of 50 Companies (including 17 subsidiaries) which had finalised their accounts for 1978-79, 8 Companies (including 3 subsidiaries) had not started commercial operation till the end of March 1979. The working results for 1978-79 of the remaining 42 Companies (including 14 subsidiaries) are analysed in the table given below:—

Particulars		*Number of Companies*	*Paid-up capital*	*Profit (+)/ Loss (—)*	*Percentage of profit to paid-up capital*
			(*Rupees in lakhs*)		
A. Companies other than subsidiary Companies:					
(a) Which earned profits	Industrial and trading	9	1,687.15	(+)246.54	14.61
	Financial	4	1,078.18	(+) 46.08	4.27
(b) Which incurred losses	Industrial and trading	14	1,822.25	(—)281.23	..
	Financial	1	240.00	(—) 7.77	..
	Total	28	4,827.58	(+) 3.62	0.08

*Figures as furnished by the Companies. As per the Finance Accounts the investment in Government Companies is Rs. 6,858.48 lakhs. The difference (Rs. 438.25 lakhs) is under reconciliation.

Particulars		*Number of Companies*	*Paid-up capital*	*Profit (+)/ Loss (—)*	*Percentage of profit to paid-up capital*
			(Rupees in lakhs)		
B. Subsidiary Companies :					
(a) Which earned profits	Industrial and trading	1	85.00	(+)3.42	4.02
	Financial	1	104.00	(+)4.38	4.21
(b) Which incurred losses	Industrial and trading	12	1,016.43	(—)245.21	..
	Total	14	1,205.43	(—)237.41	..

1.03.2. Of the 42 Companies, 15 Companies (including 2 subsidiaries) with an aggregate paid-up capital of Rs. 29,54.33 lakhs had earned profits totalling Rs. 300.42 lakhs. Of these, only 3 Companies declared dividends aggregating Rs. 31.19 lakhs.

Name of Company	*Amount of surplus*	*Amount retained in business*	*Amount of dividend*	*Percentage of dividend to paid-up capital*
		(Rupees in lakhs)		
Travancore Titanium Products Limited	30.62	14.65	15.97	10
Traco Cable Company Limited	22.07	9.09	12.98	10
The Kerala State Financial Enterprises Limited	4.89	2.65	2.24	8

On the other hand, 27 Companies (including 12 subsidiaries) with an aggregate paid-up capital of Rs. 30,78.68 lakhs had incurred losses totalling Rs. 5,34.21 lakhs.

The accumulated loss to the end of 1978-79 of 30 companies (including 12 subsidiaries) out of 42 Companies amounted to Rs. 2,554.89 lakhs. These include 21 Companies which had incurred losses during the previous year also; their accumulated loss increased from Rs. 17,62.08 lakhs at the end of 1977-78 to Rs, 2,209.59 lakhs at the end of 1978-79.

1.03.3. The cumulative losses incurred by the following 8 Companies had exceeded their paid-up capital:—

	Name of the Company	1978—79 Paid-up capital (Rupees in lakhs)	Cumulative loss
1.	The Travancore-Cochin Chemicals Limited	634.75	786.24
2.	Trivandrum Rubber Works Limited	168.69	280.08
3.	The Kerala Ceramics Limited	107.95	273.86
4.	Kerala Electrical and Allied Engineering Company Limited	105.82	185.38
5.	Trivandrum Spinning Mills Limited	65.86	172.77
6.	Keltron Counters Limited	50.00	100.70
7.	The Travancore Plywood Industries Limited	48.59	55.06
8.	Pallathra Bricks and Tiles Limited	20.06	30.26
	Total	1,201.72	1,884.35

1.04. Long-term loans

The balance of long-term loans outstanding against 50 Companies (including 17 subsidiaries) stood at Rs. 8,631.35 lakhs at the end of 1978-79 (Rs. 2,520.48 lakhs from the State Government, Rs. 5,876.61 lakhs from other parties and Rs. 234.26 lakhs as deferred payment credits) representing an increase of Rs. 1,612.33 lakhs over the long-term loans (Rs. 7,019.02 lakhs) outstanding at the end of the previous year.

1.05. Guarantees

The State Government had guaranteed repayment of loans and overdrafts, funds raised by issue of bonds or debentures and payment for machinery purchased (with interest thereon) in respect of 34 Companies as detailed below:—

	(*Rupees in lakhs*)
Maximum amount guaranteed (Principal)	10,357.16
Amount guaranteed outstanding on 31st March 1979	
Principal	6,188.12
Interest	415.95

In consideration of the guarantees given by Government, the Companies have to pay a guarantee commission to Government. According to information furnished (December 1979) by Government, in 14 cases the payment of guarantee commission amounting to Rs. 39.85 lakhs was in arrears as on 31st March 1979. Of this, Rs. 34.72 lakhs was accounted for by the following 4 Companies:

Name of Company	*Amount of guarantee commissiom in arrears as on 31st March 1979** *(Rupees in lakhs)*
The Kerala State Civil Supplies Corporation Limited	13.46
The Kerala State Cashew Development Corporation Limited	8.09
The Kerala Fisheries Corporation Limited	6.78
Kerala State Bamboo Corporation Limited	6.39
Total	34.72

1.06. As on 31st March 1979, there were 9 Section 619-B Companies, *viz.*

1. Transformers and Electricals Kerala Limited,
2. Keltron Component Complex Limited,
3. South India Wire Ropes Limited,
4. Vanjinad Leathers Limited,
5. Steel Complex Limited,
6. Excel Glasses Limited,
7. Power Systems and Projects Limited,
8. Kunnathara Textiles Limited, and
9. Kerala Rubber and Reclaims Limited.

* Figures as furnished by Government are under reconciliation with the figures of the Companies.

Of these, Companies at serial number 1 to 6 had prepared the accounts for 1978-79. These Companies had a total paid-up capital (including advances towards share capital) of Rs. 964.17 lakhs, of which shares of the value of Rs. 598.65 lakhs were subscribed by the State Government (Rs. 161.29 lakhs) and Companies and Corporations controlled by Government (Rs. 437.36 lakhs). While 1 Company (serial number 1) earned a profit of Rs. 122.56 lakhs, 5 Companies (serial numbers 2 to 6) had sustained losses aggregating Rs. 134.35 lakhs. The accounts of the other 3 Companies (serial numbers 7 to 9) for 1978-79 were awaited (April 1980).

1.07. In pursuance of the directions issued to the Company auditors, special reports on the accounts for the year 1977-78 were received in the case of 14 Companies (including 3 companies covered under the provisions of Section 619-B of the Companies Act, 1956). Some of the important deficiencies revealed in these reports are summarised below:—

	Nature of defect	*Number of Companies where defects were noticed*
1.	Absence of accounts manual	4
2.	Imperfect accounting system	1
3.	Absence of regular costing system	3
4.	Absence of budgetary system and comparison of actuals with estimates	3
5.	Absence of internal audit manual	8
6.	Absence of internal audit system	2
7.	Internal audit system not commensurate with the nature and size of business	5
8.	Sales below cost of production	2
9.	Non-determination of surplus/unserviceable stores	2
10.	Man-power in excess of norms	1
11.	Absence of tender system for purchases	1
12.	Non-maintenance/defective maintenance of property/plant/asset registers	1

	Nature of defect	Number of Companies where defects were noticed
13.	Absence of system for ascertaining idle time for labour and machinery	4
14.	Failure to obtain confirmation of balances under sundry debtors	11
15.	Non-fixation of maximum/minimum limits of stores and spares	8
16.	Non-fixation of norms for man-power	2

SECTION II

KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

2.01. Introduction

2.01.1. The Kerala State Industrial Development Corporation Limited was incorporated in July 1961 with a view to meet a long-felt need for a whole time machinery for attention to the industrialisation of the State.

2.01.2. *Main objects* 2

The main objects of the Company are to promote or establish or to aid, assist and finance schemes, projects or enterprises with a view to the overall industrial development of the State.

2.01.3. *Activities*

The Company provides financial 3 assistance for the establishment of new industries, expansion and/or modernisation of existing industries, diversification of lines of production and working capital requirements by way of contribution to the share capital and/or medium and long-term loans. The Company also underwrites issue of shares/debentures and gives guarantees for repayment of the principal and payment of interest on loans obtained from elsewhere. The Company provides

Paras 2.01 to 2.7
Discussed on 9-12-82
& 10-12-82.
C

60th Report (1986-87
26-11-1986

Rep(C) / 24/79-80
Industries Dept

Draft report recd from Legislature Secretariat with letter no. 2002/PUC/B3./86/Leg dt. 2/7/86.
Recd on 3/7/86

H.A. Vetted & returned in letter no Rep(Comml) CPU/Draft Rep./265 dt. 10/4/86

Key. 2
~~Mimo. + Art.~~
Vol: I

Memorandom & Art: of Assn.

10/11/86

H.B.
Key 3
Vol. I

Booklet on KSIDC Ltd - "Whom it serves & how."

Draft Report approved by CPU at the meeting on 24-11-1986

24-11-86

& Key 38/I

II.e

4. Directors report on the A/cs for 1978-79 → Key. 4

II.D

5. Letter from carbon & chemicals → Key 51(a)

Vol. I

Authorised capital is increased to 700 lakhs' — Key 8/I

Key 6-12

6. A/cs & Directors report of the co. for 76-77, 77-78 & 78-79 = Key V: I

promotional assistance through technical appraisal of projects, preparation of feasibility reports, securing letters of intent/industrial licences for new projects and other financial/technical assistance in the implementation of the projects.

The working of the Company was reviewed in the Fourth Report of the Committee on Public Undertakings (1969-70). Some aspects of the working of the Company were dealt with in Section II of the Audit Report (Commercial) for 1972-73. These were examined in the Twenty-seventh Report of the Committee on Public Undertakings (1976-77.)

As on 31st March 1979, the Company had two subsidiaries, *viz.* Astral Watches Limited and Carbon and Chemicals India Limited, with an investment, in the share capital, of Rs. 8 lakhs and Rs. 24.50 lakhs respectively. On the allotment of further shares (Rs. 9.45 lakhs) to the co-promoters, the latter ceased to be a subsidiary from June 1979.

2.02. Capital structure

2.02.1. *Share capital*

As on 31st March 1979, the Company had an authorised capital of Rs. 5 crores divided into 50,000 equity shares of Rs. 1,000 each and a paid-up capital of Rs. 4.94 crores.

2.02.2. *Borrowings*

The Company's debt-equity ratio at the end of each of the three years up to 1978-79 was 1.47:1, 1.73:1 and 1.91:1 respectively. The borrowings at the end of March 1979 aggregated Rs. 942.80 lakhs comprising debenture bonds (Rs.901 lakhs), State Government loans (Rs. 10 lakhs) and loan (under a refinance scheme) from the Industrial Development Bank of India (IDBI) (Rs. 31.80 lakhs). Repayment of debenture bonds (including interest) is guaranteed by the State Government. The Company has not made any amortisation arrangements for the first issue of debenture bonds (Rs. 50 lakhs) due for repayment in 1981.

2.03. Financial position

6

The table below summarises the financial position of the Company for the three years up to 1978-79:—

		1976-77	1977-78	1978-79
			(*Rupees in lakhs*)	
	Liabilities			
(a)	Paid-up capital	464.00	464.00	494.00
(b)	Reserves and surplus	82.26	115.18	131.37
(c)	Borrowings	681.00	801.00	942.80
(d)	Current liabilities (including provisions)	52.09	77.53	70.03
	Total	1,279.35	1,457.71	1,638.20
	Assets			
(a)	Gross block	7.37	10.64	11.71
(b)	*Less*: Depreciation	1.27	1.66	2.20
(c)	Net fixed assets	6.10	8.98	9.51
(d)	Trade investments	497.40	542.61	556.67
(e)	Current assets	102.95	165.07	200.08
(f)	Loans and advances	672.90	741.05	871.94
	Total	1,279.35	1,457.71	1,638.20
Capital employed		1,165.89	1,303.72	1,474.17
Net worth		546.26	579.18	625.37

Note: 1. Capital employed represents the mean of the aggregate of the opening and closing balances of paid-up capital, reserves and borrowings.

2. Net worth represents paid-up captial *plus* reserves and surplus

The investments of Rs. 556.67 lakhs as on 31st March 1979, included Rs. 163.90 lakhs invested in 10 Companies. Of these, one Company (Rs. 1.44 lakhs) was in the process of being wound up, and the management of four textile companies (Rs. 32.69 lakhs) was taken over by the Government of India. The market value of the shares of four Companies was Rs. 87.11 lakhs as against the investment of Rs. 103.86 lakhs. The shares of one Company (investment: Rs. 25.91 lakhs) were not quoted in the market.

OY

This ~~32.69~~ is not realisable as the co. failed to claim within prescribed time limit notified in the take-over order.

a new para is also proposed on this ~~[illegible]~~ for AR 81-82

Key 38/I

7- Kuy 144 - vol: II

According to the Management (vide Note 5 to Company's accounts for 1978-79) the shares of all the 5 Companies had no realisable value due to accumulated losses. Besides loans aggregating Rs. 427.03 lakhs (as on 31 st March 1979) have been considered doubtful of recovery (Note 9 to the Company's accounts for 1978-79).

2.04. Working results

The main income of the Company is by way of interest on loans advanced to the assisted units and dividends on the shares of various companies. While the Company has been earning profits from the second year of its working, it has not declared any dividend so far. Profits before tax during the three years up to 1978-79 were Rs. 22.57 lakhs, Rs. 40.17 lakhs and Rs. 26.94 lakhs, respectively.

2.05. Performance analysis

2.05.1. *Promotional assistance and other activities*

As against 32 letters of intent/industrial licences obtained by the Company up to March 1979, commercial production had commenced in 8 cases (March 1980). The position of the remaining 24 projects is indicated below:—

	Number	*Expenditure incurred (Rupees in lakhs)*
1. Surrendered/cancelled	7	1.78
2. Abandoned/not under active consideration	6	1.94
3. Transferred	4	1.30*
4. Projects under negotiation	6	5.39
5. Project under construction	1	0.10
Total	24	10.51

* Out of Rs. 1.30 lakhs spent on projects transferred, a sum of Rs. 1.28 lakhs was recovered.

2.05.2. *Feasibility studies*

The Company had, up to March 1979, incurred an expenditure of Rs. 26.51 lakhs on the investigation and feasibility studies of 84 cases/schemes. An expenditure of Rs. 7.62 lakhs incurred on 16 projects which fructified was recovered from the entrepreneurs. The Company incurred an expenditure of Rs. 0.25 lakh on 4 projects which were implemented by other parties but the amount was not recovered from them; reasons for non-recovery are awaited (June 1980). An expenditure of Rs. 8.84 lakhs was incurred on 21 projects which were abandoned as not being feasible for want of co-promoters, non-availability of technical know-how/suitable collaborators, etc. The remaining 43 projects on which an expenditure of Rs. 9.80 lakhs was incurred are under different stages of consideration (October 1980).

2.05.3. *Geological and other surveys*

The Company arranged for geological survey of four minerals for commercial exploitation. The progress made in respect of these surveys is indicated below:—

(a) Iron ore

Based on a report of the Geological Survey of India (August 1967) indicating sizeable reserves (330 million tonnes) of magnesite quartzite iron ore deposits in Kozhikode district, the Company obtained a prospecting licence from the State Government (August 1967). However, after a detailed survey, the National Mineral Development Corporation Limited (NMDC) stated (November 1967) that firm indications of reserves were only to the extent of 70-80 million tonnes. An expenditure of Rs. 4.68 lakhs had been incurred on investigations up to October 1974. Government stated (May 1980) that iron ore deposits were found to be of inferior variety and that without establishing a plant for direct reduction to sponge iron, it would not be possible to make use of the deposits.

8. Key-28 / Vol: I : Booklet on 'KSIDC - A guide to investors"

9. Key 12 / I Directors Reports & A/cs for 74-75 & 75-76.

10. Key 149 / Vol: II

11. Key 150 / II — Directors Report – para 11 (d)

12. Key 151 / II — –do– item 7 (b)

13 — –do– 73-74 Page 16

(b) Limestone

A feasibility study (Palghat district) was taken up during 1968-69. The existence of significant quantities of limestone was established in 1972-73 and a public sector company--Malabar Cements Limited—was incorporated in April 1978 for the manufacture of cement. A plant with an installed capacity of 1,200 tonnes of grey cement per day is expected to go into production in 1982.

(c) Graphite

The Company commenced (1973-74) preliminary investigation work for commercial exploitation of graphite deposits in Ernakulam and Idukki districts. However, the mining plan and the draft project report were finalised only in 1979. The Management stated (February 1980) that during the period up to 1976, detailed drilling was taken up by the Geological Survey of India and that from 1976, NMDC and Patna State Graphite Mining Company took up further tests and pilot plant studies. The Company had incurred an expenditure of Rs. 1.01 lakhs up to March 1979. Further developments are awaited (October 1980).

(d) Limeshell

A detailed survey of Kozhikode-Cannanore region (November 1974-August 1976) established an estimated reserve of 7.65 lakh tonnes of limeshell (1977). In the meantime, the Company applied (September 1975) to the Government of India for an industrial licence for establishing a (limeshell-based) chemical complex for the manufacture of calcium carbide etc. at an estimated cost of Rs. 30 crores which was rejected (December 1975). A revised application submitted in July 1976 for a project to manufacture three chemicals at an estimated cost of Rs. 12 crores was also rejected (December 1977). The Company had incurred an expenditure of Rs. 0.58 lakh on these projects up to December 1977. The Management stated (February 1980) that the feasibility of establishing a mini white cement plant at an estimated cost of Rs. 3.50 crores was under consideration.

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2.05.4 *Projects under execution*

(a) Manufacture of potassium chlorate and sodium chlorate

14 The Company entered into an agreement with a private party (August 1975) for the implementation of a project for the manufacture of 1,000 tonnes of potassium chlorate and sodium chlorate. A company, *viz.* Kerala Chlorates and Chemicals Limited was incorporated in October 1975 to implement the project. Though it was expected to commence commercial production in early 1977 actual work on the project was started only in the middle of 1978. The project, estimated to cost Rs. 90 lakhs (June 1979), was to be financed by raising share capital (Rs. 24 lakhs), loan from Kerala Financial Corporation (Rs. 25 lakhs), loan from a bank (Rs. 31 lakhs) and Central subsidy (Rs. 10 lakhs). The Company invested Rs. 9.75 lakhs in the share capital (March 1980) and Rs. 14.25 lakhs was contributed by the private party. To the end of March 1980 an expenditure of Rs. 82.32 lakhs had been incurred on the project. The unit has not yet started commercial production (June 1980).

(b) Formaldehyde project

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In March 1975, the Company obtained a letter of intent for the manufacture of 7,500 tonnes of formaldehyde. A company *viz.* Formalin Products Limited was incorporated (March 1976) and an agreement was concluded with a private firm (August 1976) for the implementation of the project. The project estimated to cost Rs. 110 lakhs, was to be financed by raising share capital (Rs. 25 lakhs), loans (Rs. 70 lakhs) and Central subsidy (Rs. 15 lakhs). The Company agreed (June 1977) to invest Rs. 11.25 lakhs (45 *per cent*) in the share capital and provide a further sum of Rs. 5 lakhs as term loan which was later increased to Rs. 10 lakhs due to the inclusion of additional plant and machinery required for a revised product-mix. The Company had invested Rs. 12.73 lakhs in the shares of this company and advanced Rs. 5 lakhs as term loans (March 1980). The project was originally expected to be commissioned in May 1977. However, as against the estimated project cost of Rs. 110 lakhs, an expenditure of Rs. 36.07 lakhs had been incurred on the project to the end of September 1979. The

14. Agenda item no. 6 of Bd. Meeting (117th) held on 30.6.1979.

16. Agenda item no. 8 of 114th Meeting on 21.11.1978.

* Mr. P. G. K. Pillai

\# Carritt Moran & Associates, Calcutta) 13.25
Mr. P.G.K. Pillai 1.
14.25

19. Para III of IR on the audit of A/cs of the co. for 77-78

20. AE. No. 10 dt. 20.6.79 & Reply of the Co.

* Tiaj promexport, U.S.S.R.

* Metallurgical and Engineering Consultants (India) Ltd.

21. Agenda item No. 16 of 114th meeting held on 27-12-78

work suspended in October 1979 has not been resumed (June 1980). According to the Management (February 1980), the suspension of work was due to delay in getting refinance from IDBI.

(c) Refractory products

19, 20

The Company obtained a letter of intent for a project for the manufacture of 31,000 tonnes of refractory products at an estimated cost of Rs. 24 crores in October 1972 and concluded an agreement (May 1974) with a Russian firm for preparing a feasibility report. The Company had not complied with Government of India's guidelines requiring the association of an Indian consultancy agency right from the beginning. In October 1975 the firm submitted a report for which the Company paid Rs. 2.36 lakhs (January and November 1975). The report did not conform to the terms and conditions of the agreement, and was also deficient in respect of techno-economic data. Indian consultants (a Central Government Company) were thereafter engaged (May 1976) for completing the work. The consultants submitted their report in December 1976 for which the Company paid Rs. 0.24 lakh. The Government of India was thereafter approached (December 1976) for revising the letter of intent from 31,000 tonnes to 37,930 tonnes. In the absence of market survey report, the capacity was, at the instance of Government of India (February 1977), scaled down. A fresh letter of intent was obtained (October 1977) for 12,000 tonnes of refractories at an estimated project cost of Rs. 14 crores. The Company concluded a collaboration agreement with the same Russian firm (February 1978) for technical know-how, etc. at a fee of Rs. 75 lakhs. The Company's application for approval of the agreement was turned down by the Government of India (February 1978) on the ground that the fee was high. Negotiations are continuing with the Russian firm to divide the work between the Indian and Russian consultants as suggested by the Government of India. The Company had spent Rs. 4.71 lakhs on the project upto 31st March 1979. While the project is being processed for over 7 years a workable blueprint for its execution has yet to emerge (October 1980). 21

2.05.5. *Abandoned projects*

The Company surrendered or got cancelled licences for setting up 7 new industries in the State after incurring an expenditure of Rs. 1.78 lakhs. Two of these were for the establishment of spinning mills and the remaining five for setting up of other miscelleneous industries. The following are the details of expenditure incurred on 6 other projects initiated by the Company which have either been abandoned or are not under active consideration:—

Project	*Initiated*	*Given up in*	*Expenditure incurred (Rupees)*	*Reasons for abandonment*
Fluting media, paper pulp, etc.	July 1963	June 1976	1,44,000	Foreign technical collaboration agreement not accepted by the Government of India
Steel castings	1963	March 1979	..	Want of collaboration
Cast iron pipes	October 1963	March 1979	1,666	Want of foreign collaboration on reasonable terms
Cigarette	January 1971	June 1974	9,534	Want of indigenous technical know-how on reasonable terms
Veneer	December 1971	March 1979	772	Want of foreign collaboration on reasonable terms
Fibre reinforced plastic profiles	July 1972	October 1979	38,020	Similar project undertaken by a private party

29. AE No. 33 Dt. 16.7.79 & Reply thereon.
M.C. John, V.M. Joseph, Vellappalli

4 to 6

2.06. Financial assistance

2.06.1 The table below indicates the financial assistance sanctioned by the Company up to 1978-79:—

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Particulars	*Contribution to share capital*		*Loans*		*Guarantees*		*Amount underwritten*		*Total*	
	Number of units	*Amount (Rupees in lakhs)*	*Number of units*	*Amount (Rupees in lakhs)*	*Number of units*	*Amount (Rupees in lakhs)*	*Number of units*	*Amount (Rupees in lakhs)*	*Number of units*	*Amount (Rupees in lakhs)*
Cotton textiles	7	95.05	17	309.84	12	392.94	6	38.50	17	836.33
Iron and steel	4	75.16	6	204.83	1	102.35	1	15.00	6	397.34
Electrical and electronics	7	127.56	8	228.50	3	125.00	2	33.37	10	514.43
Chemicals	7	164.96	6	247.50	1	3.00	2	14.00	11	429.46
Miscellaneous	12	107.61	15	361.15	4	84.39	4	55.35	23†	608.50
	37	570.34	52	1351.82	21	707.68	15	156.22	67††	2786.06

†One unit was wound up.

††There is overlapping in the number of units due to more than one form of assistance to the same unit.

The Committee on Public Undertakings (1969-70) in its Fourth Report had recommended (November 1969) that concrete steps be taken to attract entrepreneurs for establishing industries in backward areas. The following is an analysis of assistance to industries situated in backward areas up to the end of March 1979:—

	Total number of units assisted	*Quantum of assistance given (Rupees in lakhs)*	*Number of units in backward districts*	*Quantum of assistance given (Rupees in lakhs)*	*Percentage of assistance in backward area*
Promoted by the Company	18	1,200.98	12	576.32	47.99
New units assisted	34	985.66	13	322.96	32.77
Existing units assisted	14	599.42	8	151.10	25.21
Total	66	2,786.06	33	1,050.38	37.70

2.06.2. *Share participation*

According to the Company's terms and conditions for participation in share capital, investment shall be made only in such schemes as are technically feasible and economically viable. The table below indicates the investments made, dividends received and the percentage of return on investment during the three years up to 1978-79:— 6,32

Sector	*Investments to the end of the year*		*Investments in operating units*		*Dividends received*		*Percentage of return on investment in operating units*
	Number of units	*Amount (Rupees in lakhs)*	*Number of units*	*Amount (Rupees in lakhs)*	*Number of units*	*Amount (Rupees in lakhs)*	
1976-77							
Private	18	215.72	18	215.72	7	10.06	4.66
Public	12	167.79	11	166.33	1	5.90	3.55
Joint	6	113.89	5	102.89	1	0.47	0.46
Total	36	497.40	34	484.94	9	16.43	3.39

Key 26/I

32. Key. 29/vol. I

Key 27/I

+ Key 30 / vol. I

* Key 31 / vol. I

@ Key 32 / vol. I

aa Key 33 / vol. I

bb - Key 34

Sector	Investments to the end of the year: Number of units	Investments to the end of the year: Amount (Rupees in lakhs)	Investments in operating units: Number of units	Investments in operating units: Amount (Rupees in lakhs)	Dividends received: Number of units	Dividends received: Amount (Rupees in lakhs)	Percentage of return on investment in operating units
1977-78							
Private	19	207.09	19	207.09	7	26.96**	13.02
Public	12	167.79	11	166.33	2	8.41	5.06
Joint	8	167.73	5	104.33	1	0.47	0.45
Total	39	542.61	35	477.75	10	35.84	7.50
1978-79							
Private	19	179.99	19	179.99	6	12.65	7.03
Public	13	175.79	12	174.33	3	8.80	5.05
Joint	10	200.88	6	128.43	2	1.68	1.31
Total	42	556.66	37	482.75	11	23.13	4.79

The low rate of return from the joint sector units was due to the fact that 4 units had not commenced production, 1 unit had commenced production only in 1978-79, 3 units were incurring losses and only 2 units were earning profits.

Out of 31 units which did not declare any dividend in 1978-79, no dividend had been received on an investment of Rs. 313.34 lakhs in 22 units since the date of investment. The following is an age-wise analysis of the investment in these 22 units:—

Period of investment	*Number of units*	*Amount invested (Rupees in lakhs)*
15 years and above	2†	19.75
10—15 years	5	53.73
5—10 years	6	103.19
2— 5 years	2	25.62
Less than 2 years	7††	111.05
Total	22	313.34

** Including arrears of Rs. 14.75 lakhs from one unit.

† 1 unit (investment: Rs. 1.44 lakhs) was under voluntary liquidation.

†† 4 units (investment: Rs. 72.55 lakhs) had not commenced production.

In respect of 8 other units in which the Company had invested Rs. 76.08 lakhs, no dividend had been received during the 3 years up to 1978-79.

The shares of only 18 out of 42 units are quoted on the market. Investments in the shares and their market value as on 31st March 1979 were as under:—

	Equity			*Preference*			*Total*		
Shares quoted	*Number of units*	*Investment*	*Market value*	*Number of units*	*Investment*	*Market value*	*Number of units*	*Investment*	*Market value*
		(Rupees in lakhs)			(Rupees in lakhs)			(Rupees in lakhs)	
Below par	5	112.10	89.92	..	..	..	5	112.10	89.92*
At par	8***	74.64	74.64	5***	29.06	29.06	10	103.70	103.70
Above par	3	60.97	69.87	..	..	..	3	60.97	69.87
Total	16	247.71	234.43	5	29.06	29.06	18	276.77	263.49

The Company has not valued its investments in unquoted shares.

The Committee on Public Undertakings (1976-77) in its Twenty-seventh Report had recommended (October 1976) that shares in the units which had stabilised production and started earning profits should be disposed of by the Company and the sale proceeds re-invested in new industries. The Company has not so far (May 1980) formulated a policy for the disposal of shares.

2.06.3. *Sale of shares*

The Company disposed of shares (July 1978) of the face value of Rs. 27.60 lakhs (market value as on 31st March 1978 as assessed by the Company: Rs. 35.61 lakhs) in two units. The shares in one unit (Rs. 15 lakhs) which was incurring losses were disposed of at par, while those in the other (Rs. 12.60 lakhs) which was earning profit were sold at a premium of Rs. 3.78 lakhs.

*** 3 units are common.

* According to the company's accounts for 1978-79, the investment of Rs. 103.86 lakhs in 4 of these companies had no realisable value (due to accumulated losses).

15
12.6
3.78

31.38

= Allied resins and chemicals Ltd, Calcutta

34. Key $\frac{48}{\text{va:I}}$

2.06.4. *Delay in allotment of shares*

In the case of joint sector units, agreements with the private promoters stipulate the extent of finance to be contributed by each party. In one case, it was agreed that equity capital of Rs. 25 lakhs of the new company would be contributed by the Company (45 *per cent*), the private promoters (45 *per cent*) and other private parties (10 *per cent*). While the Company contributed its full share (Rs. 11.25 lakhs) towards capital (July 1977—March 1979) the promoter had contributed only Rs. 9.24 lakhs up to the end of March 1979 and no amount was contributed by any other party. No shares have so far been allotted to the Company (June 1980) on the ground that such allotment would make it a Government Company.

2.07. Loan assistance

2.07.1. The Company functions as an agency for the promotion of large and medium scale industries in the State while the Kerala Financial Corporation assists small scale industries. Financial assistance by way of loans is granted by the Company for (i) establishment of new units, (ii) diversification of lines of production and (iii) expansion/modernisation. Loans are generally not granted for working capital unless the Company is satisfied that accommodation from banks is either not available or is difficult to obtain. The Company normally entertains applications for loans from industrial concerns only if the amount involved exceeds Rs. 30 lakhs and the amount of loan sanctioned does not exceed 50 *per cent* of the value of assets offered as security. The loans are secured by regular mortgage of all (existing as well as future) fixed assets of the units assisted and are normally repayable within a period not exceeding 15 years; the exact period is determined on the merits of each case. The loans carry interest at rates fixed by the Company from time to time, the rate being not below 11.5 *per cent* per annum with a rebate of 0.5 *per cent* for prompt repayment of instalment of principal and payment of interest. Bridge finance and working capital loans carry a minimum interest rate of 12.5 *per cent* per annum.

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Loans aggregating Rs. 339 lakhs (21 applications: 18 units) were sanctioned during the three years up to 1978-79. This comprised loans of Rs. 117 lakhs (9 numbers) for setting up new industries, Rs. 92 lakhs (3 numbers) for diversification/modernisation and Rs. 130 lakhs (9 numbers) for working capital.

According to a working arrangement between the Company and the Kerala Financial Corporation, only applications for loans exceeding Rs. 30 lakhs are to be entertained by the Company, except in cases where the Kerala Financial Corporation, is unable to sanction the loans, and the Company is satisfied that its intervention is necessary and justified. It was noticed, however, that 19 out of 21 applications processed and sanctioned during the three years ended March 1979 were for loans of less than Rs. 30 lakhs.

2.07.2. *Security for loans*

The loans advanced by the Company are to be secured by regular mortgage of all existing and future fixed assets of the units assisted, and the amount of loan is not to exceed 50 *per cent.* of the value of the assets offered as security. The table below indicates the extent of security available to the Company for the loans outstanding at the end of March 1979:—

Particulars of security	*Number of units*	*Amount of loan outstanding*	*Interest outstanding*	*Total amount*
			(*Rupees in lakhs*)	
First charge on the assets	8	98.69	7.27	105.96
Second charge on the assets	11	226.21	61.01	287.22
Unsecured loans	15	306.09	88.13	394.22
Total	34	630.99	156.41	787.40

It would be seen that the Company holds no security in respect of the loans of Rs. 394.22 lakhs (including interest of Rs. 88.13 lakhs) in 15 units. The Management stated (October 1979) that in the case of temporary loans, it could not insist on the creation of a charge for short periods as it would increase the cost

Paras from 2.07.2 discussed on 10-12-82

43. AE No. 22 and reply of the Co.

44. Key 71 - specimen copy of the agreement.

45. AE 32 Dt. 19.7.79 and reply thereto.

*. Premier Cable Co. Ltd.

53. AE No. 26 Dt. 7.7.79 & reply of the Co.

54. Key 80

of borrowings, and that it would be difficult to obtain the consent of the existing charge-holders. It was noticed, however, that in 8 (out of 15) cases involving Rs. 193.22 lakhs (principal: Rs. 152.35 lakhs; interest: Rs. 40.87 lakhs), the period of loans ranged between 5-10 years.

In regard to loans of Rs. 82.77 lakhs (including interest: Rs. 20.64 lakhs) in 3 units where the Company holds a second charge on the assets, the book value of the fixed assets was only Rs. 87.12 lakhs against which the amount outstanding against loans from the holders of the first charge was Rs. 88.73 lakhs.

2.07.3. *Commitment charges*

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The agreements executed by the Company stipulate that in the event of failure of the loanees to execute the documents within 6 months from the date of the letter of intent or the date of the agreement, whichever is earlier, commitment charges at the rate of 1 *per cent* per annum of the loan amount shall be paid to the Company. A test check in audit (June-July 1979) of the loan transactions for the three years up to 1978-79 revealed that the Company had not claimed commitment charges amounting to Rs. 0.48 lakh (5 loanees) for periods ranging from 2 to 20 months. The Management stated (October 1979) that commitment charges were being recovered only in cases where there was inordinate delay.

2.07.4. *Interest rates*

The rate of interest charged by the Company to individual undertakings was raised from 8.5 to 11.5 *per cent* from September 1974 but 10 units were exempted from the upward revision.

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In one case, the unit which had availed of a loan of Rs. 30 lakhs during 1969-72, was repaying the instalments of principal and interest regularly. During the year 1974-75 it earned a profit of Rs. 44.60 lakhs and paid off the accumulated arrears of dividend on preference shares. The unit requested (June 1974) 54 for extension of time till March 1975 for the payment of interest due in July 1974 on the ground that its bankers had increased the interest rate from 11 to 13.25 *per cent*. Besides acceeding to the request, the Company also decided not to apply the general revision of interest rate up to 31st December 1975. The recovery of interest at lower rate from September 1974 to December 1975 resulted in a loss of Rs. 0.94 lakh.

2.07.5. *Defaults*

An amount of Rs. 787.40 lakhs (principal: Rs. 630.99 lakhs; interest: Rs. 156.41 lakhs) was outstanding against 34 units as on 31st March 1979. The table below indicates the amount of outstanding loans, interest and the amounts overdue for repayment as at the end of March 1979:—

Catogory	*Loan outstanding*				*Amount overdue*				*Percentage of default to balance outstanding*
	Number of units	*Principal*	*Interest*	*Total*	*Number of units*	*Principal*	*Interest*	*Total*	
		(Rupees in lakhs)				(Rupees in lakhs)			
Textiles	8	177.28	25.53	202.81	7	105.57	22.05	127.62	62.9
Chemicals	5	94.00	30.81	124.81	3	53.75	30.80	84.55	67.7
Electrical/Electronics	6	114.63	20.84	135.47	3	19.94	20.84	40.78	30.1
Iron and Steel and Steel products	5	111.73	62.27	174.00	5	65.07	49.21	114.28	65.7
Miscellaneous	10	133.35	16.96	150.31	6	35.35	13.84	49.19	32.7
Total	34	630.99	156.41	787.40	24	279.68	136.74	416.42	52.9

The Industrial Development Bank of India in its second report (considered by the Board of Directors in June 1979) made a special mention of the need for a systematic follow-up action through a system of regular inspection of the assisted units, analysis of their balance sheets and progress reports for implementation of the projects. No specific action has, however, been taken by the Company in this regard so far (May 1980).

Some cases of significant defaults are discussed below:—

(a) The Management of three mills was taken over by the Government of India (1978) under the Industries (Development and Regulation) Act, 1951 and vested in the Kerala State Textile Corporation Limited. The investment in the capital of these units amounted to Rs. 30.69 lakhs. The State Government accorded a moratorium (April 1978) on all liabilities of these units for 2 years. The amount outstanding against these units

55. key 88.

56. Key 61

Prabhuram Mills Ltd.
Malabar Spinning Mills Ltd.
Kottayam textiles Ltd.

57. Key 9)(a), 98, 99

58. Key 102

·x· Cannanore Spinning and Weaving Mills Ltd.

59. AE No. 23 dt. 6.7.1979 and reply thereto.

60. Key 104

61. Key 105

62. Key 106

64 AE 19 dt. 6.7.79

65 Key 109

66. Key 110

at the end of March 1979 was Rs. 131.56 lakhs (principal: Rs. 114.42 lakhs; interest: Rs. 17.14 lakhs). In addition to the above the company had not claimed interest aggregating Rs. 47.42 lakhs in respect of one unit since 1976-77 and two units since 1977-78 on the ground that these debts were doubtful of recovery. The Management stated (June 1979) that no action was proposed until the expiry of the moratorium period.

(b) A textile mill which received assistance from the Company was nationalised in April 1974. The Company's investment in the equity shares of this unit amounted to Rs. 2 lakhs. A sum of Rs. 9.27 lakhs (principal: Rs. 8.40 lakhs; interest: Rs. 0.87 lakh) was outstanding against the mill (1974). The Company preferred a claim (April 1977) to the Commissioner for Payments for Rs. 16.29 lakhs (including Rs. 7.02 lakhs on behalf of Government) against which an amount of Rs. 11.96 lakhs (including Rs. 2.69 lakhs on behalf of Government) was admitted (February 1979) and received (January 1980). An appeal filed (March 1979) by the Company with the District Court, Cannanore, for a further sum of Rs. 2.73 lakhs (Rs. 4. 33 lakhs *less* Rs. 1.60 lakhs received earlier by Government from the mill) was pending (October 1980). No claim was, however, made in respect of interest of Rs. 4.92 lakhs due from the unit for the period after nationalisation from April 1974 to March 1979.

(c) Based on a request (December 1974) from the Travancore-Cochin Chemicals Limited (a Governent company) the Company disbursed a short-term loan of Rs. 50 lakhs (January 1975) carrying interest of 13 *per cent* per annum without the approval of the State Government as required in terms of Article 95 (i) of the Articles of Association of the Company. Even though the loanee company had incurred losses of Rs. 26.02 lakhs and Rs. 10.60 lakhs during 1972-73 and 1973-74 respectively no security was insisted upon while disbursing the loan. The loanee company had promised to repay the loan by April 1975, by which time loans for its expansion scheme were expected from other financial institutions. The loanee company received loans aggregating Rs. 196.25 lakhs from other financial institutions during 1976-77 and intimated the Company (December 1977) that it would take another 2-3 years for it to get out of the woods and sought the conversion of the loan and interest accrued into equity shares. The entire loan of Rs. 50 lakhs and interest of Rs. 31.76 lakhs thereon till March 1979 were still outstanding (March 1980). The accumulated loss of the loanee company at the end of March 1979 was Rs. 786.24 lakhs. The Management stated (October 1979) that a package of concessions was expected to be sanctioned to the loanee company by the financial institutions and that further action would be taken after the decision by the financial institutions about the concessions.

(d) During March 1974 to May 1976 the Company disbursed four loans aggregating Rs. 62.50 lakhs carrying interest at 11.5—12.5 *per cent* per annum to a unit engaged in the manufacture of iron and steel products, for financing its project and for working capital. The Company had earlier invested Rs. 52.50 lakhs in the share capital of the unit in 1972-73. The unit which went into production in September 1973, had been incurring losses and the accumulated loss to the end of June 1976 was Rs. 214.39 lakhs. Inspite of attempts made by the Company (from March 1977) to improve its position by changing the management, taking over another rolling mill etc., the unit continued to incur losses during 1976-77 (Rs. 49.07 lakhs) and 1977-78 (Rs. 32.58 lakhs). In March 1979, the Company decided to re-arrange the financial structure of the unit to make it viable. As a part of the package proposals by the financial institutions the Company decided (June 1979) to convert Rs. 75 lakhs out of Rs. 101.42 lakhs outstanding at the end of March 1979 into equity capital.

The decision was implemented in October 1979 and this cast a disproportionate burden on the Company as the other financial institutions did not agree to participate in the increased share capital. The Management stated (October 1979) that the Company being the promoter of the unit, would have to sacrifice much more than the financial institutions.

(e) In addition to an investment of Rs. 23.06 lakhs in the equity capital (1971-1974) as at the end of March 1979, an amount of Rs. 36.05 lakhs (principal: Rs. 29.28 lakhs; interest: Rs. 6.77 lakhs) was outstanding against a unit engaged in the manufacture of glass bottles. No payments were made by the

68. AE No. 11 Dt. 23.6.1979 & reply thereon.

* Steel Complex limited.

69. Key 118

70. Key 119

71. AE. No. 3. Dt. 12.6.79

* Excell glasses Ltd.

72. Key 122

73. Key 125

73. Key 126

75. AE 18 dt. 4.7.1979, to reply of the Co.

South Indian wire ropes Ltd.

77. Key 135

78. Key 136

79. Key 132

unit since October 1975. The unit had incurred losses since inception (October 1971). Against the paid-up capital of Rs. 69.75 lakhs, the accumulated loss up to September 1978 72 was Rs. 96.94 lakhs. Proposals for diversification submitted (April 1976/August 1978) were not approved by the Government of India. The Company had not received any return on the investment of Rs. 23.06 lakhs in the equity capital of the unit. The Management stated (October 1979) that as a promoter the Company would have to honour its undertakings (not to dispose of shares, meet over-runs etc.) to the financial institutions.

(f) The Company disbursed (during August 1967-September 1969) loans of Rs. 20 lakhs carrying interest at 8.5 *per cent* per annum repayable in 10 annual instalments to a unit manufacturing wire ropes. This was in addition to Rs.18.31 lakhs invested by the Company in the equity capital of the unit (1962-63 to 1973-74). The unit defaulted in the repayment of all the instalments of principal until 1976-77. Out of Rs. 20.13 lakhs due towards interest up to March 1977, only a sum of Rs. 4.99 lakhs was paid.

Against the overdue outstandings of Rs. 31.14 lakhs (principal: Rs. 16 lakhs; interest: Rs. 15.14 lakhs) in June 1977 the Company re-scheduled the payment of dues at Rs.2 lakhs per year for the first 3 years from 1977-78, Rs. 2.40 lakhs per year for the next 2 years, the repayment of the balance to be reviewed thereafter. The unit paid only the first instalment (Rs. 2 lakhs) due in 1977-78 and defaulted on the second instalment due in 1978-79. Meanwhile, in April 1978 the Company sanctioned Rs. 7 lakhs to the unit for diversification against which an amount of Rs. 2.94 lakhs had been disbursed so far (March 1980). In November 1978 78 the Company also paid the unit Rs. 1 lakh for working capital repayable in 8 monthly instalments commencing from 1st April 1979. The unit had repaid only Rs. 0.18 lakh so far (March 1980).

The unit has been working at a loss. Against the paid-up capital of Rs. 50 lakhs the accumulated loss up to March 1979 79 was Rs. 92.76 lakhs. The market value of its shares had dropped to 40 *per cent* of the face value. Though the Company holds a second charge on the assets of the unit, the value of assets (Rs.62.46 lakhs) was not enough to cover the amount advanced (Rs. 39.06 lakhs), after providing for loans (Rs 65.07 lakhs) having the first charge on the assets.

2.08. Guarantees

The Company has been giving guarantees to banks and financial institutions on behalf of the assisted units for working capital, loans and deferred payments for capital goods. Guarantee commission is levied at 1.25 *per cent* with 0.25 *per cent* rebate for prompt payment. The amount guaranteed and outstanding as on 31st March 1979 was Rs.111.45 lakhs in respect of 4 units. Guarantee commission of Rs. 2.16 lakhs due from 5 units on 31st March 1979 had not yet been recovered (June 1980).

2.09. Inspection of assisted units

The general conditions for the grant of loans provide for the inspection, from time to time, of the loanee's accounts, installations, equipment, etc., by the Company. The Company has, however, not evolved any set procedure or machinery for such inspections. Only 3 units were inspected during the 3 years up to 1978-79. Progress reports are obtained only in respect of projects under implementation and not from units which have commenced production. The Management stated (October 1979) that inspections were carried out where considered necessary and that the nominee directors of the Company in the assisted units, were aware of the affairs of such units.

2.10. Nomination of Directors

The general conditions for the grant of loans provide that the Company would be entitled to nominate up to 2 directors on the Board of the assisted units during the pendency of loans.

The Company had not introduced any system of reports from the nominated directors on important matters/developments relating to the functioning of the units. In one of the assisted units (registered office at Bombay and the factory in Kerala) engaged in the manufacture of fibre glass boats, the Company had not nominated any director. The loans outstanding at

81. AE No. 34 dt. 20.7.39 & reply thereto

82. Key 197

x. Bristol Boats Ltd.

83. Key 199

85 Key 200

86 Key 175

88 AE No. 6 dt. 20. 6. 1979

89 Key 181

90 Key 182

the end of March 1979 amounted to Rs. 24.12 lakhs. The unit which commenced operation in February 1976, had, to 83 the end of March 1978, accumulated a loss of Rs. 45.15 lakhs (paid-up capital: Rs. 13.75 lakhs). As the unit was on the verge of liquidation, the Company agreed (December 1978) 84 to its merger with another Company in Bombay. The Merger is yet to take place (November 1980).

2.11. Cash management

2.11.1. The Company has been raising resources by the issue of debenture bonds. It was noticed that non-assessment of cash requirements led to premature borrowings through the issue of debenture bonds and the funds so raised could not be utilised resulting in surplus idle funds. During the three years ending 1978-79, the Company raised Rs. 110 lakhs each in July 1976, December 1977 and November 1978. The funds held by the Company at the end of the three years up to 1978-79 were Rs. 84.76 lakhs, Rs. 144.66 lakhs and Rs. 176.53 lakhs respectively. The minimum balance had not fallen below Rs.41.55 lakhs at any time in 1977-78 and Rs. 100.25 lakhs in 1978-79. 86 A committee appointed by the Board of Directors in July 1976 to look into the resource position of the Company had yet to submit its report (October 1980).

Debenture bonds of the value of Rs. 110 lakhs bearing 88 interest at 6.5 *per cent* per annum were issued to 10 nationalised 89 banks (Rs. 63 lakhs) and 10 other banks (Rs. 47 lakhs) in November 1978. In disregard of the standing instructions (September 90 1973) of the State Government that surplus funds should be invested in the Treasury savings bank account, the Company 89 deposited a major portion of the funds (Rs. 86.75 lakhs) with the banks (which had subscribed to the debenture bonds) at rates of interest varying from 3-4.75 *per cent* as compared to 6 *per cent* allowed by the Treasury savings bank account. This resulted in a loss of interest of Rs. 1 lakh during February 1978 to March 1979.

102|9392|MC.

2.11.2. *Loan from Government* 92, 93

While sanctioning (January 1978) a loan of Rs. 20 lakhs to a Government company 94 (Travancore-Cochin Chemicals Limited), the Company sought a term loan from the State Government for the like amount. The State Government
95, 96 disbursed the loan in two instalments of Rs. 10 lakhs each in March 1978 and April 1979. The loan carries interest at 10.75 *per cent* per annum. The amounts received from Government were deposited into the Treasury savings bank account earning interst at 6 *per cent* per annum involving a loss of interest of Rs. 1.41 lakhs up to March 1980. The Management stated
93 (October 1979) that as the loanee was a Government Company, its project should normally be financed by Government.

2.12. Other topics of interest

2.12.1. *Accounts Manual and Internal audit*

The Company has neither codified its accounting procedure nor introduced a system of internal audit so far (October 1980). 97

2.12.2. *Non-recovery of hire charges* 99, 100

As per the terms and conditions of appointment (September 1972) of the full time Chairman of the Company, a staff car was placed at his disposal subject to a recovery of Rs. 100 per month. For non-duty trips beyond the limit of 500 km. per month and for journeys outside headquarters, recovery had to be made at the rates fixed by Government. During the period November 1972 to September 1977, an amount of Rs. 10,785
101 (22,566 kms.) was recoverable from the Chairman. No recovery was, however, effected. The Company made a belated claim in October 1979 and the recovery is yet (June 1980) to be effected.

2.12.3. *Foreign tour*

111, 101

The State Government directed (November 1976) the Company to incorporate a clause in the Articles of Association to the effect that foreign tour of officers on business matters lasting more than four weeks or involving expenditure of more than Rs. 0.10 lakh should be undertaken only with the approval of Government. This direction has not been complied with so far (March 1980).

92. Key 187

93. AE 21 Dt. 6.7.79

94 Key 188

95 Key 189

96 Key 189(a)

97. AE 43 Dt. 31.7.79

99. AE 40 Dt. 28.7.79

100. Key 204

101. para 13 of IR on the a/cs of the Co. for 77-78 & reply thereon.

111. Key 224.

A team of three officials (including the Managing Director) undertook a tour to the USA, West Germany, United Kingdom, etc., (September-December 1977) in connection with the implementation of 12 projects, incurring an expenditure of Rs. 1.15 lakhs. The approval of the Board of Directors was not obtained for the foreign trip, nor were any reports on the discussions held abroad placed before the Board. None of the 12 projects for which the tour was undertaken had materialised (October 1979). The Management stated (December 1979) that though no reports as such were placed before the Board, the developments in respect of those projects were reviewed by the Board from time to time. It was, noticed, however, that only 3 out of 12 projects had featured in the meetings of the Board of Directors.

Summing up

(i) While the Company has been earning profits since 1962-63, it has not declared any dividend so far.

(ii) Out of 32 letters of intent/industrial licenses obtained by the Company, commercial production had commenced in 8 cases; of the rest, 7 were surrendered/ cancelled; 6 were abandoned and 4 transferred. The Company had incurred an expenditure of Rs. 3.72 lakhs in respect of projects surrendered/cancelled/ abandoned.

(iii) The Company had spent Rs. 26.51 lakhs on investigation and feasibility studies of 84 cases/ schemes of which 20 projects had fructified. The Company recovered Rs. 7.62 lakhs (16 projects) from the entrepreneurs; the balance of Rs. 0.25 lakh (4 projects) was not recovered. The Company had abandoned 21 projects after incurring an expenditure of Rs. 8.84 lakhs. The remaining 43 projects (expenditure: Rs. 9.80 lakhs) were under different stages of consideration.

(iv) The Company obtained (August 1967) a prospecting licence in respect of magnesite quartzite iron ore deposits in Kozhikode District and had spent Rs. 4.68 lakhs up to October 1974. Though NMDC had, after detailed survey, indicated (November 1967) reserves of 70-80 million tonnes, there was no further progress.

(v) There have been delays in the implementation of projects:

(a) The project for the manufacture of 1000 tonnes of Potassium Chlorate and Sodium Chlorate (estimated cost: Rs.90 lakhs) was expected to commence commercial production in early 1977. Actual work, however, commenced only in mid-1978 and the project was still under construction (June 1980).

(b) The project for manufacture of 7,500 tonnes of formaldehyde was expected to be commissioned in May 1977. Against the estimated cost of Rs. 110 lakhs, an expenditure of Rs. 36.07 lakhs had been incurred up to September 1979; the work suspended in October 1979 had not been resumed (June1980).

(vi) The Company obtained a letter of intent in October 1972 for a project for the manufacture of 31,000 tonnes of refractory products (estimated cost: Rs. 24 crores). The Company had spent Rs. 4.71 lakhs up to March 1979 and the project is still at the negotiation stage.

(vii) To the end of 1978-79, the Company had sanctioned assistance amounting to Rs. 27,86.06 lakhs to 67 units in the form of contribution to share capital (Rs. 570.34 lakhs), loans (Rs. 13,51.82 lakhs), guarantees (Rs. 707.68 lakhs) and amount under-written (Rs. 156.22 lakhs). Assistance to industries in the backward areas constituted 37.70 *per cent* of the total investments.

(viii) Against an investment of Rs. 556.66 lakhs in shares of 42 units, no dividend was received in any of the years in respect of 22 units (investment: Rs. 313.34 lakhs). In 8 other units (investment: Rs. 76.08 lakhs) there was no return during the three years up to 1978-79.

(ix) According to the Management, the shares of 5 Companies (Company's investment: Rs. 129.77 lakhs) had no realisable value due to accumulated losses. However, in respect of 4 of these Companies where the shares are quoted, the market value of Company's investment of Rs. 103.86 lakhs was stated to be Rs. 87.11 lakhs. The Company has not so far formulated any policy for the disposal of shares.

(x) At the end of March 1979, Rs. 630.99 lakhs towards principal and Rs. 156.41 lakhs towards interest were outstanding from 34 units. Of these, Rs. 416.42 lakhs (principal: Rs. 279.68 lakhs; interest: Rs. 136.74 lakhs) from 24 units were overdue for recovery. The Management considered loans aggregating Rs. 427.02 lakhs as doubtful of recovery.

(xi) In contravention of the Company's normal policy not to advance loans without the security of assets (to be mortgaged with the Company), a sum of Rs.394.22 lakhs (including interest: Rs. 88.13 lakhs) is recoverable from 15 units where the Company holds no security. The value of assets offered as security for loans amounting to Rs. 82.77 lakhs (including interest: Rs. 20.64 lakhs) in 3 cases was less than the amount of loan.

(xii) Commitment charges amounting to Rs. 0.48 lakh (5 cases) were not realised for periods ranging from 2 to 20 months on the plea that the Company recovered such charges only in cases of inordinate delays.

(xiii) Interest of Rs. 4.92 lakhs due from a textile mill (nationalised in April 1974) from April 1974 to March 1979 was not claimed from the Commissioner for Payment. In the case of three other textile mills taken over by the Government of India (1978), interest aggregating Rs. 47.42 lakhs on Company's loans amounting to Rs. 114.42 lakhs (outstanding) had not been claimed.

(xiv) A short-term loan of Rs. 50 lakhs carrying interest at 13 *per cent* per annum was given to another Government company in January 1975 to be repaid in April 1975. The amount has yet to be refunded and a sum of Rs. 81.76 lakhs (including interest: Rs. 31.76 lakhs) was outstanding; the loanee company had accumulated a loss of Rs. 786.24 lakhs to the end of March 1979.

(xv) A unit engaged in the manufacture of iron and steel products was given financial assistance in the shape of share capital (Rs. 52.50 lakhs) and loans (Rs. 62.50 lakhs). The unit had been incurring losses and in October 1979, the Company converted Rs. 75 lakhs out of Rs. 101.42 lakhs outstanding as loan into equity capital; the other financial institutions did not, however, agree to participate in the increased share capital of the unit.

(xvi) The Company had, since October 1975, received no payment from a unit engaged in the manufacture of glass bottles and a sum of Rs. 36.05 lakhs (including interest: Rs. 6.77 lakhs) was recoverable as on 31st March 1979. The Company had also not received any return on its investment of Rs. 23.06 lakhs in the equity capital (invested in 1973-74) of this unit. As on 30th September 1978, the unit had accumulated a loss of Rs. 96.94 lakhs.

(xvii) In addition to an investment of Rs. 18.31 lakhs in the equity capital, a sum of Rs. 39.06 lakhs was recoverable from a unit engaged in the manufacture of wire ropes. The unit had accumulated a loss of Rs. 92.76 lakhs (up to March 1979) as against a paid-up capital of Rs. 50 lakhs. The Company holds only a second charge on the assets of the unit and the value of the assets (Rs. 62.46 lakhs) were hardly sufficient to cover the loans having the first charge (Rs. 65.07 lakhs).

(xviii) The Company had not recovered (June 1980) the guarantee commission of Rs. 2.16 lakhs due from 5 units as on 31st March 1979.

(xix) The Company has not evolved any set procedure or machinery for periodical inspection of the loanee's accounts, installations, equipment, etc. Only 3 units had been inspected during the three years up to 1978-79. Progress reports are also not obtained in respect of units in production.

(xx) The Company raised Rs. 110 lakhs each in July 1976, December 1977 and November 1978 through the issue of debenture bonds. The Company had a minimum balance of Rs. 41.55 lakhs through 1977-78 and Rs. 100.25 lakhs through 1978-79.

The Company deposited Rs. 86.75 lakhs (out of Rs. 110 lakhs) raised through debenture bonds (at 6.5 *per cent* interest) with the subscribing banks at rates of interest of 3-4.75 *per cent* resulting in a loss of interest of Rs. 1 lakh during February 1978 to March 1979.

The above points were brought to the notice of Government in December 1979; Government generally endorsed the view of management (April 1980).

Rep(C)/DP-21/79-80
Industries

1). $\frac{c}{7-9}$/ DP 2/75-76/AE/Vol. I

2) $\frac{c}{219-223}$ — do —

3) Memorandum and Articles of Assn.

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~~XX XII~~ Rep. of
CPU (84-86)

2/5/86

Section III

THE KERALA STATE CASHEW DEVELOPMENT CORPORATION LIMITED

3.01. Introductory

The processing of cashew nuts provides employment to a very large number of people (particularly women) in the State. The growth of cashew industry, dominated by private trading interests with ready access to bank finance, had been tremendous but haphazard and unregulated. As processing units were set up by proprietory or partnership firms with negligible capital investment, the capacity built up outstripped the availability of raw cashew nuts in the country. Opening of new units, closing down of existing units, changing hands and leasing of abandoned units had become a common feature. Introduction of statutory minimum wages and other fringe benefits—which have an important bearing on processing costs—saw the emergence of 'kudivarappu' (cottage processing) where shelling and peeling is entrusted to a contractor or a group of workers at rates much lower than the statutory rates. Wage differentials between Kerala and the neighbouring States resulted in the shifting of operations across the borders of the State.

In pursuance of the State Government's industrial policy (1967) for taking effective measures to improve the conditions of traditional industries, the Kerala State Cashew Development Corporation Limited (K S C D C) was incorporated in July 1969; the main objects were to:

—purchase raw cashew nuts from within and outside the country and to sell processed cashew nuts, cashew shell liquid and other by-products of cashew within and outside India;

—establish, maintain and operate factories in the State for processing cashew nuts and extraction of oil from kernel;

—distribute cashew nuts and cashew apples to processing factories in Kerala and purchase cashew kernel, cashew shell liquid and other products from processing factories;

—purchase and process cashew apple and sell the products and by-products of cashew apple; and

—extract and process cashew shell liquid and sell the products and by-products within and outside India.

4,5 Later (September 1970), the Central Government set up the Cashew Corporation of India Limited (CCI) a subsidiary of the State Trading Corporation of India Limited, as the sole canalising agency for the import of raw cashew nuts.

3.02. Capital structure

3.02.1. *Share capital*

The Company's initial authorised capital of Rs. 50 lakhs was increased to Rs. 200 lakhs in September 1973. As on 31st March 1979 the Company had a paid-up capital (entirely subscribed by the State Government) of Rs 124 lakhs.

3.02.2. *Borrowings*

The Company had availed of eight loans aggregating Rs. 738.50 lakhs from the State Government (March 1970-March 1979) against which an amount of Rs. 711. 58 lakhs was outstanding at the end of 1978-79. This includes a loan of Rs. 100 lakhs obtained in May 1978, the terms and conditions of which have not yet been finalised by Government (June 1980). The remaining loans carry interest at rates varying between 7 to 14 *per cent* per annum. The amount in default as on 31st March 1979 was Rs. 107.51 lakhs (principal: Rs. 100 lakhs, interest: Rs. 7.51 lakhs).

6

The Company meets its working capital requirements (for the purchase of raw cashew nuts) through cash credit arrangements with banks against hypothecation of raw materials and finished goods and the guarantee of the State Government. The State Government levied a guarantee commission of 1 *per cent* per annum of the maximum amount (with a rebate of 0.25 *per cent* for prompt payment) which was revised in September
7 1979, to 0.50 *per cent* per annum (with a rebate of 0.25 *per cent* for prompt payment) until such time as the financial position of the Company improved.

4) Directors report published in the 1st Annual Report of the Co.

5) Directors report published in the 2nd Annual Report of the Co.

6) AE No. 2 dt. 23.8.79 and reply $\frac{C\,11}{DP\,21/79\text{-}80/III}$

7) GOMS No. 339/79/ID dt. 24-9-79 $\frac{C\,35}{CA3n/Gl.\ file\ vol.\ II}$

8) GOMS 276/69/ID Dt. 8-8-69 $\frac{\text{c 71-72}}{\text{Gl. file Vol I}}$

9) AE No. 10 Dt. 15-7-75 $\frac{\text{P 59-61}}{\text{DP2/75-76/AE Vol. I}}$

AE No. 11 dt. 23.8.79 → $\frac{\text{c 39}}{\text{DP21-79-80/III}}$

10) Reply of the Co. on the above.

The following table indicates the cash credit limits and the guarantee commission paid to the State Government:

	Cash Credit (maximum limit)	*Guarantee Commission*
	(Rupees in lakhs)	
1975-76	300	1.75
1976-77	300	2.25
1977-78	725	3.49
1978-79	3,000	15.97

3.03. Organisational set-up

The Management of the Company vests in a Board of Directors appointed/nominated by the State Government. As on 31st March 1979, there were 11 directors including the Managing Director, 3 directors representing the Government and 7 directors nominated to represent the trade and trade union interests.

The Managing Director is assisted by Commercial, Finance, Personnel and Administrative Managers and an Internal Audit Officer. The Company has 38 operating units comprising 34 cashew factories, 3 units for manufacturing tin containers and one for the extraction of tannin.

3.04. Acquisition of cashew factories

At the time the Company was set up there were 258 cashew factories in the State run by private parties. On the basis of the recommendations of the Business Advisory Committee of the Board, the Company had up to 1974-75, taken over 34 factories; of these 3 units were purchased and 31 units were taken on lease, after negotiations from private parties. As on 31st March 1979, 7 factories were fully owned by the Company and the remaining 27 were on lease at rents ranging from Rs. 1,000 to Rs. 2,000 per mensem.

Production in 9 out of 31 factories taken on lease during June 1970 - June 1974 commenced within 30 days of take over, in 10 factories between 30-60 days and in the remaining 12 factories between 66-154 days. The lease rent paid for the idle period (66-154 days) in respect of 12 factories alone amounted to Rs. 0.58 lakh.

The delay in commencing production was attributed by Management (January 1980) to the following factors:

—most of these factories taken over by the Company, were working as 'kudils' (cottage units) and did not have proper records regarding labour employed, etc. necessitating protracted negotiations with labour unions to identify and select the old workers;

—due to prolonged closures some of the factories were not in working condition and the Company had to undertake construction of temporary sheds and repairs to machinery etc.

In terms of the lease deeds, the Company had the option to
11, 12 extend the initial 5 year period of lease for 2 further terms of 5 years each on the same terms and conditions. Despite this specific provision, the Company enhanced the rent payable in respect of 11 factories at the time of the first extension, by 6.7 to 50 *per cent* involving an additional cost of Rs. 0.45 lakh (21.7 *per cent*) per annum.

The Management stated (January 1980) that it was impos-
13 sible to extend the lease deeds 'unilaterally' and that the Company had agreed to nominal increase of rent as a measure of expediency.

3.05. Purchase policy

3.05.1. Besides indigenous raw nuts, the company depends on the imported nuts allotted by CCI, the canalising agency.

Till the end of 1976 season, (February-September) the Company was procuring indigenous raw nuts through advance contracts with traders. Thereafter, raw nuts procured by the State Government through its agents under the Kerala Raw Cashew Nuts (Marketing and Distribution) Order, 1976 and Kerala Raw Cashew Nuts (Procurement and Distribution) Order 1977 were allotted by Government at prices fixed by it from time to time.

11) Para I of IR file for 1976-77 $\frac{P\,255}{CA\ VI/12-1138}$.

12) AE No. 7 dt. 23.8.79 $\frac{P\,77}{DP21/79-80/Vol.\,III}$

13) $\frac{P.289-291}{CA\ VI/12-1138}$ Reply to para I of I.R. and Page 2 of reply file.

B H.B of file DP21/79-80/II A

$A = \frac{P1}{DP21/79-80/II\,A}$

14) AE No. 3 dt. 23-8-79 $\frac{P_{17}}{DP\ 21/79\text{-}80/III}$

15) $\frac{P_{57}}{CA\ VI/12\text{-}1010}$

iA, 15,

3.05.2. The table below indicates the total quantity and value of the imported and indigenous raw nuts procured during the four years up to 1978-79:—

	1975-76	1976-77	1977-78	1978-79 (*Provisional*)
Procurement of raw nuts				
(a) Imported				
(i) Quantity (in tonnes)	27,860	14,042	12,387	4,105
(ii) Value (Rupees in lakhs)	761.15	384.67	357.14	182.59
(iii) Average cost per tonne (in Rupees)	2,732	2,739	2,883	4,448
(b) Indigenous				
(i) Quantity (in tonnes)	11,916	7,190	20,974	31,483
(ii) Value (Rupees in lakhs)	341.36	205.43	1,399.54	2,161.98
(iii) Average cost per tonne (in Rupees)	2,865	2,857	6,673	6,867
(c) Total				
(i) Quantity (in tonnes)	39,776	21,232	33,361	35,588
(ii) Value (Rupees in lakhs)	1,102.51	590.10	1,756.68	2,344.57
(iii) Average cost per tonne (Rupees)	2,772	2,779	5,219	6,588
(d) Percentage to total quantity of:				
(i) Imported nuts	72.6	66.1	37.1	11.5
(ii) Indigenous nuts	27.4	33.9	62.9	88.5

While the Company's share in the total raw nuts imported into the country ranged around 19-20 *per cent* during this period, it will be seen that the percentage of imported raw nuts (to the total quantity procured by the Company) declined steadily from 72.6 *per cent* in 1975-76 to 11.5 *per cent* in 1978-79 with a corresponding increase in the percentage of indigenous raw nuts.

While the overall cost of imported nuts increased by 54 *per cent* in 1978-79 the cost of indigenous nuts had increased by 134 *per cent* in 1977-78 and by 140 *per cent* in 1978-79 as compared to 1976-77.

3.05.3. *Shortage during transportation*

18 A quantity of 18,257.863 tonnes of indigenous raw nuts allotted to the Company during the 1977 season was transported in lorries to various factories by the Company's transport contractors. The actual quantity received in the factories was only 18,102.406 tonnes resulting in a shortage of 155.457 tonnes of raw nuts valued at Rs. 9.85 lakhs.

While according to the agreements with the transport contractors, the latter were responsible for any loss of weight or damage during transit, the Company had not taken any steps to recover the value of the nuts short delivered (Rs. 9.85 lakhs).

The Management stated (January 1980) that cashew being an agricultural product there would be inherent driage and it would not be possible to procure cent per cent dried nuts.

3.05.4. *Extra expenditure on purchase of indigenous raw nuts*

19, 20 During March-May 1977 (1977 season), the Company received from Government, thirteen allotment orders for 1,385 tonnes of indigenous raw nuts to be lifted within the specified period from various stocking centres. In all these cases, delivery orders were obtained after remitting the cost of raw nuts in advance and the delivery orders were forwarded to the transport contractors of the Company for taking delivery. However, the transport contractors returned (April-May 1977) the delivery orders on the plea that the cashew nuts were not available at the specified stocking centres. The Company had to obtain revised allotment orders for procuring the raw nuts from other centres at rates (between Rs. 5,650 and Rs. 7,120 per tonne) higher than

18) AE No. 10 Dt. 23-8-79 $\frac{P_{37}}{DP\ 21/79\text{-}80/III}$

19) AE No. 8 Dt. 23.8.79 $\frac{P_{29}}{DP\ 21/79\text{-}80/III}$

20) $\frac{P_{257\text{-}263}}{CA\ VI/12\text{-}1138}$ Para II of IR

$\frac{P_{67}}{DP\ 21/79\text{-}80/V:I}$ Rough notes.

To be examined

Whether the Co. get the right of ownership as soon as the ~~cost~~ value is remitted in the Bank. If so how revised price is applicable for the revised allotment

[illegible]

21) $\frac{P293-297}{CAVI | 12-1138}$

25) AE No. 15 Dt. 27-8-79 $\frac{P53}{DP21 | 79-80 | III}$

those specified in the original allotment orders (between Rs. 4,540 and Rs. 6,930 per tonne), as by that time Government had enhanced (April-May 1977) the price of raw nuts, based on the international price of kernels and market price of raw nuts in neighbouring States. Consequently, the Company had to incur an additional cost of Rs. 5.15 lakhs in the purchase of raw nuts. The Management stated in June 1978 and January 1980 that

—allotment orders were issued by the Special Officer for cashew, without having sufficient stock at the yards concerned; and

—there was no chance to bargain as the Company was eager to get as much quantity as possible lest it went into the hands of private processors.

However, information regarding the dates of receipt of allotment orders, dates of handing over the delivery orders to the transport contractor and the dates on which the transport contractor presented the delivery orders for collection of nuts were not made available.

3.06. Production performance

3.06.1. The rated capacity of the factories is determined by the Company on the basis of 265 working days in a year and 3,500 bags (each weighing 80 kg) of raw nuts per day. The table below indicates the rated capacity and the budgeted and actual utilisation of capacity for the four years up to 1978-79:—

Year	*Rated capacity*	*As budgeted*	*Actual utilisation*	*Percentage of utilisation*	
				to rated capacity	*to budget*
		(*in terms of bags*)			
1975-76	9,27,500	6,50,000	5,24,066	56.5	80.6
1976-77	9,27,500	3,75,000	2,64,696	28.5	70.6
1977-78	9,27,500	5,62,500	3,55,170	38.3	63.1
1978-79	9,27,500	5,00,000	4,13,235	44.5	82.6

The low utilisation of capacity was attributed by the Management (August 1978) to the paucity of raw nuts. It may be stated, however, that the Company has in 1977-78 processed only 28,414 tonnes of raw nuts as against 33,361 tonnes procured.

3.06.2. *Processing of raw cashew nuts*

Raw cashew nuts, after drying, are first roasted and the roasted nuts are shelled manually and the kernels segregated. The kernels are treated by controlled heating in (Borma) drums to facilitate easy peeling of cashew testa (thin layer covering the kernel). The kernels are then separated into 'wholes' and 'brokens' and graded. The 'wholes' fetch much higher price and the profitability of processing depends to a large extent on maximising the output of 'wholes'. The table below indicates the break-up of 'wholes' and 'brokens' obtained during the four years up to 1978-79:— 25, 26

Year	*Quantity of raw nuts processed*	*Yield (Kernels)*	*Percentage*	*Break-up of yield*			
				Wholes		*Brokens*	
	(in tonnes)			*Quantity (tonnes)*	*Percentage*	*Quantity (tonnes)*	*Percentage*
1975-76	41,926	10,857	25.9	8,265	76.1	2,592	23.9
1976-77	21,176	5,516	26.1	4,105	74.4	1,411	25.6
1977-78	28,414	7,092	25.0	5,505	77.6	1,587	22.4
1978-79	33,059	8,000	24.2	6,508	81.4	1,492	18.6

It will be seen that the percentage of total yield of kernels had dropped steadily from 26.1 *per cent* in 1976-77 to 24.2 *per cent* in 1978-79; the recovery of 'wholes', however, improved from 74.4 to 81.4 *per cent* during the same period. The Management stated (July 1980) that this was due to increased procurement of indigenous nuts whose yield was lower as compared to the imported nuts.

3.06.3. *Extraction of Cashew nut shell liquid (CNSL)*

29, 30

While the Company started processing cashew nuts in 1970-71 it was decided only in December 1973, to extract cashew nut shell liquid (a by-product) by introducing oil-bath roasting.

The Company commenced extraction of CNSL after repairs to the existing machinery (April-August 1974) in 6 factories and installation of machinery at a cost of Rs. 6.89 lakhs in 5 other factories (August 1974-July 1978).

28) 7th, 8th and 9th Annual Reports of the Co.

29) AE No. 33 dt. 17-9-79 $\frac{\text{P101}}{\text{DP21/79-80/II}}$

30) $\frac{\text{P231 \& 259}}{\text{DP2/75-76/Vol.I}}$ Remarks of the Co. in para 25.3.

31) 8th Annual Report — P.13 — of the Co.

32) AE No. 31 dt. 12-9-79 P 97

33) AE No. 32 dt. 17.9.79 P 99

DP 21/79-80
Vol. III

Similar para on
Short recovery of
CSNL available
in IR for 79-80
c/159
12-1690

The table below indicates the number of bags roasted in the oil-bath plants for extraction of CNSL, expected yield as per norms (8 Kg per bag as laid down by the Company) and the actual yield from 1974-75 onwards: 31

Year	*Quantity roasted (bags)*	*Expected yield*	*Actual yield*	*Shortfall*	*Percentage of Shortfall*
			(in tonnes)		
1974-75	91,054	728	663	65	9.0
1975-76	97,914	783	749	34	4.3
1976-77	49,587	397	405	..	..
1977-78	nil	nil	nil	..	..
1978-79	116,047	928	914	14	1.5

The high cost of production and the poor off-take were stated (January 1980) by the Management as the reason for non-extraction of CNSL in 1977-78. Computed on the basis of average realisation, the shortfall in extraction of shell liquid during 1974-75, 1975-76 and 1978-79 resulted in a loss of revenue of about Rs. 4.20 lakhs.

Bulk of the CNSL produced by the Company is exported. The table below indicates the foreign exchange earned by the Company and average realisation from 1974-75 onwards:

Year	*Production*	*Sales*	*Sales value realised*	*Foreign exchange earned*	*Average realisation per tonne*
	(in tonnes)		*(Rupees in lakhs)*		*(Rupees)*
1974-75	663	565	16.71	12.47	2,957
1975-76	*1,195	1,097	35.59	34.40	3,243
1976-77	405	508	18.22	18.22	3,586
1977-78	..	17†	0.74	..	4,353
1978-79	**1,952	1,593	152.69	152.69	9,585

* This includes purchase of 446 tonnes of CNSL for export.

† The actual quantity sold during 1977-78 was 17 tonnes and not 7.800 tonnes as indicated in the printed annual report.

**This includes production of CNSL in some of the factories taken over temporarily during 1978-79.

The capital investment involved and the unsuitability of certain factories for installation of oil plants (due to lack of space, etc.) were the reasons attributed by the Management (August 1975) for the non-introduction of oil-bath roasting in the other factories.

3.07. Sales performance

3.07.1. Of the 30 grades of cashew kernels, 17 are export grades, 8 grades cater to the indigenous market and 5 are rejection grades. The latter 13 grades are disposed of by the Company through auction every month. The export grades (wholes and brokens) are exported mainly to the U.S.A., U.S.S.R., and East European countries through agents appointed by the Company on payment of commission ranging from 1 to 2.5 *per cent* of the invoice value. The Company had paid a commission aggregating Rs. 144.4 lakhs on exports aggregating Rs. 82,49.6 lakhs during the 4 years up to 1978-79 as indicated below:—

34
35

Year	*Exports*	*Commission*	*Average rate of commission (per cent)*
	(*Rupees in lakhs*)		
1975-76	16,91.3	34.9	2.06
1976-77	14,40.3	27.3	1.90
1977-78	23,22.6	36.3	1.56
1978-79	27,95.4	45.9	1.62
Total	82,49.6	1,44.4	1.75

34) Para VI of Part II B of IR for 1976-77
- file CA VI/12 - 1138

35) AE No. 20 dt. 12. 8. 75 $\frac{P\ 137}{DP2/75\text{-}76/AE\ I}$

X P295

DP 21 | 79-80 | I

proportional basis,

3233

3.07.2 The table below indicates the sales performance of the Company for the last four years up to 1978-79:—

	1975-76	1976-77	1977-78	1978-79 †
(a) Export sales				
Quantity (Tonnes)	8,765	6,860	6,917	10,023
Value (Rupees in lakhs)	1,691.4	1,440.3	2,322.6	2,795.4
Average (Rupees per tonne)	19,297	20,996	33,578	27,890
(b) Internal sales				
Quantity (Tonnes)	698	488	448	624
Value (Rupees in lakhs)	30.6	18.8	44.7	103.9
Average (Rupees per tonne)	4,384	3,852	9,978	16,651
(c) Total sales				
Quantity (Tonnes)	9,463	7,348	7,365	10,647
Value (Rupees in lakhs)	1,722.0	1,459.1	2,367.3	2,899.3
Average (Rupees per tonne)	18,197	19,857	32,143	27,231
(d) Country's Exports*				
Quantity (Tonnes)	53,640	51,435	39,513	26,877
Value (Rupees in crores)	96.13	105.82	147.58	80.02
Average (Rupees per tonne)	17,921	20,573	37,350	29,772
(e) Company's share in Country's exports (percentage)	16.3	13.3	17.5	37.3

†Figures for 1978-79 include sale of kernels processed in 90 private factories taken over temporarily by the Company on behalf of Government for processing cashew nuts.

*Source:— 'Cashew Bulletin' published by the Cashew Export Promotion Council for the month of May 1977 and May 1979.

The Company's average realisation on exports which was 7.7 *per cent* higher than the country's average in 1975-76 dropped to a level 11.2 *per cent* lower than the country's average in 1977-78 and 6.7 *per cent* lower in 1978-79.

3.07.3. *Appointment of agent for exports*

In May 1970 the Company appointed a firm (belonging to 'X') as its agent, for 1 year, for exports to certain foreign countries at a commission of 0.5 *per cent* of the invoice value. A few months later (October 1970) the rate of commission was, at the instance of the foreign buyer, increased to 1 *per cent.* The agreement was not renewed but the arrangements were continued until May 1973 when the Company appointed another Company (of which 'X' was the Managing Director) as its agent for 3 years on the same terms. The agency was renewed in May 1976 without specifying a definite period and is still continuing. During the period 1970-71 to 1978-79, the 34,35 total commission paid under these arrangements amounted to Rs. 59 lakhs.

According to the Management (June 1978) though it would have been advantageous to the Company to have a permanent representative at Bombay in view of the huge amount of commission involved, but considering the general trade practice it was not considered prudent or desirable to set up the Company's own office at Bombay.

An interesting feature noticed in this case was the arbitrary increase of sales commission from 0.5 to 1 *per cent* to the 36-A Company's agents by the buyer in October 1970. Though the Company initially pointed out that the commission payable to the agent should be fixed by it, and not by the buyers, the buyer contended that their price for cashew kernels was inclusive of commission which was paid through the Company and that the agent was actually their agent and it was within their right to increase or decrease the commission as they desires.

The Management stated (January 1980) that once the buyer said that the price was inclusive of commission and when the entire industry in the private sector had agreed to the increase, the Company had also to agree to the enhancement of the commission.

X = M/s Kerala Trading Co. owned by
Mr. Balakrishnan Nambiar.

Para 3.07.3

further correspondences available in file DP21/79-80-vol. IX

M/s Nut meat Trading Co.

36) Reply to para VI of Part II B of IR 1976-77

36-A) Reply dt. 14.8.75 from the Co. to AE
No. 24 dt. 13.8.1975 P157 / DP2/75-76/AE I

37) AE No. 30 dt. 17-9-1979 $\frac{P95}{DP\ 21/79\text{-}80/\overline{III}}$

3.07.4. *Export sales*

During August-October 1976, the Company concluded contracts for the sale of 16,100 cases * (365.15 tonnes) of cashew kernels to U.S.A. (for shipment during November 1976-February 1977) at 123-130 cents/pound for Grade W-320 and W-450. Contracts for the sale of 84,400 cases (1914.19 tonnes) of cashew kernels to U.S.A and Canada were also concluded during November 1976-March 1977 (for shipment during March-August 1977) at 95-192 cents/ pound for different grades. The Company shipped 16,100 cases of cashew kernels during March-May 1977 (against shipment due between November 1976 and February 1977) after obtaining extension of time for shipment on the same terms and conditions. The remaining 84,400 cases of kernels were shipped within the time limit specified in the contracts. The price of imported raw nuts increased from Rs. 2,800 per tonne (September 1976) to Rs. 3,550 per tonne in April 1977. The State Government also increased the price of indigenous raw nuts from Rs. 2,650 per tonne (April 1976) to Rs. 7,420 per tonne in May 1977. The kernel prices in the US market had also been steadily increasing from 130 cents per pound (W-320) in November 1976 to 160 cents in January 1977 and 230 cents in March 1977. Based on the survival price of 200 cents per pound for W-320 these transactions resulted in a loss of Rs. 213.11 lakhs—Rs. 49.39 lakhs (16,100 cases) and Rs. 163.72 lakhs (84,400 cases). The request (April 1977) of the Company for price increase was rejected (June 1977) by the buyers.

The Management stated (January 1980) that inclusion of price escalation clauses in the forward contracts were not acceptable to the buyers and that the matter regarding the recovery of loss was taken up (July 1977) with the State Government. Further developments in the matter are awaited (October 1980).

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*22.68 kg. (50 pounds) per case.

3.08. Financial position

The table below summarises the financial position of the Company for the three years up to 1977-78:—

	1975-76	1976-77	1977-78
		(Rupees in lakhs)	
Liabilities			
(a) Paid-up capital	119.00	119.00	119.00
(b) Reserves and surplus	0.60	5.30	26.29
(c) Borrowings	223.29	19.73	143.03
(d) Trade dues and current liabilities (including provisions)	339.66	341.52	378.05
Total	682.55	485.55	666.37
Assets			
(a) Gross block	51.03	79.13	94.44
(b) *Less*: Depreciation	15.29	22.14	30.88
(c) Net fixed assets	35.74	56.99	63.56
(d) Capital works-in-progress	23.79	0.47	..
(e) Investments	0.10	0.10	0.10
(f) Current assets, loans and advances	610.32	427.99	602.71
(g) Miscellaneous expenditure	12.60	..	..
Total	682.55	485.55	666.37
Capital employed	324.43	161.48	306.23
Net worth	107.00	124.30	145.29

Note:— 1. Capital employed represents net fixed assets *plus* working capital.
2. Net worth represents paid-up capital *plus* reserves and surplus *less* intangible assets.

3.09. Working results

The working results of the Company for the four years up to 1978-79 are as under:—

	Profit (+)/Loss (—) (Rupees in lakhs)
1975-76	(—) 74.86
1976-77	(+) 17.30
1977-78	(+) 20.99
1978-79 (Provisional)	(—)1850.00 ← 39

39) $\frac{\text{P 141}}{\text{CA VI} \mid 12 - 1269}$

40) AE No. 13 dt. 24.3.79 $\frac{P81}{CA\ VI \mid 12-1269}$

The loss during 1975-76 was attributed (September 1976 and January 1980) by the Management to:

- fall in kernel prices in world markets which forced the Company to carry a heavy inventory at a high rate of interest;
- substantial increase in minimum wages and increase in dearness allowance; and
- increase in the cost of raw nuts.

During 1978-79, the private processors refused to lift the nuts allotted to them under the Kerala Raw Cashew Nuts (Procurement and Distribution) Order, 1977, and closed their factories. Government reached an understanding with them (July1978), took over 90 factories (without payment of lease rent) and appointed the Company (July 1978) as its nominee to process the raw nuts in these factories (up to 15th December 1978). The estimated loss of Rs. 18.50 crores for the year 1978-79 includes a loss of Rs.7.50 crores on the working of these 90 private factories. Increase in the prices of indigenous raw nuts and fall in the world prices of kernels are the reasons attributed by the Management (June 1979) for the loss. The Company had taken up (April 1979) the matter of compensation (for the loss sustained in processing raw nuts in the factories of private parties) with the Government; decision was awaited (October 1980)

3.10. Operational results

The table below indicates the operational results of the Company for the three years up to 1977-78:—

		1975-76	1976-77	1977-78
			(Rupees in lakhs)	
1.	Value of production			
	(a) Sales	1,764.81	1,483.43	2,389.99
	(b) Closing stock	376.94	111.65	73.17
	(c) Opening stock	107.93	376.94	111.65
	(d) Value of production (a+b—c)	2,033.82	1,218.14	2,351.51
2.	Consumption of raw materials	1,347.20	634.83	1,602.20
3.	Value added	686.62	583.31	749.31
4.	Conversion expenditure:			
	(a) Manufacturing, selling, Office and other expenses	712.86	555.31	684.60
	(b) Interest and financial charges	48.62	10.70	43.72
	Total	761.48	566.01	728.32

	1975-76	1976-77 (Rupees in lakhs)	1977-78
5. Net profit (+)/loss (—)	(—)74.86	(+)17.30	(+)20.99
Percentage of			
(a) Value added to the value of production	33.76	47.89	31.87
(b) Conversion expenditure to the value added	110.90	97.03	97.20
(c) Consumption of raw materials to the value of production	66.24	52.11	68.13

Notes:—1. 'Sales' include sales of by-products (tannin and CNSL).

2. Consumption of raw materials includes sale and stock adjustment of gunnies and stores consumption.

3.11. Cost trends

41

The Company produced 10,857 tonnes of kernels during 1975-76, 5,516 tonnes in 1976-77 and 7,092 tonnes in 1977-78. The table below indicates the various elements of cost per tonne of cashew kernels produced during the three years up to 1977-78:

Element of cost	*Cost per tonne of kernels produced*		
	1975-76	1976-77 (*Rupees*)	1977-78
1. Raw nuts	12,159	11,246	22,265
2. Transportation of raw nuts	275	265	306
3. Stores consumption	42	69	83
4. Salaries and wages (factory)	4,058	6,934	6,800
5. Factory running expenses	83	129	110
6. Repairs, maintenance and depreciation	91	212	194
7. Packing materials consumed	948	741	970
8. Total factory cost	17,656	19,596	30,728
9. Sales realisation	18,197	19,857	32,143
Margin	(+)541	(+)261	(+)1,415

The expenditure on salaries and wages (factory) per tonne of raw nuts processed increased from Rs. 4,058 in 1975-76 to Rs. 6,934 in 1976-77 ie. by 70.9 *per cent*. The margin in sales realisation over the factory cost was 3.1 *per cent* in 1975-76, 1.3 *per cent* in 1976-77 and 4.6 *per cent* in 1977-78.

41) AE No. 39 Dt. 17-9-79 $\frac{\text{P113}}{\text{DP 21/79-80/III}}$

3.12. Productivity

The table below indicates the number of workers and the production of kernels per worker during the four years up to 1978-79:—

Particulars	1975-76	1976-77	1977-78	1978-79
Factory workers (numbers)	32,957	33,048	32,833	32,706
Other staff (including group offices and head office staff) (numbers)	1,703	1,728	1,732	1,809
Total	34,660	34,776	34,565	34,515
Production of Kernels (tonnes)	10,857	5,516	7,092	8,000
Production per worker (in kgs.)	329	167	216	245

Due to paucity of raw cashew nuts, the factory workers could not be provided with employment all round the year. On their demand for unemployment relief (by way of compensation for non-working days) the company made *ex-gratia* payments at a flat rate per worker of Rs. 25 in 1976-77 (Rs. 8.27 lakhs) and Rs. 70 in 1977-78 (Rs. 22.98 lakhs).

3.13. Inventory control

The following table indicates the comparative position of the inventory and its distribution at the end of three years up to 1977-78:—

	1975-76	1976-77	1977-78
		(*Rupees in lakhs*)	
1. Raw nuts	64.44	66.70	348.71
2. In-process	..	5.76	..
3. Stock in trade	376.94	111.65	73.17
4. Stores and spare parts	64.06	37.95	30.79
5. Loose tools	0.01	0.11	0.08
Total	505.45	222.17	452.75

3.14. Performance of tin factories

3.14.1. Cashew kernels are packed in tin containers and the Company's requirements are met with the containers produced in the tin factories of the Company. The Company commissioned 3 tin factories at Ayathil (September 1972), Mukhathala (August 1973) and at Kottarakkara (April 1976). Though the tin factory at Kottarakkara was equipped for production in February 1973, due to delay in the selection of personnel etc., actual production was commenced only in April 1976.

The aggregate installed capacity of the 3 tin factories is 3,350 tins per day (Ayathil: 1,450 tins; Mukhathala and Kottarakkara: 950 tins each). The table below compares the budgeted and actual production with the installed capacity during the four years up to 1978-79:—

	Installed Capacity*	*Budgeted production*	*Actual production*	*Percentage of production to*	
				Installed capacity	*Budgeted production*
	(Numbers in lakhs)				
1975-76	8.88	6.50	4.07	45.8	62.6
1976-77	8.88	4.19	3.69	41.6	88.1
1977-78	8.88	5.70	4.60	51.8	80.7
1978-79	8.88	5.03	3.79	42.7	75.3

It will be seen that actual production ranged between 41.6 and 51.8 *per cent* of the installed capacity. The shortfall with reference to the budgeted production ranged between 11.9 and 37.4 *per cent.*

The shortfall in production was attributed by the Management (January 1980) to:

— scarcity of raw materials;
— mechanical defects;
— frequent power failures; and
— shortfall in the daily attendance of workers.

Due to inadequate production in the three tin factories the Company had to resort to purchase of tin containers from

*Based on 265 working days per year.

42) Para vi of Part II of IR for 1977-78
C189(A)/CA vi | 12-12-69

43) Reply of the Co. dt. 7.3.79 to AE 5/1-3-79
P. 105/12-12-69

44) A-E No. 18 dt. 28.8.79 P 63 / DP 21/79-80/III

42, 43, 44

outside agencies. The table below indicates the requirements of tin containers (based on cashew kernels recovered) and actual production of tins and the extra expenditure incurred in purchase from outside during the four years up to 1978-79:

	1975-76	1976-77	1977-78	1978-79
		(Numbers in lakhs)		
Requirements	9.57	4.86	6.25	7.05
Actual Production	4.07	3.69	4.60	3.79
Purchases	6.22	1.05	1.60	8.87
		(Rupees)		
Average cost of production (each)	8.28	8.36	8.48	10.41
Average cost of purchases (each)	9.15	9.54	9.78	10.88
Extra cost per tin	0.87	1.18	1.30	0.47
Extra expenditure (Rupees in lakhs)	5.42	1.23	2.09	4.17

The extra expenditure on the purchases of tin containers during the four years amounted to Rs. 12.91 lakhs. 42

According to the Management (January 1980) purchases were necessitated by the following reasons:

— manufactured tins cannot be stored for long because of likelihood of corrosion, breakage of tinkering and dust;

— the daily requirement during the processing season is 6200 tins as against the Company's production capacity of 3350 tins and the finished kernels cannot be kept open for more than 2-3 days (otherwise the kernels would be infested); and

— inadequacy and delays in the supplies of tin sheets.

3.14.2. *Consumption of tin plates and tin solder*

(a) The Company had neither fixed any norms for the consumption of tin plate nor were the reasons for variations analysed. A review of the consumption of tin plate during the four years up to 1978-79 revealed that the maximum yield of tin containers per tonne of tin sheet was 905 at Ayathil factory during 1978-79. Based on this, the excess consumption of tin plate in the three factories during the four years up to 1978-79 was as follows:—

	1975-76	1976-77	1977-78	1978-79
Actual production of tin containers (Numbers)	4,07,467	3,68,670	4,60,336	3,79,216
Actual consumption of tin plate (tonnes)	453.478	417.812	514.703	428.750
Tin plate required at the rate of 905 tins per tonne (tonnes)	450.240	407.370	508.659	419.023
Excess consumption of tin plate (tonnes)	3.238	10.442	6.044	9.727
Average rate of tin plate per tonne (Rupees)	6,095	6,095	6,597	7,597
Value of excess consumption (Rupees)	19,736	63,644	39,872	73,594

The extra expenditure due to excess consumption of tin plate in all the 3 factories amounted to Rs. 1.97 lakhs for the four years up to 1978-79.

The Management stated (January 1980) that the variation in consumption of tin sheet was due to rusty and poor quality of sheets used.

(b) The Company has also not fixed any norm for the consumption of tin solder in the production of tin containers. A review of the consumption of tin solder during the four years up to 1978-79 revealed that the consumption of tin solder per 100 tin containers was the lowest in 1975-76 in all the three factories (683 gms in the power-operated factory at Ayathil and 766 gms in the hand operated factories at Mukhathala and Kottarakkara). Based on this, the excess consumption of tin solder in the three factories during the three years up to 1978-79 was as follows:—

	1976-77	1977-78	1978-79
(a) Ayathil factory (Power-operated)			
Tin containers produced (numbers)	1,67,664	1,98,775	1,68,615

46) AE No. 27 dt. 1-9-79 $\frac{P_{85}}{DP21/79-80/III}$

Figures for 79-80
available in
IR file

	1976-77	1977-78	1978-79
Tin solder required (at 683 grams per 100 tin containers (Kgs.)	1,145.150	1,357.630	1,151.640
Actual consumption of tin solder (Kgs.)	1,202.700	1,408.725	1,325.000
Excess consumption (Kgs.)	57.550	51.095	173.360
Excess consumption (per cent)	5.03	3.76	15.05
Rate of tin solder (per kg.)	Rs. 58.54	Rs. 82.80	Rs. 95.00
Value of excess consumption (Rupees)	3369	4231	16469
(b) Mukhathala and Kottarakkara factories (hand operated)			
Tin containers produced (numbers)	2,01,006	2,61,561	2,10,601
Tin solder required (at 766 gms per 100 tin containers) (Kgs.)	1,539.710	2,003.560	1,613.200
Actual consumption of tin solder (Kgs.)	1,813.120	2,458.320	2,007.000
Excess consumption (Kgs.)	273.410	454.760	393.800
Excess consumption (per cent)	17.76	22.70	24.41
Rate of tin solder per Kg. (Rupees)	58.54	82.80	95.00
Value of excess consumption (Rupees)	16,005	37,654	37,411

It will be noticed that the excess consumption at Ayathil factory increased from 3.76 *per cent* in 1977-78 to 15.05 *per cent* in 1978-79 . Likewise, in the other two factories the excess consumption increased from 17.76 *per cent* in 1976-77 to 24.41 *per cent* in 1978-79.

The extra expenditure due to excess consumption of tin solder in all the 3 factories amounted to Rs. 1.15 lakhs for the three years up to 1978-79.

The excess consumption of tin solder was attributed by the Management (January 1980) to the following:

— rusty and poor quality of tin sheet;

— minor defects in pressing machines; and

— the alternative chemicals (zinc and hydrochloric acid) used in place of zinc chloride flex due to its non-availability in the market.

3.15. **Project for extraction of tannin**

3.15.1. *Delay in execution of the Project*

The Industrial Research and Testing Laboratory, Trivandrum had developed a process for the extraction of tannin from cashew testa, which was being wasted or occasionally used as manure. For the commercial exploitation of the process, the Company prepared a project report (March 1972) for the setting up of a tannin extraction plant at an estimated cost of Rs. 7.75 lakhs which was later revised (December 1972) to Rs. 12.75 lakhs. The project envisaged an import substitution of Rs. 12 lakhs per annum and an annual profit of Rs. 6.63 lakhs. While the plant was expected (December 1972) to be commissioned in January 1974, it was actually commissioned in June 1976. The delay was attributed by the Management (October 1975) mainly to the delay in the completion of civil works.

3.15.2. The Company had up to March 1979 incurred an expenditure of Rs. 23.31 lakhs on the project as against the revised estimate of Rs. 12.75 lakhs. According to the Management (June 1978 and January 1980) the excess was mainly due to:

— non-provision in the original estimates for certain expensive items like steel towers, motor, starters, trolly, tanks, pipe line, chemicals, weighing machines, laboratory equipments, electrical installations (erection of transformer), etc.; and

— considerable increase in the cost of materials.

While the plant was commissioned in June 1976, commercial production commenced in January 1977. The delay in commencing commercial production was attributed by the Management (January 1980) to the initial teething troubles and a defect in the stirrer of the finisher evaporator (bellows).

3.15.3. *Defective water supply arrangements*

At the Project Report stage, it was envisaged that a tube-well drilled at the site would yield the requisite quantity of about 15,000 gallons of water per day. Later, at the suggestion

47) Para III of Part II B of IR for 1976-77.
file CA VI/12-1138

48) $\frac{\text{P 275}}{\text{DP2/75-76/AE I}}$

49) Reply of the Co. dt. 20-6-76 to
Para III above.

A

$\frac{\text{C 105}}{\text{DP21/79-80/II}}$ Delay mainly due
to major change made
after commencement of
construction.

A The Tube well was commissioned in 1/81 | e 22) / EA 12-1690 IR file for 79-80

53) AE No. 6 dt. 23.8.79

of the Chief Engineer, Public Health Engineering Department, it was decided (October 1970) to arrange for the water, under the Rural Water Supply Scheme, through an overhead reservoir at the factory site. The work was completed by the Public Health Engineering Department (September 1975), at a cost of Rs. 1.39 lakhs. This arrangement did not provide adequate water supply resulting in frequent stoppages of production. The short supply of water was attributed by the Management (April 1977) to the construction of the overhead reservoir at a level higher than the rural water supply tank.

In July 1979, the Company decided to drill a tube-well (as initially planned) and the work was got done through the State Ground Water Department, Trivandrum (October 1979) at a cost of about Rs. 0.50 lakh and arrangements to instal the motor and turbine pump were in progress (August 1980). The Management stated (January 1980) that the problem of shortage of water would be overcome on the completion of the pump house.

3.15.4. *Production*

The table below compares the installed capacity with actual production of tannin for the three years upto 1978-79:—

Year	*Installed capacity*	*Actual production*	*Percentage of production to installed capacity*
	(*in tonnes*)		
1976-77	225*	60.90	27
1977-78	900	209.33	23
1978-79	900	123.65	14

The total production to the end of 1978-79 amounted to 393.88 tonnes or 19.5 *per cent* of the (aggregate) installed capacity. The Management attributed this (June 1978) to frequent break-downs of evaporators and insufficient water supply arrangements.

*For three months (January-March 1977)

3.15.5. *Financial results*

As against a profit of Rs. 6.63 lakhs per annum (envisaged in the Project report) the unit has been incurring losses since inception as indicated below:—

Year	*Sales*	*Loss*
	(Rupees in lakhs)	
1976-77	0.61	4.25
1977-78	12.99	3.99
1978-79	6.58	5.03
Total	20.18	13.27

53

It would be seen that the unit had incurred an aggregate loss of Rs. 13.27 lakhs against a turn over of Rs. 20.18 lakhs during this period.

3.15.6. *Excess consumption of furnace oil*

54

According to the Management the requirement of furnace oil (as fuel) is 1,350 litres per tonne of tannin produced. The table below indicates the consumption of furnace oil for the three years up to 1978-79:—

Year	*Tannin produced (tonnes)*	*Furnace oil consumption*			*Value of excess *consumption (Rupees in lakhs)*
		As per norms	*Actual*	*Excess*	
			(in litres)		
1976-77	60.90	82,215	1,29,035	46,820	0.47
1977-78	209.33	2,82,596	3,38,424	55,828	0.56
1978-79	123.65	1,66,928	2,54,049	87,121	0.87
Total	393.88	5,31,739	7,21,508	1,89,769	1.90

The Management stated (January 1980) that as the factory was not running in full swing most of the time, the norm would not be applicable and that the furnace oil consumption would be more due to the poor efficiency of tripple-effect evaporator.

* Based on average price of furnace oil during the respective periods.

54) AE No. 4 dt. 23. 8. 79

B / C 111 / DP21/79-80/II

56) AE No. 5 dt. 23.8.79

57) $\frac{\text{P 121}}{\text{CA VI}/12-1010}$

58) Para iii & iv of Part II A of IR for 1975-76 — See key Document file DP21/79-80/II A

59) $\frac{\text{P 93-95}}{\text{CA VI}/12-1010}$

3.16. Accounting Manual

The Company has not drawn up a manual laying down the detailed accounting procedure and specifying the financial powers, duties and responsibilities of different officers.

3.17. Internal Audit

The Company has an Internal Audit Officer who is under the overall control of the Managing Director. No manual laying down the functions and procedures of internal audit has, however, been prepared so far (October 1980). The statutory auditors in their reports to the shareholders (for the years 1975-76 to 1977-78) had observed that the internal audit system was not adequate or commensurate with the size and nature of the Company's business.

3.18. Other topics of interest

3.18.1. *Loss due to stocking of cashew kernels at Cochin*

56, 57, 58, 59

In anticipation of sale orders from U.S.S.R. the Company despatched (July-October 1975) 58,934 cartons (13,36,623 kgs.) of cashew kernels (value: Rs. 231.12 lakhs) to Cochin port for ready shipping. As the sale orders did not materialise to the level expected, the Company was left (November 1975) with 27,798 cartons (6,30,459 kgs.) at the port. Due to long storage (over 6 months) the cartons had to be brought back to the factories to remove the absorbed moisture by reheating in Borma plants. In this process the Company had to scrap 24,825 cartons and 34,821 tin containers, and 7,399 kg. of kernels were lost in re-heating. Consequently the Company had to suffer a loss of Rs. 4.38 lakhs in the form of replacement of cartons (Rs. 0.72 lakh), tins (Rs. 2.09 lakhs), shortage of kernels in reheating (Rs. 1.35 lakhs) and transportation of packed tins from Cochin port to the factories (Rs. 0.22 lakh).

The Management stated (January 1980) that a good number of cartons had become useless due to transportation to and from Cochin port and a certain number of tins inevitably became leaky, unserviceable and affected by rust and dust resulting in absorption of moisture by kernels inside the tins.

3.18.2. *Shortage of cashew kernels in transit* 64, 65

The processed cashew kernels are filled in baskets, weighed in the factory and transported in lorries from the individual factories to the group packing centres, where these are re-weighed, packed and stored. At the time of re-weighment at the packing centres differences in weight were noticed. (In respect of the factory at Kottiyam, the packing centre is situated in the same premises and hence no re-weighment is made at the packing centre).

A test check in audit (September 1979) in respect of the despatches made by 6 factories to the group packing centre at Kottiyam revealed an overall net shortage of 656.6 kg. in 1977-78 and 2,797.5 kg. in 1978-79. On the basis of average sales realisation the loss due to these shortages amounted to Rs. 0.21 lakh during 1977-78 and Rs. 0.76 lakh during 1978-79.

According to the Management (January 1980) there would be variations in weight on account of the following factors:

—adoption of the tare weight of the basket used for weighing the kernels uniformly as 1 kg. even though different sizes and weights of baskets were used both at the processing factories and group packing centres;

—use of different scales for weighment at the processing factories and at the packing centres;

—climatic conditions at the processing factories and the packing centres at the time of transportation; and

—delay in transportation from the processing factories on account of heavy rains and delay in filling at the packing centres may some times result in absorption of moisture which may necessitate re-Borma treatment; as the resultant shortage on re-Borma treatment was not exhibited in the weighment records originally prepared by the processing factories, there would be variations in the weight of kernels transported.

Summing up

(i) The Company, incorporated in July 1969, had a paid-up capital (March 1979) of Rs. 124 lakhs and loans (outstanding) of Rs. 711.58 lakhs. The default on loans (including interest) amounted to Rs. 107.51 lakhs.

64) Para VII of Part II of IR for 1977-78

65) AE No. 36 dt. 17-9-79

Imported Nuts - shortage in transit. | IR for 79-80
C/149
12-1690.

(ii) The Company was operating 34 cashew factories (7 owned and 27 leased), 3 factories for manufacture of containers and one for extraction of tannin.

(iii) The Company incurred a loss of Rs. 74.86 lakhs in 1975-76 and earned profits of Rs. 17.30 lakhs and Rs. 20.99 lakhs in 1976-77 and 1977-78 respectively; during 1978-79 the Company anticipates a loss of Rs. 18.50 crores due to high cost of indigenous raw nuts and fall in kernel price. This includes a loss of Rs. 7.50 crores on the running of 90 (closed) private factories entrusted to the Company by Government (July 1978).

(iv) Delays in commencing production in 12 leased factories (June 1970—June 1974) resulted in an expenditure of Rs. 0.58 lakh on lease rent for idle periods.

(v) Despite a provision in the lease deeds for extension of the lease for two terms of 5 years each on the same terms and conditions, lease rent was enhanced (by 6.7 to 50 *per cent*) in respect of 11 factories involving an additional payment of Rs. 0.45 lakh (21.7 *per cent*) per annum.

(vi) The percentage of indigenous nuts to the total nuts procured by the Company increased from 33.9 in 1976-77 to 88.5 in 1978-79; the cost of indigenous nuts increased by 140 *per cent* as against 54 *per cent* increase in the cost of imported nuts during the same period.

(vii) While according to the agreement the transport contractors were responsible for loss of weight in transit, the Company had not taken any steps to recover the value (Rs. 9.85 lakhs) of 155.457 tonnes of nuts short delivered (1977 season).

(viii) The Company incurred an extra expenditure of Rs. 5.15 lakhs (1977) as no stocks of raw nuts were reported to be available at the centres specified in the allotment orders and in the meantime the State Government had increased the prices of raw nuts.

(ix) The utilisation of roasting capacity varied from 63.1 to 82.6 *per cent* of the budget during the 4 years up to 1978-79.

(x) The percentage of yield of kernels per tonne of raw nuts declined from 26.1 in 1976-77 to 24.2 in 1978-79. This was attributed to the lower yields from indigenous nuts. The recovery of 'wholes', however, varied from 74.4 to 81.4 *per cent* during this period.

(xi) The shortfall in the production of CNSL during 1974-75, 1975-76 and 1978-79 resulted in a loss of revenue of Rs. 4.20 lakhs. No production of CNSL during 1977-78, was attributed to high cost of production and poor off-take.

(xii) The Company's share in the country's exports of cashew nuts varied from 13.3 *per cent* in 1976-77 to 17.5 *per cent* in 1977-78 and 37.3 *per cent* in 1978-79. The average per tonne realisation from exports *viz.*, Rs. 33,578 in 1977-78 and Rs. 27,890 in 1978-79 were less than the All India average of Rs. 37,350 and Rs. 29,772 for these years respectively.

(xiii) A private party was appointed as the Company's agent for exports to certain foreign countries and the commission was enhanced from 0.5 *per cent* to 1 *per cent* of the invoice value after 5 months of its appointment as agent, at the instance of a foreign buyer. Total commission paid to the party up to 1978-79 amounted to Rs. 59 lakhs.

(xiv) The Company incurred a loss of Rs. 2.13 crores on the export of 100,500 cases (2,279 tonnes) of kernels contracted during August 1976–March 1977 for shipment during November 1976—August 1977. This was attributed to increases in raw nut prices in April/May 1977.

(xv) The expenditure on salaries and wages (factory) increased by 70.9 *per cent* during 1976-77 as compared to 1975-76.

(xvi) The average production of kernels per worker varied widely from 167 kgs to 329 kgs during the 4 years up to 1978-79. Against a demand for unemployment relief (by way of compensation for non-working days), the Company made *ex-gratia* payments at a flat rate per worker of Rs. 25 in 1976-77 (Rs. 8.27 lakhs), Rs. 70 in 1977-78 (Rs. 22.98 lakhs).

(xvii) Tin factories

(a) The actual production at the tin factories ranged from 41.6 *per cent* to 51.8 *per cent* of the installed capacity. The Company had to meet its requirements of tins by purchases from outside agencies (17.74 lakh tins) at an additional cost of Rs. 12.91 lakhs during the 4 years up to 1978-79.

(b) No norms had been fixed for consumption of tin sheets and tin solder. Based on the minimum consumption achieved, loss due to excess consumption of tin sheets and tin solder amounted to Rs. 1.97 lakhs and Rs. 1.15 lakhs respectively.

(xviii) Tannin factory

(a) There was delay of about 2½ years in commissioning the tannin factory and the Company had incurred an expenditure of Rs. 23.31 lakhs (March 1979) against the revised project estimate of Rs. 12.75 lakhs.

(b) The machinery commissioned in June 1976 suffered due to frequent break-downs of evaporators and insufficient water supply.

(c) The percentage of production to installed capacity dropped from 27 in 1976-77 to 23 in 1977-78 and to 14 in 1978-79.

(d) The working of the plant resulted in a loss of Rs. 4.25 lakhs, Rs. 3.99 lakhs and Rs. 5.03 lakhs during the 3 years up to 1978-79 as against an annual profit of Rs. 6.63 lakhs envisaged in the project report.

(e) The excess consumption of furnace oil during the 3 years up to 1978-79 resulted in an additional expenditure of Rs. 1.90 lakhs, which was attributed to poor efficiency of triple-effect evaporator and low level of factory operation.

(xix) (a) The Company incurred a loss of Rs. 4.38 lakhs due to stocking of cashew kernels at Cochin (in anticipation of orders) which had to be transported back for heating and repacking.

(b) A test check of 6 factories revealed shortages of kernels (during transit to the packing centres) of the value of Rs. 0.97 lakh during 1977-78 and 1978-79.

The above points were brought to the notice of Government in December 1979; reply is awaited (September 1980).

SECTION IV

HANDICRAFTS DEVELOPMENT CORPORATION OF KERALA LIMITED

4.01. Introduction

4.01.1. The Company was incorporated on 16th November 1968 for the development of handicrafts industry in the State, to render financial, technical and marketing assistance to the artisans both in and outside the co-operative sector and to promote the exports of handicrafts. The working of the Company was last reviewed by the Committee on Public Undertakings (1973-74) in their Eighteenth Report.

4.01.2. *Activities*

In March 1969 three existing emporia at New Delhi, Madras and Coimbatore were transferred by the State Government to the Company.

The Management of another emporium *viz.* Srimoolam Shashtyabdapoorthi Memorial (SMSM) Institute at Trivandrum was also entrusted to the Company from March 1969. The Company was in this case to act as the agent of Government (who were the trustees of the Institute) on payment of an agency fee of Rs. 15,130 per annum.

The Company has, however, not made any payment so far and the accumulated arrears to the end of March 1979 amounted to Rs. 1.53 lakhs.

In October 1969, the Company took over from Government the Common Facility Service Centre for ivory, horn, wood etc. at Trivandrum and two other Common Facility Service Centres (for bell metal at Mannar and Kunhimangalam and the wood seasoning plant at Cherpu) run by the Department of Industries and Commerce. In the same year, three more Common Facility Service Centres for ivory, wood and horn carvings were set up by the Company at Manacaud, Pettah and Palkulangara in Trivandrum. In August 1972, all the four service centres in Trivandrum were amalgamated into one centre.

Rep(C)/DP-25/79-80
Industries

Discussed by CPU on 5-1-83 & 6-1-83.

Draft Report recd. on 19/7/85 - vetted & Returned on 6/12/85

Approved by the CPU at the meeting on 25/6/86

AAO

Presented on 30/6/86
43rd Report of CPU (84-86)

The wood seasoning plant at Cherpu remained idle ever since it was taken over (October 1969) until its re-transfer to Government in January 1977 (after the Company had incurred an expenditure of Rs. 0.40 lakh), as the Company was not able to operate the plant on commercial lines.

The Common Facility Service (CFS) Centres at Mannar and Kunhimangalam were re-transferred to Government in June/October 1978 respectively as the Company could not run them on commercial lines for want of technical personnel, working capital and lack of demand, etc.

The Company had not maintained records to assess the working results of each of the CFS Centres. In November 1978, the Company claimed a sum of Rs. 12.39 lakhs from Government towards the expenses for running these centres from 1969-70 to 1976-77; Government decision is awaited (March 1980).

During the period from 1970-71 to 1977-78 the Company had set up 7 sales outlets (including those at Bombay and Agra). The outlet at Kanyakumari (opened in 1970-71) was closed down (1977-78).

4.02. Organisational set-up

As on 31st March 1980 the Board of Directors had 10 directors (including the Managing Director)-3 representing the State Government, 1, the All India Handicrafts Board and the remaining 5, other interests. The Managing Director is assisted by a Commercial Manager, a Secretary-cum-Finance Manager and an Administrative Officer.

4.03. Capital Structure

4.03.1. As on 31st March 1979 the Company had an authorised capital of Rs. 100 lakhs (1,00,000 shares of Rs. 100 each) and a paid-up capital of Rs. 68.86 lakhs, entirely subscribed by the State Government.

4.03.2. *Borrowings*

The Company's borrowings as on 31st March 1979 were Rs. 36.55 lakhs comprising State Government loans of Rs. 18.08 lakhs (obtained between July 1970 and February 1977) and bank loans of Rs. 18.47 lakhs. Government loans were repayable in 13 annual instalments commencing from July 1973. The Company had paid no instalments so far (February 1980). Overdue instalments at the end of March 1979 amounted to Rs. 6.21 lakhs. The Company also did not pay interest (7-10.75 *per cent* per annum) on Government loans except Rs. 35,000 towards interest for one year on the loan of Rs. 5 lakhs obtained in 1970. As on 31st March 1979 the overdue interest and penal interest (2—2.5 *per cent*) for default amounted to Rs. 8.90 lakhs and Rs. 3.15 lakhs respectively.

In January 1978 the Company requested Government to treat the amount of Rs. 24.29 lakhs (loans: Rs. 18.08 lakhs and interest up to 31st March 1977—Rs. 6.21 lakhs) as an outright grant to the Company on the grounds that:

—the Company could not pay the arrears of instalments due to its difficult financial position; and

—with the liabilities reduced, the Balance Sheet would present a better picture.

Government's decision in the matter is awaited (June 1980).

The Company has, however, been paying the instalments and interest on bank loans regularly. The bank loans (in regard to repayment of principal and payment of interest thereon) are guaranteed by Government. The Company was required to pay a guarantee commission of 0.75-1.0 *per cent* on the amount guaranteed with 0.25 *per cent* rebate for prompt payment of commission and the guaranteed amount. The Company has been defaulting in the payment of guarantee commission since 1972 and the arrears as on 31st March 1979 amounted to Rs. 1.86 lakhs (including Rs. 0.48 lakh towards "rebate forfeited"). In July 1977, on grounds of financial difficulties, the Company requested the Government to waive the guarantee commission; Government's decision is awaited (March 1980).

4.04. Working results

The Company has been incurring losses from its inception. The accumulated losses at the end of March 1977 (accounts for subsequent years are in arrears) amounted to Rs. 60.62 lakhs or 122 *per cent* of of the paid-up capital (Rs. 49.86 lakhs) as on that date.

4.05. Arrears in accounts

4.05.1. There have been inordinate delays in the preparation and finalisation of the Company's annual accounts as would be evident from the table below:

Financial Year	*Certification by auditors*
1972-73	March 1974
1973-74	January 1977
1974-75	December 1979
1975-76	April 1980
1976-77	May 1980

The annual accounts for 1977-78 and 1978-79 are in arrears (June 1980).

Even though the Company has its own Accounts wing, the finalisation of the accounts for 1973-74 and internal audit for 1974-75 was entrusted to a firm of Chartered Accountants (August 1974) at a total remuneration of Rs. 10,800 (Rs. 800 for the finalisation of accounts for 1973-74 and Rs. 10,000 for internal audit). Though the terms of appointment did not provide for payment of any advance, the Company paid Rs. 9,850 as advance to the firm for meeting travelling expenses. Due to the failure of the firm to attend to the work entrusted to them, the Company employed another Chartered Accountant (February 1976) for the finalisation of the accounts for 1973-74. The remuneration was, however, not fixed at the time of appointment. On completion of the work (December 1976) he demanded Rs. 20,000 as his remuneration which, after negotiation, was settled at Rs. 18,000. The work for finalisation of accounts for 1974-75 to 1976-77 was entrusted to other firms of Chartered Accountants for which the Company had paid Rs. 10,000 per year. The amount paid in advance to the first firm of Chartered Accountants for 1973-74 has not been recovered so far (September 1980).

The work of finalisation of the accounts for the year 1977-78 was entrusted to yet another firm of Chartered Accountants in

November 1978 at a fee of Rs. 10,000. While the accounts for 1976-77 were finalised by May 1980, the work on 1977-78 accounts has not yet been completed (June 1980).

4.05.2. *Stock accounts and Stock Verification*

Annual physical stock verification of stores is carried out by the staff attached to the concerned units.

The Company Auditors had in their reports for the years 1971-72 to 1973-74 drawn attention to the unsatisfactory maintenance of stock records, *viz.*,

—discrepancies revealed in stock verification had not been investigated or adjusted;

—errors and omissions in transfer of balances; and

—non-certification of the balances by the managers concerned.

A review of the stock verification reports of the Company's 13 units during 1978-79 revealed the following:—

		(*Rupees*)
Value as per stock register		27,45,742
Value as per physical verification reports		27,56,103
Excess		49,224
Shortage		38,863
Value of damaged stores—		
—Repairable	2,09,135	
—Unserviceable	1,90,180	3,99,315

The value of damaged stores constituted about 14.2 *per cent* of the total stock. The Company had not investigated the reasons for the discrepancies or for the high incidence of damage to stores.

A test check (August 1979) of the stock registers and connected records of Kairali, Ernakulam for 1978-79 revealed the following defects/omissions in the maintenance of stock records:

(i) Security deposit or fidelity guarantee (as required) had not been taken from the store keeper/sales supervisor/Manager in charge of the emporium.

(ii) The articles were neither numbered nor did the stock registers contain adequate description for identification.

(iii) The stock registers contained no indication that the closing balances had been correctly brought forward; nor did the respective stores ledgers contain any cross references.

(iv) The stock registers indicated only the quantity and the selling prices of the items received without any reference to the date of receipt, goods received note number, stock numbers, etc. The goods received notes also did not contain any reference to the postings in the stores ledgers.

4.05.3. *Internal audit*

The internal audit of the Company for the years 1970-71 to 1972-73 was done by a Senior auditor (appointed on contract basis) with two assistants appointed on daily wages. The arrangement was dispensed with during 1973-74 and the work of internal audit and preparation of final accounts was entrusted to different Chartered Accountants on contract basis.

4.05.4. In the income tax return filed by the Company for the assessment year 1974-75 the loss for the year was estimated as Rs. 0.60 lakh. Since the Company failed to respond to the notice from the Income Tax Officer for production of books and records, the Income Tax Officer assessed (February 1977) the tax at Rs. 56,218 for an assessed income of Rs. 1 lakh. The appeal filed (November 1977) before the Appellate Assistant Commissioner was rejected (December 1977) on the grounds of maintenance of accounts in haphazard manner. A further revision petition was filed before Commissioner of Income Tax (December 1977) claiming a loss of Rs. 8.24 lakhs for the year, which was rejected by the Commissioner (March 1978).

In respect of accounting years 1975-76, 1976-77 and 1977-78, the Income Tax Officer made summary assessment on the basis of 'no-profit-no-loss' as a result of which the Company could not carry forward estimated loss of Rs. 16.39 lakhs for these assessment years to be set off against the future profits. The appeal filed by the Company against the summary assessment (March 1979) is pending (September 1980).

4.06. Financial position

The table below summarises the financial position of the Company for the three years up to 1976-77.

		1974-75	1975-76	1976-77
			(Rupees in lakhs)	
	Liabilities			
(a)	Paid-up Capital	43.86	43.86	49.86
(b)	Reserves & Surplus	..	0.50	5.00
(c)	Borrowings	38.53	41.24	39.49
(d)	Trade dues and current liabilities	29.23	37.99	44.62
	Total	111.62	123.59	138.97
	Assets			
(a)	Gross block	23.95	25.80	26.86
(b)	*Less:* depreciation	2.94	5.42	7.61
(c)	Net fixed assets	21.01	20.38	19.25
(d)	Investments	4.01	4.01	4.01
(e)	Current assets, loans and advancer	47.42	45.76	55.08
	Intangible Assets			
(f)	Deferred revenue expenditure and preliminary expenditure	0.69	0.01	0.01
(g)	Accumulated loss	38.49	53.43	60.62
	Total	111.62	123.59	138.97
	Capital employed	39.20	28.15	29.71
	Net worth	4.68	(—) 9.08	(—) 5.77

Notes: (i) Capital employed represents net fixed assets *plus* working capital.

(ii) Net worth represents paid-up capital *plus* reserves *less* intangible assets.

4.07. Performance analysis

4.07.1. *Purchase policy*

The Company purchases raw materials such as ivory, rosewood and sandalwood from the Forest Department against periodical allotments by Government. These raw materials are issued on credit to the artisans. There were 128 artisans in 1977-78 and 1978-79 who availed of these facilities at the CFS Centre at Trivandrum. The artisans sell the finished products (handicrafts) back to the Company at prices fixed by it. The Company also purchases finished articles direct from other local artisans/private parties. Production at the CFS Centre was meagre as compared to outside purchases as would be seen from the table below:—

Year	*Total purchases*	*CFSC production*	*Percentage of CFSC production*
	(*Rupees in lakhs*)		
1977-78	40.55	4.22	10.4
1978-79	56.49	3.81	6.7

A test check (August-September 1979) of six emporia (Trivandrum, Calicut, Ernakulam, Ootacamund, Coimbatore and S.M.S.M. Institute) indicated that direct purchases by the emporia Managers ranged from 40 to 90 *per cent* of their total intake.

The Company constituted a Purchase Committee (April 1969) consisting of 3—5 members of the Board of Directors for regulating purchases (selection and cost fixation) of handicrafts. This Committee was abolished in July 1976 and it was decided to constitute a committee of 'knowledgeable persons' for this purpose and until then purchases were to be made by the Commercial Manager of the Company.

The new Committee has yet to be constituted (June 1980). All purchases are made by the Commercial Manager (at the head office) who caters for bulk sales and by the concerned Managers of the emporia from manufacturers, dealers and agents within and outside the State. The Commercial

Manager does not cater to the requirements of the emporia even where the sources of procurement are the same. It was noticed that the Emporium Managers had placed repeat orders with regular suppliers without mentioning the prices, and the articles were accepted at the prices invoiced by them.

4.07.2. *Sales policy*

Handicrafts are sold through the Company's emporia at Trivandrum, Calicut, Cochin, Coimbatore, Ootacamund, Madras, Bombay, New Delhi and Agra. Bulk orders are executed by the commercial wing of the head office.

The sale prices of the articles are fixed by the Company by adding a percentage to the cost. In the conference of the emporia Managers (July 1974) it was decided to add to the cost prices a margin of 12.5 *per cent* (coir products) to 37.5 *per cent* (ivory) to cover overhead expenses and profit, and of 40 to 50 *per cent* for exports. The price to be quoted for export was to be further increased so as to cover 5 *per cent* incentive to be provided to agents where necessary. These margins were revised ranging from 12.5 *per cent* (coir products) to 100 *per cent* (ivory) and from 20 to 55 *per cent* for exports. A 10 *per cent* discount was allowed for bulk orders (cash sales above Rs. 2,500 and credit sales of Rs. 5,000 and above). In July 1979 it was decided to revise the margin for bulk sales of handloom and utility items of fibre products (including bamboo, screwpine and koragrass) to 20 *per cent* and 20-25 *per cent* for export orders depending upon the terms of payment.

Until June 1979 when a commission of 20 *per cent* was fixed for consignment sales, each Emporium Manager fixed the commission on goods received from private parties/artisans on consignment basis. This varied, in the case of one emporium from 0.07 to 29.36 *per cent* during 1977-78 and 1978-79.

4.07.3. *Sales performance*

The table below compares the budgeted and actual sales of the Commercial Wing and emporia for the three years up to 1978-79:—

Emporia	1976-77		1977-78		1978-79	
	Budget	*Actual*	*Budget*	*Actual*	*Budget*	*Actual*
			(Rupees in lakhs)			
A. S.M.S.M. Institute	9.63	10.02	11.50	14.35	16.50	14.23
B. Kairali Emporia, Trivandrum						
—Statue	1.76	1.61	2.20	1.97	2.40	2.29
—Mascot Hotel	..	..	..	0.30	0.50	0.12
Calicut	..	..	..	1.93	4.20	3.51
Cochin	9.50	9.11	11.50	7.64	10.50	7.69
Coimbatore	1.47	1.43	1.80	1.54	2.20	2.16
Ootacamund	2.86	2.76	3.50	3.05	3.60	3.72
Madras	3.83	3.61	4.50	2.94	4.50	4.21
Bombay	8.44	7.15	9.00	6.68	11.00	10.31
New Delhi	6.94	7.22	9.00	8.29	11.00	13.33
Agra	1.41	1.31	2.00	2.24	2.60	2.40
Total (B)	36.21	34.20	43.50	36.58	52.50	49.74
C. Commercial Wing (Head Office)	14.16	13.16	30.00	20.91	18.00	21.70
Total	60.00	57.38	85.00	71.84	87.00	85.67

While the Commercial Wing accounted for 23—29 *per cent* of the total sales, the emporia sales amounted to 51 to 60 *per cent* and those by the S.M.S.M. Institute to 17-20 *per cent* during the 3 years up to 1978-79.

4.07.4. *Working results of emporia*

The Company had not maintained separate accounts to ascertain the working results of each emporium prior to 1977-78.

For the Commercial Wing separate accounts bringing out the working results are not being maintained even now. The working results for 1977-78 and 1978-79 as assessed by the Company are as indicated below:

Emporia	Profit(+)/Loss (—) 1977-78	1978-79
	(Rupees in lakhs)	
S.M.S.M. Institute, Trivandrum	(+) 8.30	(+) 2.16
Kairali Emporia		
Trivandrum		
—Statue	(+) 1.00	(+) 0.15
—Mascot Hotel	(—) 0.03	(—) 0.10
Calicut	(—) 1.26	(—) 0.14
Cochin	(+) 2.17	(+) 1.08
Coimbatore	(+) 0.10	(+) 0.15
Ootacamund	(+) 0.56	**
Madras	(+) 0.07	(—) 0.10
Bombay	(+) 1.32	(+) 1.60
New Delhi	(+) 2.31	(+) 3.43
Agra	(+) 0.48	(+) 0.21
Common Facility Service Centre, Trivandrum	(—) 7.20	(—) 1.33

The losses incurred in respect of emporia were stated to be due to increase in overheads, and uneconomical purchases. No specific reasons for the losses in CFSC Trivandrum in 1977-78 have been given by the Management.

4.07.5. *Export performance*

(i) The following table indicates the trends of the Company's exports as a percentage of the total sales during the period 1973-74 to 1978-79:—

Year	Total sales	Value of Exports (FOB)	Percentage of exports to total sales
	(Rupees in lakhs)		
1973-74	50.31	6.03	11.99
1974-75	41.36	7.63	18.45
1975-76	55.82	12.50	22.39
1976-77	57.39	21.98	38.30
1977-78	59.12	16.61	28.10
1978-79	75.30	13.25	27.60
	339.30	78.00	22.99

**Nominal loss

Recognised export houses are entitled to financial assistance at 25-50 *per cent* of the expenditure on export promotional activities from the Marketing Development Fund (Ministry of Commerce).

(ii) *Financial assistance from Marketing Development Fund*

Of the nine export promotional activities for which financial assistance was admissible from the Marketing Development Fund, the Company sought assistance only for the printing of publications and participation in exhibitions abroad.

The table below indicates the estimated expenditure, assistance admissible and the actual assistance received in respect of the various fairs in which the Company participated during 1976 and 1978:—

Particulars of fair	*Estimated expenditure*	*Actual expenditure*	*Assistance admissible (50 per cent of estimated or actual expenditure whichever is less)*	*Assistance actually receicved*
		(*Rupees*)		
Buyer-Seller Meet, New York 1976	41,300	Not available	20,650	Nil
Frankfurt International Fair 1976	42,140	Not available	21,070	Nil
Tripoli International Fair 1976	55,100	Not available	27,550	Nil
Milan International Fair 1978	37,000	56,696	18,500	7,062
Indian National Fair, Moscow, 1978	1,05,270	88,648	44,324	17,957
Total			1,32,094	25,019

The Company's request for assistance in respect of its participation in the Buyer-Seller Meet, New York and Frankfurt and Tripoli International Fairs was rejected as the applications were not submitted in due time, i.e. 3 months in advance. Government stated (March 1980) that the Company could not submit the applications in time as the intimations about the holding of fairs were received late.

While the Company had incurred an expenditure of Rs. 1.45 lakhs on the Milan International Fair and Indian National Fair, Moscow it was able to get only Rs. 0.25 lakh (as against Rs. 0.63 lakh admissible) from the Marketing Development Fund. The reasons for the disallowance were not ascertained by the Company.

(iii) *Cash assistance for export*

Registered exporters were entitled to a cash assistance of 10 *per cent* of the f.o.b. value of exports from Government of India with effect from 1st October 1975. The rate of assistance was enhanced to 15 *per cent* from 1st April 1976. The table below indicates the f.o.b. value of the Company's exports, cash assistance admissible and the actual assistance received for the 4 years up to 1978-79:—

Year	*f.o.b. value of exports*	*Cash assistance admissible*	*Actual assistance received*
		(Rupees in lakhs)	
1st October 1975 to 31st March 1976	8.48	0.85	0.67
1976-77	21.98	3.30	2.68
1977-78	16.61	2.49	1.61
1978-79	13.25	1.99	1.43
Total	60.32	8.63	6.39

The reasons for the short realisation of cash assistance (Rs. 2.24 lakhs) are awaited from the Company (June 1980).

(iv) *Failure to claim import entitlement*

Being a registered exporter, the Company can claim import entitlement as per the Import Trade Control Rules and Procedure. The Company can also claim import entitlement for sales made to foreign tourists against foreign currency.

Though the f.o.b. value of the exports during 1973-74 and 1974-75 amounted to Rs. 7.63 lakhs and Rs. 12.50 lakhs respectively, the Company did not apply for its import entitlements.

Details of export sales, value of replenishment licences (import entitlement) received, value of licences disposed of, etc. during the four years up to 1978-79 are given in the table below:—

Year	F.O.B. Value of exports	Amount of Replenishment licence: Claimed (Rupees)	Received	Disposed of	Percentage of premium
1975-76	12,49,610	Not available	40,765	40,765	6
1976-77	21,98,080	do.	40,398	39,993	12
1977-78	16,60,560	1,18,941	97,800	45,953	10—12
Additional licence	..	3,25,391	3,25,391	3,25,391	20
1978-79	13,24,610	91,523	46,348	46,348	7— 8

(v) *Participation in International fairs/exhibitions*

The table below indicates particulars of the Company's participation in international fairs and the orders stated to have been secured during the years 1974-75 to 1978-79:—

	Fair	Period	Expenditure incurred (Rupees)	Orders booked (Rupees in lakhs)
1.	Frankfurt International Spring Fair	February 1975	17,126	0.11
2.	International Spring Fair, Utricht	March 1975	20,888	0.55
3.	Leipzig Spring Fair	March 1975	8,000	Nil.
4.	Frankfurt International Fair 1976	March 1975	42,140*	33.00
5.	Buyer-seller Meet New York, U.S.A. Buyer-seller Meet Dallas, U.S.A.	January 1976 February, 1976	41,300*	0.63
6.	Tripoli International Fair 1976	March 1976	55,100*	1.00
7.	Indian Trade Exhibition Suva, Fiji	November 1976	3,150	0.10
8.	Milan International Fair, Italy	April 1978	56,696	..
9.	Indian National Fair 1978, Moscow	August 1978	88,648	2.18
	Total		3,33,048	37.57

* Based on estimates as actuals are not available.

The Company was not able to produce any records to indicate the details of the orders actually executed.

(vi) *Loss on export*

According to the procedure in vogue in the Company (and reiterated in the accounting procedure issued in September 1977) orders should normally specify payments against irrevocable letters of credit. Export on the terms of "documents on payment/documents on acceptance" are to be effected only after obtaining Export Credit Guarantee Corporation's (ECGC) cover. It was noticed (September 1979) in audit that the failure to observe the aforesaid procedure resulted in a loss of Rs. 0.45 lakh in five cases as detailed below:

Month of Export	*Name of the country*	*Brief particulars*	*Loss (Rupees in lakhs)*
February 1977	Fiji	Goods sent (without Marine Insurance and Export Credit Guarantee) did not reach destination; the matter was not pursued.	0.11
April 1977	United Kingdom	Fifty *per cent* discount was allowed in respect of defects noticed in part supplies (Rs. 15 lakhs) as reported by the buyer.	0.08
October 1977	West Germany	Consignee refused to clear the the shipment (sent without Export Credit Guarantee) which was received back in India.	0.12
March 1977	West Germany	Goods despatched after the expiry of letter of credit and the consignee refused delivery. Goods were disposed of to another party at lower rates on 90 days' credit.	Loss not determined
Not exported	Nigeria	5400 pieces of coir door mats were procured for supply against an order. It was decided to dispose of these locally as the foreign buyer reported congestion at Lagos port. Part stock disposed of resulted in a loss of Rs. 0.14 lakh. Details of disposal of balance quantity awaited.	0.14

Bd. Decision taken on 30.11.76

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4.08. Other topics of interest

4.08.1. *Shortage of handicraft articles and missing pages of stock register*

The Internal Auditors for 1974-75 reported (March 1975) that while verifying the stock registers of Kairali, Trivandrum (February 1975) it was noticed that 4 pages of a stock register were missing and a test check revealed shortages of handicraft articles amounting to Rs. 13,155 (including ivory articles: Rs. 11,264).

In the departmental enquiry (June 1975) the then Sales Supervisor and the Sales Assistant (who had been placed under suspension in March 1975) were held jointly responsible and were directed (November 1975) to remit the proportionate value of items found short i.e. Rs. 8,770 and Rs. 4,385 respectively. However, both disowned the responsibility for the shortages and stated (January/March 1976) that they had not been given an opportunity to cross-examine the witnesses who had deposed against them. Thereupon, the Managing Director appointed an Advocate of Trivandrum as Enquiry Officer (August 1976) who held (November 1977) that the responsiblity was to be. apportioned between the Sales Supervisor and the Sales Assistant. In the meantime both the employees had been reinstated in January 1977 and the Sales Assistant was promoted as Sales Supervisor in September 1977.

On the basis of the second enquiry report the Managing Director decided (December 1977) that the Sales Assistant should be dismissed from service and the entire loss of Rs. 13,155 recovered from him. As regards the Sales Supervisor it was decided to impose a penalty of stoppage of one increment with cumulative effect.

However these decisions have yet to be implemented (September 1980).

4.08.2. *Assessment of sales tax*

The Company did not file the annual sales tax returns for the years 1971-72 to 1975-76. In November 1976 the Company was directed by the sales tax authorities to produce the accounts records for verification and finalisation of the assessment. The

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Company having failed to produce the necessary records, the sales tax authorities completed the assessment for the years 1971-72 to 1974-75 in January 1977 and for 1975-76 in June 1977. The Company was assessed to sales tax amounting to Rs. 6.27 lakhs (1971-72—1975-76) and Rs. 1.71 lakhs (1971-72—1974-75) towards sales tax under the Kerala General Sales Tax Act and Central Sales Tax Act respectively against which the Company had deposited Rs. 0.89 lakh and Rs. 0.47 lakh with the sales tax authorities. Accordingly the Company was directed to remit Rs. 6.62 lakhs (Rs. 5.38 lakhs under the Kerala General Sales Tax Act and Rs. 1.24 lakhs under Central Sales Tax Act). The Company filed an appeal (July 1977) to the Deputy Commissioner (Appeals) Quilon and to Government on the ground that the assessment was excessive and that necessary documents could not be produced due to the shifting of the Company's office.

In October 1977, the Deputy Commissioner (Appeals) decided to stay the collection of disputed tax and surcharge till the disposal of the appeal if the Company deposited 10 *per cent* of the disputed tax and surcharge for each of the five years in six equal monthly instalments. Accordingly the Company deposited Rs. 0.66 lakh between October 1977 and March 1978 leaving a balance of Rs. 5.96 lakhs pending a decision on the appeal which is still awaited (March 1980).

4.08.3. *Diversion of funds*

(i) In March 1976 the State Government sanctioned a grant of Rs. 5 lakhs to the Company for setting up a raw material depot at Trivandrum. The amount was to be deposited into a separate account and treated as a 'Revolving Fund' to be used exclusively for the purchase of raw materials. The Company however diverted the funds to meet its normal requirements and it has yet to set up the raw material depot (March 1980).

(ii) In February 1977, the State Government sanctioned a loan of Rs. 0.90 lakh for the construction of the first floor

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over the existing store building for housing the administrative office of the Company. The amount (received in March 1977) was, however, diverted by the Company for its working capital requirements and the work on the construction of the building has not yet been taken up (September 1980).

Summing up

(i) The Company was set up in November 1968 to promote the handicrafts industry, to render assistance to artisans and to promote exports.

(ii) Two Common Facility Service Centres (Mannar and Kunhimangalam) taken over from Government in October 1969 were re-transferred to Government in June/October 1978 as the Company could not run them on commercial lines for want of technical personnel, working capital and lack of demand, etc. The Company claimed Rs. 12.39 lakhs (November 1978) from Government for running these Centres (up to 1976-77); Government decision was awaited.

(iii) The wood seasoning plant at Cherpu taken over from Government in 1969 remained idle till its re-transfer to Government in January 1977 after incurring an expenditure of Rs. 0.40 lakh.

(iv) The Company has been defaulting in the repayment of instalments and payment of interest on Government loans attracting payment of penal interest. The amount of principal and interest overdue on 31st March 1979 was Rs. 6.21 lakhs and Rs. 8.90 lakhs respectively in addition to penal interest of Rs. 3.15 lakhs. The Company has also been defaulting on the payment of guarantee commission to Government since 1972; the amount in default as on 31st March 1979 was Rs. 1.86 lakhs (including Rs. 0.48 lakh towards rebate forfeited).

(v) Even though the Company has its own accounts wing, the finalisation of annual accounts is being entrusted to firms of chartered accountants against a fee of Rs. 10,000 per year (Rs. 18,000 for 1973-74). The annual accounts for the years 1977-78 and 1978-79 were in arrears (June 1980).

(vi) The Company has been incurring losses since its inception; the cumulative loss up to 31st March 1977 amounted to Rs. 60.62 lakhs (i.e. 122 *per cent* of the paid-up capital). The value of damaged stores was Rs. 3.99 lakhs (March 1977) and represented about 14.2 *per cent* of the total stock.

(vii) As the accounts were not written up, the Income Tax authorities made summary assessments from 1975-76 to 1977-78, on 'no-profit-no-loss' basis ignoring the estimated losses of Rs. 16.39 lakhs which would have ordinarily been carried forward. For the year 1973-74, the Company was assessed for income tax of Rs. 0.56 lakh on an income of Rs. 1 lakh against the loss of Rs. 8.24 lakhs claimed by the Company.

(viii) Though the Company was formed to develop and promote handicrafts, production in the common facility service centres run by the Company constituted only 6.7 *per cent* (1978-79) to 10.4 *per cent* (1977-78) of the total purchases.

(ix) After the abolition of Purchase Committee (July 1976) and pending the setting up of a new committee of 'knowledgeable persons', (not set up so far), all purchases were being made by the Commercial Manager/Emporia Managers.

(x) The Common Facility Service Centre, Trivandrum incurred losses in 1977-78 (Rs. 7.20 lakhs) and 1978-79 (Rs. 1.33 lakhs). No specific reasons for the heavy loss incurred by the Centre in 1977-78 had been given by the Management.

(xi) The exports by the Company declined steadily from Rs. 21.98 lakhs in 1976-77 to Rs. 13.25 lakhs in 1978-79.

(xii) The Company's request for assistance from Marketing Development Fund (Rs. 0.69 lakh) for participation in the Buyer-Seller Meet at New York, International Fairs at Frankfurt and at Tripoli in 1976 was rejected as the applications were not submitted in time.

(xiii) During the four years up to 1978-79 the Company received Rs. 2.24 lakhs less than what was actually admissible as cash assistance from the Government of India.

(xiv) The Company failed to apply for the import replenishment licences for exports in 1973-74 (Rs. 7.63 lakhs) and 1974-75 (Rs. 12.50 lakhs).

Rep(C)/DP- 6 /79-80

24th (84-86)
23-9-85

Industries Dept.

Draft Report of CPU recd. from Leg. Sectt with Lr no 11074./LA75./82. dt- 21/3/85

Inward 866 / 21/3/85

Vetted & returned on 15/7/85

Report Considered and approved by CPU at the meeting on 17-9-85

24th Report of CPU 84-86
Presented on 23-9-85

(xv) The export of goods without obtaining irrevocable letters of credit and failure to obtain ECGC cover etc., resulted in a loss of about Rs. 0.45 lakh in five cases.

(xvi) The Company having failed to produce the necessary records, the sales tax authorities assessed the Company to pay additional sales tax of Rs. 6.62 lakhs under the Kerala General Sales Tax Act (Rs. 5.38 lakhs) and Central Sales Act (Rs. 1.24 lakhs) for the years 1971-72 to 1975-76. The Company's appeal filed (July 1977) with Deputy Commissioner (Appeals) was pending (March 1980).

The above points were brought to the notice of Government in December 1979; reply is awaited (September 1980).

SECTION V

Discussed by PUC on 11.1.83

TRIVANDRUM RUBBER WORKS LIMITED

5.01. The working of the Company was reviewed in Section IV of the Audit Report (Commercial) for 1972-73 and examined by the Committee on Public Undertakings (1975-76) in their 26th Report (March 1976). The Committee observed that the capital structure of the Company had been completely eroded by losses and that careful and hard work alone would redeem the Company from complete break-down. While details of action taken (if any) on the Committee's recommendation for urgent steps by the Government are awaited (June 1980), the Company had incurred an aggregate loss of Rs. 126.56 lakhs during the 3 years up to 1978-79. The accumulated loss as on 31st March 1979 amounted to Rs. 280.08 lakhs, or 166 *per cent* of the paid-up capital (Rs. 168.69 lakhs):

Year	*Turn-over*	*Loss*	*Accumulated loss*
		(Rupees in lakhs)	
1976-77	156.69	18.40	171.92
1977-78	107.12	59.19	231.11
1978-79	168.77	48.97	280.08

5.02. Production and sale of tyre retreading materials

The Company produces among other things tyre retreading materials like camel back, tread rubber and allied products such as cushion gum compound, under-tread strip, etc., for sale to the road transport undertakings. The table below indicates the recurring shortfall in the production of camel back (tread rubber slab used for retreading) during the three years up to 1978-79:

	Production				*Shortfall*	
	Budget		*Actual*		*Quantity (Tonnes)*	*Percentage*
	Quantity (Tonnes)	*Value (Rs. in lakhs)*	*Quantity (Tonnes)*	*Value (Rs. in lakhs)*		
1976-77	1,728	170.21	659.29	64.94	1,068.71	61.8
1977-78	1,152	148.84	207.75	26.84	944.25	82.0
1978-79	1,008	138.10	179.83	23.53	828.17	82.2

The Management stated (July 1979) that camel back was being produced only on the basis of demand. However, as at the end of March 1978, there was a stock of 77.23 tonnes of camel back including 64.10 tonnes which had become stale due to prolonged storage resulting in a loss, as assessed by the Company (March 1978), of Rs. 4.06 lakhs.

While the maximum shelf life for camel back is 5 months, the product was stored on the factory floor for months together with no system to ensure sale in the order of production and before it became unfit for use. This was attributed by the Government (December 1979) to inadequate storage facilities due to persistent financial difficulties.

During the three years up to 1978-79, five major customers returned (on grounds of inferior quality) 43.04 tonnes of camel back valued at Rs. 4.30 lakhs and the table below indicates the percentage of rejections to the quantities supplied:

Year	*Quantity supplied*	*Quantity rejected*	*Percentage of rejection*
	(in tonnes)		
1976-77	485.45	1.92	0.39
1977-78	94.98	24.98	26.30
1978-79	130.74	16.14	12.34

Out of 43.04 tonnes rejected by the customers, a quantity of 26.67 tonnes was used (July-October 1978) in the manufacture of other products and the balance (16.37 tonnes) is still held in stock (June 1980). An enquiry conducted by a Government official (August 1978) about the reasons for the rejection of camel back produced by the Company during 1976-77 revealed the absence of:

—proper testing of raw materials;

—sufficient care at each processing stage;

—test-check after each process;

—proper storage in cool dry conditions and timely despatch to the consignees. The Board of Directors of the Company authorised the Managing Director (March 1979) to take suitable action against the employees responsible for the poor quality of the product. No action has, however, been taken so far (June 1980). Government stated (December 1979) that the report of the Enquiry Officer was not specific to enable responsibility being fixed and the people who could possibly be held responsible had since left the Company. As such, the Managing Director could not take any action.

5.03. Supplies made to Kerala State Road Transport Corporation

The Kerala State Road Transport Corporation adjusted a sum of Rs. 2.78 lakhs (May 1979) against the bills payable to the Company on the ground of the failure of 1,475 tyres retreaded with the tread rubber supplied by the Company. Though the Company argued (May 1978) that in terms of the contract, the Company was obliged only to replace the materials returned to it and that no damages were payable in respect of materials utilised, the Corporation did not pay the amount deducted. Government stated (December 1979) that the matter was being pursued with the Corporation.

5.04. Supplies to Calcutta State Transport Corporation

In July 1977, the Calcutta State Transport Corporation placed orders on the Company for the supply of 9 items of tyre retreading materials worth Rs. 4.01 lakhs. The materials were to be delivered at Calcutta during August to October 1977. However, the Company could not adhere to the delivery schedule; this was stated to be due to financial difficulties. In October 1977 the Corporation prescribed a revised delivery schedule for supply of materials during November/December 1977. In December 1977, the Corporation cancelled the orders for eight out of nine items due to poor quality and requested (December 1977/January 1978) the Company to take back the rejected materials. Out of Rs. 2.36 lakhs worth of materials supplied up to December 1977, materials worth Rs. 1.56 lakhs (66 *per cent*) were rejected by the Corporation. The rejections worked out to 77 *per cent* in the case of cushion gum, 83 *per cent* in the case of cord repair fabric and 97 *per cent* in the case of under-tread strips.

5.05. Violation of Central Excise Regulations

On 1st December 1976, the Central Excise authorities seized 10,029 kg. of rubber products (value: Rs. 0.99 lakh) while these were being transported in a lorry without Central Excise gate pass and without payment of duty. The goods seized were later released on the execution of a bond by the Company with a cash security of Rs. 0.15 lakh and subject to payment of duty of Rs. 0.36 lakh. Follow-up investigations conducted by the Central Excise Department revealed 443 instances of removal of goods without payment of duty involving a total excise duty of Rs. 28.27 lakhs during the period 1974-75 to 1976-77, though the duty was subsequently paid. To a show cause notice served by the Central Excise Department (May 1977), the Company maintained (June/October 1977) that the lapses were due to financial stringency rather than any deliberate intention to defraud the Government. The Collector of Customs and Central Excise, Cochin, forfeited (December 1977) the security of Rs. 0.15 lakh and imposed a fine of Rs. 1 lakh on the Company. He also ordered the payment of duty amounting to Rs. 1.46 lakhs since the payment of duty in 78 out of 443 cases referred to above could not be substantiated. An appeal filed by the Company (March 1978) before the Central Board of Excise and Customs, New Delhi is pending disposal (June 1980).

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Transport.

Discussed by CPU on 12/1/83

Draft Report of CPU recd. on 13/3/85 vetted & returned on ...

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CPU 84-86
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9/7/85

5.06. Loss in the disposal of damaged cycle tyres

In June 1978, the Company invited tenders for the disposal of damaged cycle tyres, rims, etc. The highest offer was Rs. 5.26 per tyre in the case of selected marketable tyres and Rs. 1.01 per tyre in respect of others. The next highest offer was Rs. 4.26 per tyre for the entire lot. In July 1978, the Company accepted the offer of 'A' with the stipulation that the party would lift the entire stock at the rate of Rs. 5.26 per tyre, but the party did not lift the tyres despite notices sent by the Company in October/December 1978. However, based on A's requests (January/March 1979), he was allowed to select 2,100 tyres at Rs. 5.26 each and the remaining 13,572 tyres were sold on weight basis at the rate of Rs. 333.33 per tonne. Rejection of the offer of 'B' resulted in loss of Rs. 0.52 lakh (exclusive of sales tax) to the Company. Government stated (December 1979) that if the Company had not sold the material on the basis of weighment, the Company would not have been able to recover any amount from the material.

Discussed by PUC on 12.1.83

SECTION VI

KERALA INLAND NAVIGATION CORPORATION LIMITED

6. Idle investment and extra expenditure

In October 1975, the Kerala State Road Transport Corporation (KSRTC) submitted a project report to Government for transportation of goods using the inland waterways of the State. The scheme envisaged an investment of Rs. 100 lakhs—Rs. 73.67 lakhs on 50 barges (Rs. 55 lakhs), 3 tugs (Rs. 9 lakhs) and 200 containers besides workshop equipment, cranes etc. The boat building yard of KSRTC was proposed to be used for the construction of water crafts at 'half the cost of water crafts purchased from outside agencies'.

After consideration of the project report, Kerala Inland Navigation Corporation Limited was incorporated in December

1975 with the main object of operating transportation services for goods and passengers in the inland waterways in the State or elsewhere.

Based on the recommendation of a sub-committee, Government decided (December 1975) that the Company should have its own modern workshop which could develop into an useful infrastructure even for ships calling at Cochin port. The project report envisaged that in the first year the emphasis should be on the construction of 1 tug and 5 barges. The Board of Directors, however, decided (April 1976) that the Company's main activities should be business-oriented and the Company should undertake transportation of cargo, etc., with hired tugs/lighters without waiting for the establishment of a workshop and construction of its own tugs and barges. Soon after (June 1976) the Company acquired an old boat (M.B. Samuel) and 2 country crafts (with a jhankar platform) from KSRTC and placed an order for a tug (July 1976) on KSRTC which was then constructing a passenger boat. The design of the boat was changed to that of a tug which was delivered in March 1977. The Company entered the commercial field in August 1977. The following points were noticed in audit:-

(i) The old boat and 2 (unserviceable) country crafts (with a jhankar platform) were purchased from KSRTC at a cost of Rs. 0.13 lakh with a view to put them to use after repairs. According to the Company's estimate (April 1976), with an investment of Rs. 0.35 lakh (including Rs. 0.22 lakh on repairs), the water crafts would be capable of providing service comparable to new craft costing at least Rs. 1.50 lakhs.

The old engine and certain other unserviceable parts of the boat were disposed of as scrap (June 1977) for Rs. 6,718. The hull of the boat was completely repaired and renovated at a cost of Rs. 0.52 lakh for it to be used as a tug. An engine received from a Poona firm (May 1977) (free of cost for trial and return) was mounted in August 1977 and the tug made ready for commercial operations. During the period August 1977- March 1978, the tug was used on six days for pleasure trips on hire.

The tug was put on regular passenger service operations in April 1978. In August 1978 as the engine had to be removed and returned to the Poona firm it was replaced with another new engine (cost : Rs. 0.48 lakh).

The country crafts (with a jhankar platform) purchased in June 1976 were repaired at a cost of Rs. 0.19 lakh and made ready for operations in December 1976. Thus the total expenditure on the purchase and renovation of the boat and 2 country crafts with a jhankar platform amounted to Rs. 1.26 lakhs as against the original estimate of Rs. 0.35 lakh.

The question of how best the country crafts (value: Rs. 0.20 lakh including repair charges) could be utilised was discussed by the Board in June 1977 but since the Company's efforts to operate the crafts for the conveyance of merchandise failed for want of jetty facilities and due to opposition from local labour, the crafts were disposed of for Rs. 0.08 lakh (December 1978) resulting in a loss of Rs. 0.12 lakh. The Management stated (January 1979) that no use could be found for the crafts and their further retention was considered risky.

(ii) Mention was made in paragraph 15.01 of Section XV of the Audit Report(Commercial)for 1976-77 about the construction of a boat by KSRTC and its subsequent sale to the Company. The tug boat (without the engine) was purchased for Rs. 1.84 lakhs from the KSRTC who were also commissioned to fit it with a new engine at a cost of Rs. 1.06 lakhs. The boat was delivered in March 1977. Although the decision to acquire the tug boat was taken in June 1976, the fabrication and supply of 4 steel dumb barges (to be operated with the tug) was awarded to a firm of Alleppey at Rs. 1.70 lakhs per barge only in May 1978. However, the firm order was initially placed for supply of only two barges as the Management decided to assess the performance of first set of barges before placing further orders.

One barge was received in December 1979 and the second barge in May 1980. Except for occasional private hire operations for pleasure trips, etc. the tug boat remained idle from March 1977 to July 1978 for want of barges for tugging operations. From August 1978, the tug boat was operated on regular passenger services between Ernakulam and nearby islands after providing May 1978) necessary seating arrangements (cost: Rs. 1,250).

(iii) Though the order for the remaining two barges was withheld earlier in order that a decision thereon would be taken after assessing the performance of the first two barges, the orders for the remaining 2 barges were confirmed in November 1979 even before the first two barges were supplied. The firm however declined to take up the work and asked for price escalation. The Board of Directors, therefore, decided (March 1980) to allow the contractor an enhanced price for the remaining two barges, limited to the difference in price of steel (40 tonnes). A revised order was issued (March 1980) involving an extra cost estimated by the Management at Rs. 0.18 lakh.

(iv) The project report prepared by the KSRTC (October 1975) for the construction of water crafts, included a provision for the acquisition of workshop equipment costing Rs. 3.07 lakhs. Government decided (December 1975) that the Company should have a modern workshop which could develop into an useful infrastructure for even ships calling at Cochin Port. In November 1976, while furnishing details of requirements of funds to Government the Company had, *inter alia*, provided for the following items of expenditure:

	(Rupees in lakhs)
Acquisition of land (1 acre)	3.00
Construction of workshop	0.50
Machinery, equipment and materials for workshop	1.77
Total	5.27

Though funds were obtained in January/March 1977, the Company has not so far (June 1980) incurred any capital expenditure on the above items. In January 1978, the Company took over 74.1 cents of land on lease (terms not yet settled) from the KSRTC for setting up the workshop. In February 1978, the Company approached the District Collector, Ernakulam to make available the adjacent Government land and to acquire one cent of land to provide access to the land taken on lease. The matter is still pending (June 1980). The Management stated (January 1979) that there was a proposal for taking over the entire water transport wing of the KSRTC including the marine workshop and boat building yard.

(v) In the project report, the funds required were proposed to be raised by way of share capital contribution to the extent of 51 *per cent* by Government 30 *per cent* by cargo owners and 19 *per cent* by navigational workers. However, as at the end of March 1979, the entire paid-up capital of Rs. 22 lakhs had been subscribed by Government. These funds were released against Company's requisitions from time to time (during December 1975-March 1979) even though the Company had no specific time-bound plan for the implementation of the project.

The table below gives particulars of funds demanded by the Company, funds released by Government and their actual utilisation:

Year	*Funds requisitioned by Company*	*Funds released by Government*	*Project expenditure*	*Other* expenses*	*Funds remaining unutilised at the end of the year*
			(Rupees in lakhs)		
1975-76	..	2.00	..	0.19	1.81
1976-77	12.67	10.00	3.57	0.28	7.96
1977-78	23.50	5.00	0.37	0.14	12.45
1978-79	13.50	5.00	2.58	0.39	14.48
	49.67	22.00	6.52	1.00	

The unutilised funds were deposited in the Treasury Savings Bank Account bearing interest at 6 *per cent* per annum. The minimum balance in the Treasury Savings Bank Account on any day was Rs. 6.67 lakhs between April 1977 and March 1978 and Rs. 10.64 lakhs between April and December 1978.

Funds had been drawn much in excess of requirements and have been deposited in low yielding investments. If the investment had been made in fixed deposit in the Treasury for one year bearing interest at 8 *per cent* per annum the Company could have earned Rs. 0.27 lakh more till December 1978. The

* Other expenses include preliminary expenses and pre-operative expenses and other revenue expenditure.

Management stated (January 1979) that the Company was expecting some immediate expenditure on capital items such as construction of barges, boats, power barges, putting up workshop, etc., and that part payments were already made. However, orders for construction of two barges for Rs. 3.40 lakhs were placed only in May 1978 stipulating the date of delivery as January 1979. Further, orders for power barges had not been placed so far (August 1980) and the proposal to put up a workshop had not taken concrete shape pending a decision at Government level to acquire the workshop owned by the Water Transport wing of KSRTC . The Management also stated (January 1979) that after examining the whole issue in the light of audit observations, the Board of Directors decided (January 1979) to deposit Rs. 5 lakhs in fixed deposit for one year. A further sum of Rs. 3 lakhs had also been invested (March 1979) for one year in fixed deposit.

Section VII

SITARAM TEXTILES LIMITED

7. Extra expenditure

In November 1972, Government purchased the machinery and immovable assets of the Sitaram Spinning and Weaving Mills, Trichur for Rs. 23.50 lakhs at the auction by the official liquidator's court. With a view to implementing a modernisation-cum-expansion programme, Government decided (December 1974) to establish a new textile Company and 'Sitaram Textiles Limited' was incorporated in February 1975. Government directed the Company (July 1975) to take over the management of the mills pending final transfer of the assets of the mill: Under an agreement with the Government (December 1975), the Company took over the management and the physical possession of the immovable assets of the mills. Government ordered (August 1976) that the amount of Rs. 23.50 lakhs would be treated as the value of the assets of the mills transferred to the Company against Government's share of capital contribution in the Company; this was raised to Rs.30 lakhs by a subsequent Government

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order of May 1979. While Government had acquired the title to the assets of the erstwhile mills from the liquidator's court in November 1977 the sale deed (conferring on the Company clear title to the assets transferred) was executed by Government in February 1980. This resulted in an extra expenditure of Rs. 7.30 lakhs by the Company, as detailed below:-

(a) For implementing the modernisation-cum-expansion programme, loans aggregating Rs. 282 lakhs were sanctioned (October-December 1976) by the Industrial Development Bank of India (IDBI) (Rs. 182 lakhs) and Industrial Finance Corporation of India (IFCI) (Rs. 100 lakhs). As per the terms of the loans, the Company was to offer, as security, an equitable mortgage by depositing the title deeds of all immovable assets of the Company, present and future. In the absence of the title deeds the Company had to resort to a bridge loan from IDBI of Rs. 91 lakhs (11th May 1977) carrying interest at 2 *per cent* above the rate applicable to term loans, which was converted to an interim loan (8th August 1977) at 1 *per cent* higher rate of interest. Up to December 1979 the Company had taken interim loans aggregating Rs. 267.46 lakhs, (IFCI: Rs. 95.00 lakhs and IDBI: Rs. 172.46 lakhs) at a higher rate of interest resulting in an extra expenditure (January 1978 to November 1980) of Rs. 7.08 lakhs.

(b) The Company had applied for a bridge loan of Rs. 91 lakhs from IDBI in January 1977 and the loan was received on 11th May 1977. On the ground that the conditions for interim loan had been fulfilled, the Company requested IDBI (May 1977) to convert the bridge loan into an interim loan. The bridge loan was actually converted into interim loan only with effect from 8th August 1977 because, according to the IDBI, the documents (such as promissory notes, etc.) executed by the Company were found to be defective. The delay in the completion of the necessary formalities resulted in an extra expenditure of Rs. 0.22 lakh by way of additional interest from 11th May 1977 to 7th August 1977.

Government stated (December 1979) that the transfer of assets to the Company involved a number of complicated issues and a series of discussions. Although final orders were issued in August 1979, the sale deed could be executed only in February

1980 as a decision on the request for exemption from the payment of stamp duty and registration fees (Rs. 3.75 lakhs) was under consideration of Government. According to the company (June 1980), the mortgage deed in favour of the financing institutions had not been executed pending approval of the draft mortgage deed by the financing institutions.

SECTION VIII

THE KERALA STATE DEVELOPMENT CORPORATION FOR SCHEDULED CASTES AND SCHEDULED TRIBES LIMITED

8.01. Self-employment schemes

The Company was incorporated (December 1972) with the main object of promoting the economic uplift and improving the living conditions of the Scheduled Castes and Scheduled Tribes in the State. Apart from providing financial assistance for setting up of small business, trade and industry, purchase of auto-rickshaws, construction of houses, etc., the Company formulated two self-employment schemes to set up a carpentry production centre and a match factory.

8.01.1. *Carpentry production centre at Mahe*

The Company submitted a self-employment scheme to Government (September 1973) to provide employment to 180 persons belonging to the Scheduled Castes/Tribes who had undergone training in carpentry and woodcraft by establishing 3 production centres for the manufacture of standard sizes of wooden doors and windows. The production centres were to be set up as co-operatives, each with a capital outlay of Rs. 3.45 lakhs, of which Rs. 2.40 lakhs (Rs. 0.60 lakh from 60 persons and Rs. 1.80 lakhs from the Company) was to be raised as share capital and the balance of Rs. 1.05 lakhs by a loan from the nationalised banks. The Company's total share capital contribution of Rs. 5.40 lakhs was to be raised from Government under the "Half a Million Jobs Programme". Government sanctioned the

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Development Dept.

V^th Report 84-86

11-4-1985

Para 8.01
8.01.1
8.01.2

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& Returned on 21/3/85

scheme (January 1974) and the amount of Rs. 5.40 lakhs was disbursed to the Company (May 1974) by the Harijan Welfare Department. Mention was made in paragraph 40(5)-B of the Audit Report for 1974-75 (Civil) about the non-implementation of the scheme for want of accommodation and experienced persons for establishing the production centres. The entire financial assistance (Rs. 5.40 lakhs) received from Government had been diverted to other purposes.

Instead of starting production centres in the co-operative sector as originally envisaged (September 1973), the Company took over (May 1976) a vacant building from the Harijan Welfare Department at Mahe at a monthly rent of Rs. 250 and set up its own centre for the production of wooden articles at a capital cost of Rs. 0.14 lakh. The production centre provided employment to nine carpenters and functioned from March to July 1977 when it was closed down after incurring a loss of Rs. 0.26 lakh. A further expenditure of Rs. 0.27 lakh was incurred between August 1977 and March 1979 to take care of the stock (value: Rs. 0.15 lakh) and machinery (cost: Rs. 0.07 lakh). On the ground that the centre could not be worked economically, the Board decided (May 1979) to wind up the centre after disposing of the machinery and materials by public auction. The materials and machinery have not been disposed of so far (June 1980). The total loss in the running of the centre amounted to Rs. 0.40 lakh for the period up to March 1979.

The Management stated (July 1979) that they were not able to get timber from Government at concessional rates as originally envisaged and that had resulted in losses.

The matter was reported to Government in November 1979; reply is awaited (September 1980).

8.01.2. *Match factory at Mala*

In July 1975, the Board decided to arrange for a feasibility study for establishing a match factory to provide employment to 50 Harijans directly and 100 Harijans indirectly. In August 1975, the Company received a project report from a consultant at Coimbatore for the manufacture of 250 gross match boxes daily (8 hour shift). The project report envisaged an investment of Rs. 3.20 lakhs (land and building: Rs. 1.00 lakh; plant and machinery: Rs. 1.20 lakhs; working capital: Rs. 1.00 lakh) and a net profit of Rs. 1.28 lakhs per annum. The Board approved the project report (March 1976) and decided to establish the match factory at Mala (Trichur district). The Board also decided to appoint the consultant as a technical consultant for implementing the scheme on payment of actual expenses on travel and board and lodging. In October 1976, the Company concluded an agreement for the supply of machinery with a firm owned by the consultant according to which—

—the Company would complete the construction of the shed with all fittings necessary for the installation of machinery by 15th January 1977 and

—the firm would, for a total consideration of Rs. 1.42 lakhs, supply, erect and commission the machinery by 31st March 1977.

A sum of Rs. 42,500 was paid to the firm (October 1976) as an advance in terms of the agreement. The work of construction of sheds with all fittings (on 50 cents of land leased from Government) was awarded to a contractor (January 1977). The Company received the necessary permit for running the match factory (August 1977) and obtained an allotment of 100 cubic metres of match wood (November 1977) from Government. Due to non-availability of cement, the construction of sheds scheduled for completion by 31st March 1977 was completed in May 1978 at a cost of Rs. 2.94 lakhs. Consequently, the agreement for the supply of machinery was extended from time to time up to June 1979, though no supplies were received. The bank guarantee (Rs. 42,500) furnished by the firm for the supply of machinery had meanwhile lapsed in December 1977. In April 1979 the Board decided to drop the scheme on the basis of a detailed study stated to have been conducted in November 1978. The building was thereafter given to a co-operative society from April 1980 at a rent of Rs. 350 per mensem. The abandonment of the scheme resulted in non-utilisation of the building (cost: Rs. 2.94 lakhs) from June 1978 to March 1980. Attempts to recover the advance of Rs. 42,500 have not been successful so far (June 1980).

The matter was reported to Government in November 1979; reply is awaited (September 1980).

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on 3/2/83

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79-80/67 dt 11-6-84

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Legislature on
11-4-85

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SECTION IX

THE KERALA STATE COIR CORPORATION LIMITED

9. Loss on the purchase and dieselisation of a car

The Company placed an order (December 1974) with a firm at Coonoor for the supply and fitting of a diesel engine (with accessories and additional spares), at a cost of Rs. 18,365. The engine was to be fitted in a car to be made available by the Company at the supplier's workshop and the work was to be completed within 6 weeks from the date of the order. A sum of Rs. 11,725 (70 *per cent* of the price of the engine) was paid as advance to the supplier along with the order. The Company purchased (December 1974) a second-hand Dodge car for Rs. 16,000 and delivered it to the firm on 4th January 1975 for fitting the diesel engine. When the firm failed to carry out the work, the Company paid a further sum of Rs. 5,750 in February (Rs. 3,250) and June 1975 (Rs. 2,500) for the purchase of additional spares. As the firm did not complete the work, a suit was filed by the Company in October 1975. After obtaining a decree, the vehicle with the engine (old and new) was taken possession of by the Company in November 1975. The car was thereafter fitted with the diesel engine (July 1976) by entrusting the work to another firm at Coimbatore at a cost of Rs. 12,414. It was used for 21 days after which it was sent for repairs to a workshop at Alleppey on 17th August 1976. After repairs (cost: Rs. 5,291) the car was received back on 23rd December 1976 but was sent back to the workshop the next day and remained there till it was disposed of in April 1979 for Rs. 12,000. Other incidental expenditure incurred by the Company on the purchase and repairs of the vehicle since December 1974 amount to Rs. 3,937. Thus ~~the~~ the Company incurred an expenditure of Rs. 55,117 on the purchase, repairs and dieselisation of a car which could be used for just 21 days (1600 kms). The transaction resulted in a loss of Rs. 43,117 without taking into account the interest on blocked capital for over 4 years.

The suit filed by the Company (October 1976) to realise Rs. 22,775 from the Coonoor firm was decreed ex-parte in the Company's favour (September 1977) allowing, in addition, Court expenses of Rs. 3,591. Apart from obtaining a copy of the judgement in September 1978, the Company took no further action in the matter (November 1979). The Management had stated (May 1979) that enquiries were being made regarding the firm's assets to proceed with the execution of the decree.

A Committee of Directors appointed by the Board in May 1978 to enquire into the circumstances leading to the then condition of the vehicle did not proceed with the enquiry. The Management stated (February 1980) that the enquiry could not be proceeded with, as the records relating to the transactions were with the legal adviser of the Company.

Government to whom the matter was reported (November 1979) endorsed (March 1980) the views of the Management.

Section X

KERALA SHIPPING CORPORATION LIMITED

10. Loss due to cancellation of voyage

In July 1976, the Government of India chartered the Company's ship (on behalf of a Central Government company) for bulk transportation of urea from Rotterdam to India. After unloading cargo at Rostock, the ship reached Rotterdam (290 nautical miles) on 28th August 1976 to lift the urea.

According to the Charter party terms the ship should, before tendering notice for loading cargo, have been dry and clean and free of residue of previous cargoes (to the Charterer's satisfaction), duly supported by a certificate from a recognised agency at the ship's expense. On inspection of the ship (28th August 1976), the charterer's surveyors rejected it on grounds of dust in the holds and leakage in the hatch-covers. Despite cleaning and repairs (28th August to 3rd September 1976) the surveyors still held (3rd September 1976) that the holds were not

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Transport

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[signature]

⊗ In the Company's reply dt- 1-1-80. (C-35 / DP File)
the words used are
"Local systems or customs"
This has been wrongly used as
"legal ..." in the d.p. vide correction
made in d.p. on p 50 in d.p. file.

11/3/85
AAO

D.P 18/79-80

Industries Dept

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AAO

clean enough to comply with the charter party terms. The voyage was, therefore, cancelled on 9th September 1976. However, on their surveyor's certificate that the ship was fit to carry bagged urea, the Government of India arranged for transportation of bagged urea from Gdynia. The ship sailed on 19th September 1976 for Gdynia via Rostock to lift the bagged urea. The Company incurred an estimated loss of Rs. 8.08 lakhs towards expenses for the empty sail from Rostock to Rotterdam and back (including port days at Rotterdam).

On return of the ship to India, the Managing Director called for (December 1976) reports of individual assessment from the Master, the Chief Officer and the Chief Engineer of the ship, regarding the rejection of the ship by the Charterers as "not fit to load bulk urea". However, no reports were submitted by them, nor did the Company insist on the reports.

The Management stated (January 1980), that despite thorough cleaning of the vessel by the crew, the surveyors had due to their own reasons rejected the vessel for loading and that it might be because of any legal systems or customs over which they had no control. Government agreed with the remarks of the Management.

Section XI

PALLATHRA BRICKS AND TILES LIMITED

11. Loss due to defective storage

(a) The Company is engaged in the production of sandlime bricks. Silica sand required for the purpose is collected from the surrounding area of the factory. The collection of silica sand was not regulated in accordance with the production requirements resulting in heavy accumulation of sand as indicated below:—

Year	*Opening balance*	*Quantity procured*	*Total*	*Quantity utilised*	*Closing balance*
			(*in tonnes*)		
1976-77	7,241	28,809	36,050	24,042	12,008
1977-78	12,008	26,526	38,534	18,123	20,411

During 1977-78, it was found that 18,000 tonnes (value: Rs. 0.68 lakh) of silica sand had got merged with the adjoining land and was irretrievably lost; it was written off in the accounts for 1977-78.

Government stated (January 1980) that purchase of a weigh bridge to regulate storage of sand required for production was being considered and that the question of providing better storage facility for the sand collected would be considered.

(b) From the date of commencement of production in 1963, broken bricks arising in the course of production were being haphazardly heaped and were getting covered by earth. 10.28 lakh broken bricks had accumulated up to 1977-78 without any attempt having been made for their disposal. The quotations invited (March 1978) for the sale of these bricks did not bring forth any offer. The Company concluded that the sale would not be possible on account of defective storage and the estimated value of 10 lakh broken bricks (Rs.0.50 lakh) was written off.

Government stated (January 1980) that necessary precaution was being taken to keep fresh stock of broken bricks separately and these would be sold along with good ones to minimise losses.

Discussed on 24-2-83

Section XII

THE KERALA STATE HANDLOOM DEVELOPMENT CORPORATION LIMITED

12. Avoidable expenditure

The Company sold ready-made garments (September 1973) for Rs. 2.31 lakhs to a firm at Bombay. On the assumption that the sale was in the course of export, the Company did not provide for the recovery of sales tax in the contract of sale and claimed exemption from sales tax (February 1975) on the plea that the 'sale was in the course of export'. The Company was, however, unable to produce documentary evidence of the garments having been exported on its behalf by the Bombay firm and was directed (March 1976) to pay Rs. 0.23 lakh as sales tax.

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Industries Dept.

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Food Dept.

Report
see
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30/6/83.

Discussed
on 19.10.81

The Company filed an appeal (June 1976) before the appellate authority. Consequent on revenue recovery proceedings initiated at the instance of Sales Tax authorities, the Company deposited (May 1977) the amount with the District Collector, Cannanore. Decision on the Company's appeal is awaited (May 1980).

SECTION XIII

THE KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED

13. Irregular payment of bonus

Having earned profits in the first two accounting years 1974-75 (Rs. 4.36 lakhs) and 1975-76 (Rs. 5.43 lakhs), the Company paid bonus to its employees at 20 *per cent* in accordance with the provisions of the Payment of Bonus Act. The Company having suffered a loss (Rs. 0.25 lakh) in 1976-77, no bonus was payable in terms of section 16(1-A) of the Act. The Company nevertheless paid Rs. 1.04 lakhs by way of bonus (at 13 *per cent*) in the belief that the payment of bonus was obligatory.

In September 1978 the Board of Directors decided to pay bonus for 1977-78 (at 8.33 *per cent*) pending finalisation of the accounts for the year. The payment was to be treated as an advance which would be recovered if no bonus was found to be admissible for 1977-78. An amount of Rs. 0.69 lakh was disbursed in September 1978 against individual undertakings from the employees. The accounts were finalised in December 1978. The Company having incurred a loss of Rs. 134.39 lakhs during 1977-78, no bonus was payble for that year. No recoveries/adjustments have, however, been effected so far (June 1980).

Discussed on 24-2-83

SECTION XIV

THE KERALA CERAMICS LIMITED

14. Idle equipment

In April 1973, the Company imported 18 one-tonne cylinders from Japan at a cost of Rs. 2.09 lakhs for bulk transportation and storage of chlorine to maintain a steady production of kaolin. For filling the cylinders with chlorine, the Company had to obtain a no-objection certificate from the Chief Controller of Explosives, Nagpur. When the Company approached the Chief Controller for the no-objection certificate (December 1973), it was asked (May 1974) to produce the manufacturer's certificate that all the welded seams of the cylinders were subjected to 100 *per cent* radiography test with satisfactory results. The certificate obtained from the manufacturer (July 1974), however, indicated that the cylinders were subjected to only 25 *per cent* radiography tests.

Having failed in its efforts (since September 1974) to arrange for 100 *per cent* radiography tests of the cylinders, the Company placed orders (May 1979) with Bharat Heavy Plates and Vessels Limited, Visakhapatnam (a Central Government Undertaking) for conducting the required test at a cost of Rs. 3,500 per cylinder (total cost: Rs. 0.63 lakh) on the condition that tests on 17 cylinders would be conducted only if the test result of the first cylinder was satisfactory. Further developments in the matter are awaited (June 1980).

Consequently, the imported cylinders have been lying idle since April 1973 and the Company has been meeting its requirements by hiring cylinders from the suppliers of chlorine. Since the hire charges for the period from April 1973 to January 1980 amounted to only Rs. 16,884, the import of cylinders at a cost of Rs. 2.09 lakhs was apparently not justified.

The Management stated (January 1980) that the cylinders were purchased on the technical advice of the foreign collaborators as part of the equipment for the new kaolin plant and as such it did not occur to them to consult any other authority regarding the specifications. Government endorsed (March 1980) the remarks of the Management.

Rep(C)/DP-23/79-80
Industries

Discussed on 24/2/83

Draft Report of CPU
recd on 16/3/85
vetted & Returned

Draft Report of CPU
approved at the
Meeting on 9/7/85

9/7/85

Presented

18th Rep

CPU. 84-86

Presented on
18/7/85

Examined on 25/8/83

ⓧ 35,693·70 lakhs as on 31.3.81

increase Rs 2288·34 lakhs over

1979-80 Rs 33,405·36 Lakhs.

K.S.E Board

draft report

recd. for vetting on 25-11-86

CHAPTER II

STATUTORY CORPORATIONS

SECTION XV

15.01. Introduction

There were four statutory corporations in the State as on 31st March 1979, *viz.* Kerala State Electricity Board, Kerala State Road Transport Corporation, The Kerala Financial Corporation and Kerala State Warehousing Corporation.

An analysis of the capital structure, working results, etc. of Kerala State Electricity Board and other statutory corporations is given in the succeeding paragraphs. The accounts of Kerala State Road Transport Corporation for 1978-79 have not been finalised (May 1980). The figures relating to this Corporation included in the succeeding paragraphs are, therefore, based on provisional accounts.

A synoptic statement showing the summarised financial results of working of the Kerala State Electricity Board and other statutory corporations for 1978-79 is given in Annexure 'C'.

15.02. Kerala State Electricity Board

15.02.1. *Loan capital*

The Board's capital comprises loans from the State Government and open market loans raised from time to time by issue of bonds and debentures, and loans from the Life Insurance Corporation of India, banks, etc. The aggregate of long-term loans obtained by the Board from Government and other sources stood at Rs. 31,099.66 lakhs as at the end of 1978-79 reflecting an increase of Rs. 1,974.35 lakhs over the long-term loans of Rs. 29,125.31 lakhs as at the end of the previous year.

15.02.2. *Guarantees*

Government had guaranteed repayment of loans (including open market loans, overdraft, purchases under IDBI schemes, loans from Rural Electrification Corporation, Agricultural Refinance and Development Corporation, etc.) raised by the

Board from time to time. The amount for which guarantee was available as on 31st March 1979 was Rs. 11,438.63 lakhs against which the amount of loans outstanding was Rs. 10,091.59 lakhs.

The revenues of the Board for 1978-79 (including a subvention of Rs. 537 lakhs from the State Government towards loss on rural electrification) amounted to Rs. 8,958.75 lakhs. After meeting its operating, maintenance and administration expenses (Rs. 4,797.15 lakhs) and financial charges (Rs. 1,946.37 lakhs), the Board earned a net surplus of Rs. 2,215.23 lakhs during 1978-79. The surplus was utilised for clearing a part of the accumulated arrears of interest due on loans from the State Government. A sum of Rs. 2,055.35 lakhs was pending payment as on 31st March 1979, towards arrears of interest, for want of surplus revenue.

15.03. Other Statutory Corporations

15.03.1. *Paid-up capital*

The aggregate amount of capital of the three Corporations, *viz.* Kerala State Road Transport Corporation, The Kerala Financial Corporation and Kerala State Warehousing Corporation at the end of 1978-79 amounted to Rs. 2,929.51 lakhs recording an increase of Rs. 456.80 lakhs over the total capital of Rs. 2,472.71 lakhs at the end of the previous year.

The following is the break-up of the investments made by the Central Government, the State Government and other parties in the capital of these Corporations as at the end of 1978-79:—

Name of the Corporation	*Investment made by*			*Total*
	Central Government	*State Government*	*Others*	
		(*Rupees in lakhs*)		
Kerala State Road Transport Corporation	766.67	1,738.04	..	2,504.71
The Kerala Financial Corporation	..	155.92	132.08	288.00
Kerala State Warehousing Corporation	..	68.40	68.40	136.80
Total	766.67	1,962.36	200.48	2,929.51

(x) Rs 14,778.30 Lakhs as on 31.3.81

+ Rs 12,946.36 Lakhs "

15.03.2. *Profit and loss*

The Kerala State Road Transport Corporation sustained a loss of Rs. 371.86* lakhs during 1978-79 as compared to a loss of Rs. 258.10 lakhs during 1977-78. The accumulated loss of the Corporation at the end of March 1979 was Rs. 2,459.68* lakhs. The Kerala State Warehousing Corporation sustained a loss of Rs. 8.73 lakhs during 1978-79 as compared to a profit of Rs. 1.18 lakhs during the previous year. The Kerala Financial Corporation earned a profit of Rs. 62.03 lakhs during 1978-79 as compared to a profit of Rs. 62.52 lakhs during the previous year.

15.03.3. *Dividend/interest on capital*

In the case of Kerala State Road Transport Corporation, interest on capital contribution (6.25 *per cent* per annum) outstanding for payment at the end of March 1979 amounted to Rs. 488.65 lakhs (State Government: Rs. 447.30 lakhs; Central Government: Rs. 41.35 lakhs).

The Kerala Financial Corporation had earmarked, out of its profit for 1978-79, a sum of Rs. 8.30 lakhs for payment of the guaranteed minimum dividend of 3.5 *per cent*. The corresponding figure for 1977-78 was Rs. 7.03 lakhs.

15.03.4. *Loans*

The aggregate of long-term loans (including debentures and deposits) obtained by the three Corporations, as at the end of 1978-79, stood at Rs. 3,560.12 lakhs. This represented an increase of Rs. 569.58 lakhs over the total long-term loans of Rs. 2,990.54 lakhs as at the end of the previous year.

15.03.5. *Guarantees*

Government had guaranteed the repayment of capital including payment of minimum annual dividend and loans (including

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* Figures are provisional.

bonds, debentures, fixed deposits and overdrafts) raised by two Corporations and the amount guaranteed and outstanding as on 31st March 1979 was as follows:—

	Capital	Loans	Total
		(Rupees in lakhs)	
(a) Kerala State Road Transport Corporation	..	426.83	426.83
(b) The Kerala Financial Corporation	260.00	1,999.51	2,259.51
Total	260.00	2,426.34	2,686.34*

Payment of interest on loans (including fixed deposits) raised by these Corporations had also been guaranteed by Government.

The guarantee for the payment of minimum dividend on the share capital of the Kerala Financial Corporation has not been invoked after 1969-70; the amount paid till then by Government towards guaranteed minimum dividend was Rs. 17.45 lakhs. Of this, an amount of Rs. 0.20 lakh was repaid by the Corporation in 1973-74.

SECTION XVI

KERALA STATE ELECTRICITY BOARD

Transmission Lines

16.01. Introductory

Power generated in the various power stations of the Board is transmitted through a network of 220,110 and 66 KV extra high tension transmission lines to various sub-stations. Distribution of energy is integrated by a common grid system which is linked to the neighbouring States of Karnataka and Tamil Nadu.

* Figures as per the accounts of the Corporations. As per Finance Accounts, the amount would be Rs. 2,853.34. The difference (Rs. 167 lakhs) is under reconciliation.

Rep(C) / DP - 27/79-80.
Electricity

Draft Report
recd. from Leg. sectt
for vetting on 25/11/86

Discussed
on 25/8/83

X[th] Report 87-89

17-7-87

St of action not reed. ——— VI Rep 77-79 &
XVII Rep. 80-82

St of action taken on certain paras recd on 28/6/83
File called for.

Discussed on 25/8/83 Key
c/7 jole ③..

'A' firm Thunga Bhadra steel Products 9/17 K.V 3.
9265/DP II
C21/KV 3

9/19 KV3
21

'X' M/s G.P stephen & Co- Angamali

'Y' M/s Mathew & Co Tvm

The transmission network has to be strengthened and augmented side by side with the construction of new power projects so as to ensure adequate line capacity by the time the generating stations are ready to feed power into the grid. Some aspects of the development of the transmission system including delays in the construction of transmission lines were mentioned in paragraph 4 of Section VIII and paragraphs 2.14 to 2.15.4 of Section XI of the Audit Reports (Commercial) for 1973-74 and 1975-76.

The following is a review of further developments in respect of some of the items mentioned in the Audit Report (Commercial) for 1975-76 and certain aspects of some other selected lines.

16.01.1. 110-*KV Double Circuit line—Kundara to Trivandrum (via Edamon)—and* 110-*KV Sub-station at Edamon*

(i) The work originally scheduled to be completed during the 4th Five Year Plan at an estimated cost of Rs. 106 lakhs (November 1971)—revised to Rs. 134.72 lakhs in January 1972—was carried over to the 5th Five Year Plan due to delay in the receipt of tower parts from the supplier.

In January 1972 the Board placed an order for the fabrication and supply of 1,700 tonnes of towers, bolts, nuts, etc. on firm 'A' of Karnataka. The supplies were to be effected at the rate of 150-200 tonnes per month and completed by October 1973. The agreement did not provide for any liquidated damages for delays in supplies. The standard penalty clause was waived by the Board (May 1972) at the firm's request.

The erection work for the Kundara-Edamon Section (37.28 Km.) was awarded to firm 'X' of Angamaly in February 1972 (value:Rs. 5.8 lakhs) and the work was to be completed, tested and got ready by January 1973. C 12 / KV 3 and AE3 C11/KV3

The erection work for the Edamon-Trivandrum Section (51.88 km.) was awarded to firm 'Y' of Trivandrum in February 1972 (value: Rs. 8.4 lakhs) and was to be completed by March 1974. AE3 to C 10 KV 3 C9/KV3

Work on both the sections was delayed due to delays in the supplies of tower parts (ordered on firm 'A') by the Board. The supplies scheduled for completion by October 1973 were actually completed in September 1976. In the absence of any provision in the agreement, no liquidated damages could be levied for a delay of nearly 3 years. The Board stated (April 1980) that the delay on the part of firm 'A' to supply tower parts was due to difficulties in getting zinc and furnace oil, shut down of their galvanising plant, etc.

The agreement with firm 'Y' provided for escalation in labour cost (at rates to be mutually agreed) in the event of delay in the supply of tower parts, by the Board. Enhanced rates were accordingly allowed from October 1976 resulting in an approximate extra expenditure of Rs. 0.70 lakh. The work was completed in December 1978. Although the agreement with firm 'X' did not provide for any escalation, the Board agreed (after negotiations) to enhanced rates (May 1977) which were, however, not accepted by the firm on the ground of a change in the wage structure. The firm's request for a further increase was not accepted and the contract was terminated (July 1977) at the risk and cost of the firm. A portion of the erection work was arranged on piecemeal contract basis. The contract for the remaining work was finalised after a lapse of 2 years in July 1979. The extra expenditure on alternative arrangement for the completion of the balance work (excluding the work awarded on piecemeal contract basis) was estimated at Rs. 0.94 lakh. The work is still in progress and details of actual extra expenditure incurred and recovery thereof from the defaulting contractor were awaited (April 1980).

(ii) *Construction of Sub-station building at Edamon*

The work sanctioned by the Board in January 1974 (estimated cost: Rs. 0.70 lakh) was entrusted to a contractor (February 1974) for completion by November 1974. After executing a portion of the work (Rs. 0.37 lakh) the contractor stopped the work in October 1974 on the ground that his on-account bill for Rs. 0.21 lakh had not been paid by the Board (as per the provision in the agreement for monthly payments). The bill was finally paid in April 1975. While the delay was attributed to paucity of funds in the Transmission Construction Division, Punalur, it was noticed that the division continued to make payments to other suppliers/contractors during the period October 1974—March 1975.

1. C 39 | DP vol II

AE3 | KV3 & P 7B ibid. Sl. No 17 (2) of Agl.

see P 37 | KV3.

see P37 | KV3

P. T. James.

C45

(2) Dhaoopi C. John
Mulanthuruthi.
P189/DP VOTE

C50

C69/KV3.

M/s Vedicalle Engineering Co.

C1/KV5 AE4
C17/KV6

Discussed on 25/8/83

C91/DP II

C53/KV5

C39/KV5

Thereafter (May 1975), the contractor demanded a 60 *per cent* increase in the contracted rate. This was not agreed to and the contract was terminated in September 1975. The balance work was got completed (September 1975) through another contractor at an extra cost of Rs. 0.20 lakh.

16.01.2. *Kalamasserry—Vaikom* 110-*KV Double Circuit line and* 110-*KV Sub-station at Vaikom*

(i) The construction of the line (44.19 km.) was sanctioned by the Board in October 1971 at an estimated cost of Rs. 58.27 lakhs (revised to Rs. 60.27 lakhs in January 1974). The work was awarded to a contractor of Alleppey in March 1974 (value : Rs. 5.83 lakhs) for completion by March 1975. Reasons for the delay in awarding the work are awaited (April 1980).

The work has not been completed so far (April 1980) due to delays in the finalisation of the profile and non-supply of tower parts to the contractor by the Board. After executing a part of the work (value: Rs. 3.5 lakhs) the contractor stopped the work and demanded (March 1977) enhanced rates for works remaining to be done beyond the stipulated date of completion (March 1975) on the ground that it was impossible to carry out the work at the rates quoted in 1973. The Board revised the rates in respect of certain items of work (June 1979) involving an estimated extra expenditure of Rs. 1.73 lakhs. The work was resumed by the contractor in November 1979 and is still in progress (April 1980).

(ii) Due to delay in the completion of the line work the sub-station building constructed in June 1974, the foundation for the yard structure completed in January 1976 (total cost: Rs. 17.43 lakhs) and 40 MVA transformer purchased in November 1978 (cost: Rs. 32.54 lakhs) and erected in April 1980 remained unutilised. The loss of interest on the blocked up money works out to Rs. 7.17 lakhs up to March 1980. The guarantee period of the transformer expired in May 1980.

16.01.3. 110-*KV Single Circuit tap line to West Hill and Sub-station at West Hill*

The work was sanctioned in March 1974 at an estimated cost of Rs. 26.7 lakhs. Due to delay in the finalisation of the route map (October 1975), the contract for the construction of the tap line (6.20 km; estimated cost: Rs. 2.16 lakhs) was awarded only in April 1976. The work which was to be completed within 16 fair weather months (the exact date for completion was not specified) was completed only in December 1979 due to delay in the supply of tower materials by the Board and delay by the contractor in preparing the tower schedule. Consequently, the sub-station building constructed in June 1979 (cost : Rs. 0.80 lakh), foundation for yard structure, cable, etc. constructed early in January 1978 (cost: Rs. 0.72 lakh) and one transformer (cost: Rs. 10.39 lakhs) purchased in March 1977 and erected in March 1979 (guarantee period expired in March 1978) remained unutilised up to November 1979. The loss of interest in the blocked up money works out to Rs. 1.74 lakhs up to March 1980.

16.01.4. 110-*KV Payyannur tap line and Sub-station at Payyannur*

(a) The work was sanctioned by the Board in November 1972 at an estimated cost of Rs. 22.5 lakhs. Preliminary and detailed survey, plotting of profiles and preparation of tower schedules were completed by the Board in March 1977.

Contract for the construction of the line (2 km; estimated cost: Rs. 0.78 lakh) was awarded to a contractor in May 1978 for completion within 3 months of the commencement of the work. The work commenced in March 1979 has not been completed so far (April 1980) due to delay in supply of tower materials by the Board.

(b) The civil construction work of the sub-station building at Payyannur had been awarded to a contractor in December 1973 (value: about Rs. 2.09 lakhs) for completion by March 1975. However, due to delay on the part of the Board in finalising the type of cable trenches to be provided, the work could be completed only in January 1978. In May 1975, the contractor

(A) M/s Skylines, Alleppey

Discussed on 26/8/83

$\frac{C_1}{KV7}$

- C3/KV7
- C43/DP II

- 39/KV7

- C41/KV7

- $\frac{332}{DP\ II}$

C3/KV8

- 5/KV8

C/13/KV8

C 15·11 / KV8

C 45 / KV8

C 332 / D8 II

C 69 / KV

United Eng Co. C 11 | KV2

C 1, 21 / KV2

N. Kannappan
Kilimanoor

C 61 / KV2

demanded an increase in rates for the work done after the due date of completion. The claim was partially accepted (September 1976) by the Chief Engineer (as arbitrator) resulting in an extra expenditure of Rs. 0.11 lakh. — C 19 | KV8

(c) Owing to the delay in completion of the line work, one power transformer purchased in January 1977 (cost: Rs.10.36 lakhs), foundation for and fabrication of yard structures completed in September 1977 (cost: Rs. 0.73 lakh) and the sub-station building constructed in January 1978 (cost : Rs. 0.60 lakh) have remained unutilised (April 1980). The loss of interest in the blocked up capital works out to Rs. 2.22 lakhs up to March 1980.

16.01.5. 66-*KV Single Circuit line—Attingal to Palode and Sub-station at Palode*

(i) The work was sanctioned in November 1971 at an estimated cost of Rs. 31.15 lakhs. The construction of the line (20 km; estimated cost: Rs. 14.50 lakhs) was awarded to a contractor in July 1974 for completion by December 1974. After executing a portion of the work, (Rs. 0.40 lakh) the contractor stopped the work in February 1977 and did not resume the work despite repeated notices. The Chief Engineer, therefore, terminated the contract (January 1978) at the risk and cost of the contractor. The balance work was awarded to another contractor at an (estimated) extra cost of Rs. 1.23 lakhs. The work scheduled for completion by April 1979 was completed in November 1979 and the line commissioned in January 1980. No action has so far (December 1979) been taken by the Board to recover the extra expenditure from the defaulting contractor.

(ii) The Board initiated action for acquiring Forest Department land (on lease) for the construction of a sub-station building at Palode, in November 1971. The lease deed was, however, finalised in May 1976 and the land takenover in June 1976. The construction of the sub-station building, foundation for yard structure, etc. was entrusted to a contractor in October 1977. The work scheduled to be completed by April 1978 was completed in November 1979 and the line commissioned in January 1980. Two transformers (cost: Rs. 7.01 lakhs) purchased in March 1977 remained idle till January 1980.

16.01.6. 66-*KV Single Circuit line—Koothattukulam to Moolamattom and Sub-station at Thodupuzha*

The work was sanctioned in November 1971 at an estimated cost of Rs. 57.90 lakhs and was to be completed by March 1974.

The work of construction of the line (38 km.) was awarded to a contractor in February 1975, (value: Rs. 4.17 lakhs) and was to be completed within 12 fair weather months from the date of commencement (April 1975). As the progress of work was far from satisfactory, meetings were held with the contractor (May-August 1977) who agreed to complete the work (which was stopped in August 1977) by December 1977. Despite repeated requests, the contractor did not restart the work. The value of work done till then was Rs. 0.85 lakh. The contract was terminated in December 1978 at the risk and cost of the contractor. A portion of the work (17 km.) was entrusted to another contractor in May 1979 at an estimated extra cost of Rs. 1.74 lakhs. No alternative arrangement has yet been made for the remaining portion of the work (21km.) (April 1980).

Due to delay in the completion of the line work, 2 transformers purchased in April 1976 (cost: Rs. 7 lakhs) and two static capacitors purchased in February /September 1977 (cost: Rs.5 lakhs) have remained unutilised (April 1980). The loss of interest on the blocked up money works out to Rs. 2.59 lakhs up to March 1980. The guarantee period of the transformers had expired in January 1978. AE·6 | KV6.

16.01.7. 66-*KV Single Circuit line—Alleppey to Kuttanadu*

The Board sanctioned the construction of the line (20 km.) in March 1971 at an estimated cost of Rs. 10 lakhs. The contract for the work was awarded in May 1972 for completion within 6 fair weather months after the receipt of towers subject to route clearance by the Board. The route

C43 | KV6

C9 | KV6. United Eng. Co

C1, 14 | KV6

C3 | KV6

Sreekumar, Amilon. C31 KV6

C7, 23, 25, 26 | KV6

DP II

KV9

C 87
KVG

G. P. Stephen & Co

C20
KVG

C19

C23

C21

 C5 KVG

alignment was approved by the Board in September 1972 and the supply of tower materials was completed, progressively, in July 1975.

The agreement provided for wooden shuttering (rate:Rs.30 per square metre) and concrete rings (rate: Rs. 322. 80 per square metre) for excavation work in the tower locations. The locations were, however, not specified either in the agreement or in the estimate. The contractor was informed before the commencement of the work (September 1972), that concrete rings for excavation work might be provided only at clayey soil locations where water was weeping profusely into the pits. The contractor was instructed (October/November 1972) to use concrete rings for pits approved by the Engineer concerned. There were 65 tower locations of which 37 were in the punja paddy fields. The contractor claimed (December 1972) that he had provided concrete rings for excavation work at 36 tower locations in the punja paddy fields. After inspecting 33 of the 37 locations the Assistant Engineer informed the contractor (December 1972) that concrete rings were not required at 6 locations which were at elevated places. As the remaining 27 locations were water-logged no specific approval was given to the contractor for providing concrete rings. While the contractor insisted on payment for 30 concrete rings provided by him, the Board approved payment (April 1973) for 16 locations only. Payment for the remaining 14 locations was made at the rate applicable to wooden shuttering. As this was disputed by the contractor, further work was ordered to be stopped on 6th January 1973. On 15th January 1973, the contractor was ordered to resume work at the approved locations. The contractor, resumed the work but stopped it in May 1974 due to non-supply of cement by the Board. 145 tonnes of cement issued to the contractor initially for the work was also utilised for casting concrete rings for locations not approved by the Board. The field officers of the Board held that there was no supervision for casting of concrete rings and that cement used by the contractor unauthorisedly for concrete rings was not being checked. As the contractor did not resume the work the contract was terminated at his risk and cost (February 1976). The balance work was completed (July 1977) through another contractor.

L 31/KV9

Under clause 11 of the agreement with the contractors all disputes or/and doubts arising under the agreement were to be referred to the Chief Engineer (Electricity) of the Board whose decision was to be final. However, the dispute between the contractor and the Board was referred to two arbitrators, one each nominated by the Board and the contractor.

C 75 As the arbitrators could not come to an agreed decision, the Umpire awarded (September 1977) Rs. 8.32 lakhs to the contractor for the work done by him and Rs. 1.86 lakhs towards compensation for stoppage of work ordered by the Board. The Umpire concluded that the Board was not justified in terminating the contract at the contractor's risk and cost and disallowed the Board's claim for the loss incurred (Rs. 0.34 lakh) on the alternative arrangement for the balance work. \C 33

Inadequate supervision while the work was in progress and resort to arbitration (contrary to the specific provisions of the agreement) thus resulted in an additional expenditure of Rs. 10.52 lakhs apart from a delay of 12 months in the completion of the work.

16.02. Loss due to supply of power at lower tariff

The Board concluded an agreement with a consumer at Chingavanam (May 1966) for the supply of power at 110 KV for a period of 10 years from the date of commencement of supply. The supply was to be made after constructing a 6 km. 110 KV line. The agreement did not stipulate the date for the commencement of supply of power. The consumer informed the Board (January 1967) that the agreement was based on the expectation of the ultimate power requirements of 20,000 KVA and since the application for expansion had since been rejected by Government, power would be accepted at 66 KV at the tariff for 110 KV. The agreement was neither cancelled nor was a new agreement for supply of power at 66 KV concluded. Instead, the Board decided (May 1967) to effect the supply at 66 KV at the rate applicable to supply at 110 KV *viz.* Rs. 165 instead of Rs. 177 per KW-year on the

C65 C65

C\77

C76

C77

8.32
1.86
.34
10.52

Rep (C)/ DP- 28/ 79-80

C61/DP file

Travancore Electro
Chemicals,
Chingavanam.

C3

C3

C65

Draft Report of CPU recd on 8/3/85 vetted & Returned on 27/3/85

Rep (C) / DP-3/79-80

Transport

Discussed on 29/4/83

1st Second Report of CPU (1984-86)

→ Presented 11-4-85

ground that the agreement was for the supply of power at 110 KV and that the consumer had already purchased the necessary transformer. Simultaneously, the Board decided to purchase from the consumer the transformer and allied equipment imported by him. (A reference is invited to paragraph 85 of the Audit Report (Civil) for 1970-71 and the Eleventh Report of the Committee on Public Undertakings—1973-74).

Application of the lower tariff for supply of power at 66 KV was not justified as (i) the agreement stipulated supply at 110 KV; (ii) the switch over to 66 KV was made at the request of the consumer to suit his requirements and (iii) the Board had bought over the transformer, etc., (Rs. 4.29 lakhs) from the consumer.

The supply of power at 66 KV commenced from September 1967. With a general revision of tariff (January 1970), the Board proposed to charge at the tariff applicable for 66 KV. The consumer objected (June 1970) but after protracted negotiations, was persuaded to accept the rate for 66 KV and the Board agreed (December 1974)to charge the consumer at the 66 KV. rate from November 1974. The loss of revenue to the Board (September 1967 to November 1974) due to the application of lower tariff amounted to Rs. 7.57 lakhs (including duty of Rs. 0.69 lakh).

The matter was reported to Government in November 1979; reply is awaited (June 1980).

SECTION XVII

KERALA STATE ROAD TRANSPORT CORPORATION

17.01. Avoidable expenditure

Under the Kerala General Sales Tax Act, 1963, as amended with effect from 1st July 1974, sales tax is leviable on the turnover of a business which includes any transaction made in connection with or incidental or ancillary to the trade, commerce, manufacture, adventure or concern in which the dealer is engaged. While the Corporation has been selling unserviceable spares, used tyres, scrap materials, etc., to outside parties, Errata

it did not get itself registered as a dealer under the Kerala General Sales Tax Act, 1963 until June 1978. It also did not collect any sales tax on such sales during 1974-75 (Rs. 9 lakhs) and 1975-76 (Rs. 10 lakhs) even though the provisions of the amended Act ha~~s~~d been brought to its notice by Audit in April 1975. In February 1977, the Sales Tax authorities assessed the Corporation (as an unregistered dealer) for the two years and levied sales tax (Rs. 2.85 lakhs) at 15 *per cent* plus a surcharge (Rs. 0.14 lakh) at 5 *per cent* on the sales tax. An appeal filed by the Corporation (April 1977) was partly allowed by upholding the contention of the Corporation that it was assessable only at 4 *per cent* of the taxable turnover and accordingly the total demand was reduced to Rs. 0.80 lakh. In the second appeal filed (August 1978) against the assessment, the Corporation contended that it was not a 'dealer' within the definition of Section 5 of the Kerala General Sales Tax Act, 1963 so as to attract the incidence of tax under Section 5 of the said Act.

The Management stated (April 1979) that the second appeal against the assessment was pending with the Tribunal (May 1980). The Management stated further that on receipt of a clarification (February 1976) sought by the Corporation (April 1975) from the Board of Revenue (Taxes), instructions were issued (April 1976) for collection of sales tax on the disposal of such items. The matter was referred (July 1979) to Government and Government endorsed (October 1979) generally the statement of the Management.

17.02. Irregular payment of bonus

The following are the terms of a settlement arrived at between the Management and workmen of the Corporation on 6th September 1978:—

(1) Bonus for the accounting year 1977-78 will be paid at the rate of 11.5 *per cent* of the total emoluments.

(2) In addition to the advance at 11·5 *per cent* paid towards bonus for the year 1976-77, an amount equal to 2.5 *per cent* of emoluments for the year 1977-78 will be paid to every employee along with the amount due under item (1) above.

Rep(C)/DP-5/79-80
Discussed on 29/4/83
Report & Recommendations
See Second Report of
CPU (1984-86)
16-1-86

Draft
Report of
CPU
recd- on
8/3/85
Vetted & Returned
on 21/3/85

Discussed on 2-6-83

Rep(C)/DP-10/79-80

159C / DP-10

Agriculture

Last referred - Rep(C)/642
14/7/1982

Draft Report of CPU recd on 16.9.85 for vetting
[illegible]

vetted & returned on 28/10/85
[illegible]

Report Approved by Committee on 18/3/86
[illegible]

Report Sn. file on this was taken by S.O. coordination (Smt. Saraswathy) on 15.11.82
[illegible]
25/11.82.

'X'. Shri. P.S. Xavier Cochin (Longbroker)

XXVIII Report of CPU (84-85) presented on 24/3/86
[illegible]
2/5/86

A review in audit revealed that the additional payment for 1976-77 was made (September 1978) even to employees who had joined the service of the Corporation during 1977-78, resulting in an overpayment of Rs. 0.90 lakh in 30 out of 36 units of the Corporation. The payment at 2.5 *per cent* for the full year was also made to those who were in service only for a part of the year 1976-77. The overpayment on this account amounted to Rs. 0.34 lakh in 29 out of 36 units of the Corporation.

The Management stated (October 1979) that as payment had to be made urgently, 2.5 *per cent* extra was paid to all those who were on the rolls for 1977-78.

The matter was reported to Government (October 1979); reply is awaited (June 1980).

SECTION XVIII

KERALA STATE WAREHOUSING CORPORATION

18. Misappropriation of funds

1 p 133

The Corporation undertook (from March 1974) the clearance and handling of CARE/WFP cargo at Cochin port and its transportation to destinations specified by the consignees (Director of Public Instruction and Director of Social Welfare). For this purpose, the Corporation concluded (without inviting competetive tenders) an arrangement with an individual 'X' (July 1976) for transportation of goods by road. Advance payments were made to 'X' from time to time in cash through an employee of the Corporation who was being provided with funds to meet the expenses on loading, transport and other incidentals, though such advance payments were not contemplated under the contract. These payments to the contractor were made in cash in disregard of the provisions of Rule 17 of the Kerala State Warehousing Corporation Rules, 1968 which provide that all payments exceeding Rs. 100 are to be made by cheques. During 1977-78, an amount of Rs. 7.36 lakhs was shown in the books of the Corporation as having been paid as advances (136 instalments) to 'X'. The Corporation charged off the entire amount (in the accounts for 1977-78) as transport

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 p. 137-139

charges. A review in audit (November 1978—January 1979) revealed that the bills received from 'X' had been manipulated to the extent of Rs. 47,025 with a view to tally the total of the claims (Rs. 7,36,271.25) with the amount of the advances (Rs. 7,36,200).

Disregard of the prescribed accounting procedure in adjusting the advances without checking and passing the final bills, and absence of internal audit facilitated the manipulation of records and misappropriation of funds. During the period prior to July 1976 also, the same contractor was engaged for the transportation of goods. But losses/defalcations, if any, have not yet been assessed (June 1980).

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Government stated (December 1979) that the employee connected with the work had been suspended, police had registered a case and investigation was in progress, and the Board had appointed a committee of three officers to conduct verification of accounts records connected with transportation in the previous years and the work was in progress. Further developments are awaited (June 1980).

p.35

p.37

Trivandrum,
The 24th December 1980

(S. SETHURAMAN)
Accountant General, Kerala.

(Countersigned)

New Delhi,
The 1st January 1981

(GIAN PRAKASH)
Comptroller and Auditor General of India.

ANNEXURES

Annexure—A

(Referred to in paragraph 5 of the prefatory remarks)

List of companies in which Government have invested more than Rs. 10 lakhs but which are not subject to audit by the Comptroller and Auditor General of India.

Sl. No.	*Name of the Company*	*Total investment up to* 1978-79 (Rupees)
1.	Punalur Paper Mills Limited	13,26,767
2.	The Travancore Rayons Limited	35,62,500
3.	Premier Tyres Limited	60,00,000
4.	Parry and Company Limited	13,50,000
5.	Madura Coats Limited	19,94,677
6.	Appollo Tyres Limited	50,00,000
7.	The Travancore Cements Limited	25,14,343
	Total	2,17,48,287

ANNEXURE

Summarised financial results of

(*Referred to in paragraph* 1.01.

Sl.No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
1	The Travancore Sugars and Chemicals Limited	Industries	23-6-1937	30-4-1979	51.50
2	Forest Industries (Travancore) Limited	Industries	10-8-1946	31-3-1979	27.97
3	Travancore Titanium Products Limited	Industries	18-12-1946	31-12-1978	786.73
4	United Electrical Industries Limited	Industries	3-10-1950	31-12-1978	132.81
5	The Travancore-Cochin Chemicals Limited	Industries	8-11-1951	31-3-1979	1801.37
6	Pallathra Bricks and Tiles Limited	Industries	21-12-1957	31-3-1979	26.47
7	Traco Cable Company Limited	Industries	5-2-1960	31-3-1979	205.18
8	Kerala State Industrial Development Corporation Limited	Industries	21-7-1961	31-3-1979	..
9	The Plantation Corporation of Kerala Limited	Agriculture	12-11-1962	31-3-1979	952.02
10	Trivandrum Spinning Mills Limited	Industries	1-11-1963	31-3-1979	237.31
11	The Kerala Agro Industries Corporation Limited	Agriculture	22-3-1968	31-3-1979	391.06
12	Kerala State Handloom Development Corporation Limited	Industries	24-6-1968	31-3-1979	195.88
13	The Chalakudy Refractories Limited	Industries	15-3-1969	31-3-1979	79.67
14	The Kerala State Financial Enterprises Limited	Taxes	6-11-1969	31-3-1979	..

—B

Government Companies

of Section I)

(Figures in columns 6 to 12 are in Rupees in lakhs)

Profit (+)/ Loss (—)	*Total interest charged to profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(+) 0.43	5.49	..	(+) 0.43	116.53	(+) 5.92	0.83	5.08
(+) 2.50	..	..	(+) 2.50	27.89	(+) 2.50	8.94	8.96
(+) 74.50	35.27	34.63	(+)109.13	948.76	(+)109.77	13.87	11.57
(+) 2.22	(D) 15.36	5.74	(+) 7.96	151.95	(+) 17.58	5.99	11.57
(—) 134.24	165.52	137.25	(+) 3.01	1064.95	(+) 31.28	0.17	2.94
(—) 4.49	1.16	1.16	(—) 3.33	(—)3.20	(—) 3.33	..	..
(+) 48.62	12.10	6.54	(+) 55.16	280.79	(+) 60.72	26.88	21.62
(+) 26.94	52.81	52.79	..	(C) 1474.18	(+) 79.75	..	5.41
(+) 100.30	61.10	59.51	(+)159.81	913.64	(+)161.40	16.79	17.67
(+) 0.04	7.38	3.80	(+) 3.84	107.02	(+) 7.42	1.62	6.93
(—) 19.06	0.95	..	(—) 19.06	230.85	(—) 18.11	..	..
(—) 8.69	1.51	1.39	(—) 7.30	173.24	(—) 7.18	..	..
(—) 6.17	1.63	1.10	(—) 5.07	25.85	(—) 4.54	..	..
(+) 18.82	5.03	5.03	..	(C) 107.27	(+) 23.85	..	22.23

ANNEXURE

Summarised financial results of

(*Referred to in paragraph* 1.01.

Sl.No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
15	Kerala Urban Development Finance Corporation Limited	Local Administration and Social Welfare	28-1-1970	31-3-1979	..
16	Kerala State Bamboo Corporation Limited	Industries	10-3-1971	31-3-1979	39.90
17	The Kerala Minerals and Metals Limited	Industries	16-2-1972	31-3-1979	941.44
18	Kerala State Electronics Development Corporation Limited	Industries	29-9-1972	31-3-1979	1115.56
19	Kerala Land Development Corporation Limited	Agriculture	15-12-1972	31-3-1979	..
20	Kerala State Industrial Enterprises Limited	Industries	25-1-1973	31-3-1979	..
21	Kerala Shipping Corporation Limited	Public Works	25-5-1974	31-3-1979	682.92
22	Sitaram Textiles Limited	Industries	14-2-1975	31-3-1979	480.46
23	Kerala State Film Development Corporation Limited	Public	23-7-1975	31-3-1979	225.14
24	Kerala State Coconut Development Corporation Limited	Agriculture	10-10-1975	31-3-1979	70.23
25	Kerala Inland Navigation Corporation Limited	Public Works	29-12-1975	31-3-1979	22.00
26	Kerala State Industrial Products Trading Corporation Limited	Industries	4-8-1976	31-3-1979	8.30
27	Overseas Development and Employment Promotion Consultants Limited	Labour	22-10-1977	31-3-1979	17.00
28	Kerala State Engineering Works Limited	Public Works and Electricity	20-3-1978	31-3-1979	5.81

—B

Government Companies

of Section I)

(Figures in columns 6 to 12 are in Rupees in lakhs)

Profit (+)/ Loss (—)	*Total interest charged to profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
..	52.77	52.77	..	(C) 869.32	(+) 52.77	..	6.07
(—) 3.55	2.32	1.42	(—) 2.13	39.95	(—) 1.23	..	..
(+) 11.09	..	..	(+) 11.09	392.20	(+) 11.09	1.18	2.83
(+) 6.84	55.62	(D) 55.62	(+) 62.46	975.70	(+) 62.46	5.60	6.40
(F) (—) 7.77	38.26	38.26	..	(C) 647.13	(+) 30.49	..	4.71
(+) 0.32	8.76	8.76	..	(C) 589.82	(+) 9.08	..	1.54
(—) 42.53	40.10	40.04	(—) 2.49	557.58	(—) 2.43	..	..
(—) 51.42	(E) 27.00	24.76	(—) 26.66	483.94	(—) 24.42	..	..
(—) 2.31	..	..	(—) 2.31	168.48	(—) 2.31	..	..
(—) 1.22	..	..	(—) 1.22	35.94	(—) 1.22	..	..
(—) 0.51	..	..	(—) 0.51	18.19	(—) 0.51	..	..
(—) 0.49	..	..	(—) 0.49	6.58	(—) 0.49	..	..
(—) 6.16	..	..	(—) 6.16	9.42	(—) 6.16	..	..
(—) 0.39	..	..	(—) 0.39	5.41	(—) 0.39	..	..

ANNEXURE

Summarised financial results of

(*Referred to in paragraph* 1.01.

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
Companies which did not commence commercial operation					
29	Steel Industrials Kerala Limited	Industries	3-1-1975	31-3-1979	123.40
30	Kerala Forest Development Corporation Limited	Agriculture	24-1-1975	30-6-1979	460.27
31	The Rehabilitation Plantations Limited	Agriculture	5-5-1976	31-3-1979	230.51
32	Kerala Automobiles Limited	Industries	15-3-1978	31-3-1979	15.00
33	Malabar Cements Limited	Industries	11-4-1978	31-3-1979	125.00
Subsidiary Companies					
34	Trivandrum Rubber Works Limited	Industries	1-11-1963	31-3-1979	303.35
35	Travancore Plywood Industries Limited	Industries	1-11-1963	31-3-1979	96.84
36	The Kerala Ceramics Limited	Industries	1-11-1963	31-3-1979	222.72
37	Kerala Soaps and Oils Limited	Industries	1-11-1963	31-3-1979	302.95
38	Kerala Electrical and Allied Engineering Company Limited	Industries	5-6-1964	31-3-1979	306.58
39	Keltron Counters Limited	Industries	21-7-1964	31-3-1979	170.68
40	Kerala State Drugs and Pharmaceuticals Limited	Industries	23-12-1971	31-3-1979	114.06
41	Kerala State Textiles Corporation Limited	Industries	8-3-1972	31-3-1979	..
42	Meat Products of India Limited	Agriculture	13-1-1973	31-3-1979	32.91

—B

Government Companies

of Section I)

(Figures in columns 6 to 12 are in Rupees in lakhs)

Profit (+)/ *Loss* (—)	*Total interest charged to profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(—) 48.97	12.39	12.39	(—) 36.58	69.20	(—) 36.58	..	..
(—) 9.70	9.48	5.86	(—) 3.84	62.84	(—) 0.22	..	..
(—) 46.53	22.29	16.02	(—) 30.51	91.99	(—) 24.24	..	..
(—) 1.72	15.56	7.24	(+) 5.52	262.51	(+) 13.84	1.82	5.28
(—) 42.95	(D)&(E) 28.24	(D) 28.24	(—) 14.71	220.81	(—) 14.71	..	..
(—) 19.76	25.92	2.62	(—) 17.14	92.83	(+) 6.16	..	6.64
(+) 3.42	18.67	5.74	(+) 9.16	172.85	(+) 22.09	8.03	12.78
(+) 4.38	3.83	3.82	..	(C) 130.46	(+) 8.21	..	6.29
(—) 4.84	..	..	(—) 4.84	13.35	(—) 4.84	..	..

ANNEXURE

Summarised financial results of

(*Referred to in paragraph* 1.01.

Sl.No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
43	Kerala Agro-Machinery Corporation Limited	Agriculture	24-3-1973	31-3-1979	280.10
44	Dielectro Magnetics Limited	Industries	23-4-1974	31-3-1979	59.59
45	Kerala Garments Limited	Industries	17-7-1974	30-9-1978	23.01
46	Keltron Crystals Limited	Industries	8-10-1974	31-3-1979	71.01
47	Keltron Magnetics Limited	Industries	1-3-1975	31-3-1979	49.51
48	Keltron Rectifiers Limited	Industries	22-3-1976	31-3-1979	57.75
49	Kerala State Detergents and Chemicals Limited	Industries	10-6-1976	31-3-1979	99.80
50	Oil Palm India Limited	Agriculture	21-11-1977	31-3-1979	200.00
	Financial results of State Government Companies for the latest financial year for which accounts were received after the Report of the Comptroller & Auditor General of India for the year 1977-78 *was finalised*				
51	The Kerala State Cashew Development Corporation Limited	Industries	19-7-1969	31-3-1978	160.50
52	The Kerala Fisheries Corporation Limited	Development (Fisheries)	12-4-1966	31-3-1978	546.73
53	Kerala Fishermen's Welfare Corporation Limited	Development (Fisheries)	31-1-1978	31-3-1978	10.00
54	The Kerala Premo Pipe Factory Limited	Local Administration and Social Welfare	12-9-1961	31-3-1978	35.19

—B

Government Companies

of Section I)

(Figures in columns 6 to 12 are in Rupees in lakhs)

Profit (+)/ Loss (—)	*Total interest charged to profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(—) 47.13	14.18	(D) 14.18	(—) 32.95	217.23	(—) 32.95	..	..
Commercial operation not commenced							
(—) 2.67	1.21	1.21	(—) 1.46	19.45	(—) 1.46	..	..
(—) 6.19	6.77	(D) 6.77	(+) 0.58	63.71	(+) 0.58	0.82	0.91
(—) 2.48	2.80	(D) 2.80	(+) 0.32	73.41	(+) 0.32	0.65	0.44
Commercial operation not commenced							
Commercial operation not commenced							
(—) 12.27	1.03	..	(—) 12.27	175.07	(—) 11.24	..	..
(+) 20.99	40.23	1.44	(+) 22.43	306.23	(+) 61.22	13.98	19.99
(—) 84.26	(E) 41.68	41.68	(—) 42.58	66.00	(—) 42.58	..	..
(—) 0.30	..	..	(—) 0.30	8.85	(—) 0.30	..	..
(+) 7.49	2.94	1.19	(+) 8.68	55.91	(+) 10.43	24.67	18.65

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ANNEXURE

Summarised financial results of

(*Referred to in paragraph* 1.01.

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
55	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	Health	8-9-1975	31-3-1977	2.72
56	The State Farming Corporation of Kerala Limited	Industries	15-4-1972	31-3-1977	114.88
57	Handicrafts Development Corporation of Kerala Limited	Industries	16-11-1968	31-3-1977	68.39

Notes:— (A) Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves
(B) Except in the cases of financial institutions, capital employed represents net
(C) Capital employed represents the mean of the aggregates of opening and closing
(D) Includes other interest charges also.
(E) Includes bank charges also.
(F) Excluding reimbursement of Rs. 15 lakhs by the State Government towards

—B

Government Companies

of Section I)

(Figures in columns 6 to 12 are in Rupees in lakhs)

Profit(+)/ Loss (—)	*Total interest charged to profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(+) 1.78	1.39	..	(+) 1.78	18.91	(+) 3.17	65.44	16.76
(—) 34.10	19.08	5.53	(—) 28.57	75.21	(—) 15.02	..	..
(—) 7.20	(E) 5.60	1.82	(—) 5.38	29.71	(—) 1.60	..	..

at the close of the year.
fixed assets (excluding capital works-in-progress) *plus* working capital
balances of paid-up capital, reserves and borrowings.

revenue deficit.

ANNEXURE

Summarised financial results

(*Referred to in paragraph* 15.01

Sl. No.	*Name of the Corporation/ Board*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
	KERALA STATE ELECTRICITY BOARD				
1	Kerala State Electricity Board	Public Works and Electricity	1-4-1957	31-3-1979	32,248.13
	OTHER STATUTORY CORPORATIONS				
2	Kerala State Road Transport Corporation	Water and Transport	15-3-1965	31-3-1979	2,799.61
3	The Kerala Financial Corporation	Finance	1-12-1953	31-3-1979	..
4	Kerala State Warehousing Corporation	Agriculture	20-2-1959	31-3-1979	185.23

Notes:—(A) Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves
(B) Except in the case of the Kerala Financial Corporation, capital employed
(C) Capital employed represents the mean of the aggregates of opening and closing

—C

of Statutory Corporations

of section XV)

(Figures in columns 6 to 12 indicate lakhs of Rupees)

Profit(+)/ Loss(—)	*Total interest charged to profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*	*Remarks*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Nil	4,161.59	4,161.59	(+)4,161.59	31,196.88	4,161.59	12.90	13.34	
(—)371.86	167.98	156.13	(—)215.73	736.42	(—)203.88	..	..	Figures are provisional
(+)62.03	188.00	..	..	(C) 3,517.07	(+)250.03	..	7.11	
(—) 8.73	3.96	3.27	(—)5.46	177.06	(—)4.77	..	..	

at the close of the year.
represents net fixed assets (excluding works-in-progress) *plus* working capital.
balances of paid-up capital, bonds and debentures, borrowings and deposits.

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