Reference Copy

11/3/1982

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

Discussion by C.P.U. Completed on 14/5/85

14/5/85 AAO

FOR THE YEAR 1979—80

GOVERNMENT OF KERALA

(COMMERCIAL)

Committee on Public Undertakings:

1. Shri K. J. George — Janatha
2. ,, M. Jinadevan — CPI(M)
3. ,, V. V. Joseph — K.C.(J)
4. ,, K. Moossakutty — CPI(M)
5. ,, V. K. Rajan — CPI
6. ,, A. K. Sasheendran — Cong(S)
7. ,, P. Seethi Haji — IUML
8. ,, K. K. Sreenivasan — Cong (I)
9. ,, Stephen Padua — Cong(I)
10. ,, P. P. Thankachan — Cong(I)
11. ,, Thomas Kallampally — K.C.(M)

Shri P. Seethi Haji will be the Chairman of the Committee.

K. P. PADMANABHAN,
Secretary.

SEVENTH KERALA LEGISLATIVE ASSEMBLY

BULLETIN—PART II

June 28, 1984

No. 232

Financial Committees—Constitution of

The following financial committees are constituted for a period of two years with effect from July 3, 1984:—

Committee on Public Accounts:

1. Shri T. S. John
2. ,, K. C. Joseph
3. ,, P. K. Kunhalikutty
4. ,, Manimangalath Kuttialy
5. ,, K. P. Prabhakaran
6. ,, M. V. Raghavan
7. ,, K. K. Ramachandran Master
8. ,, S. Ramachandran Pillai
9. ,, A. C. Shanmukhadas
10. ,, R. S. Unni
11. ,, C. Vasudeva Menon

Shri C. Vasudeva Menon will be the Chairman of the Committee.

Committee on Estimates:

1. Shri P. M. Abubacker
2. ,, Korambayil Ahamed Haji
3. ,, K. R. Chandra Mohanan
4. ,, C. G. Janardhanan
5. ,, A. C. Jose
6. ,, M. Kunhiraman Nambiar
7. ,, C. P. Moosankutty
8. ,, K. S. Narayanan Namboodiri
9. ,, A. K. Padmanabhan
10. ,, Thoppil Ravi
11. ,, C. F. Thomas

Shri A. C. Jose will be the Chairman of the Committee.

GPT. 2/2515/MC.

Report (Commercial) Section
C.P.U. - UNIT

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(A) Meeting held on 16-1-85 Consideration of para was postponed as Secretary to Govt. wanted time to prepare notes
Sd/ 16-1-85

Discussion of all paras over
14/5/85
Sd/ 14/5/85
AAO

(xx) Draft report in Malayalam - not vetted - returned on 8-11-85 English copy called for
Sd/
English copy recd on 3/7/86

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 1979-80 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 1979-80 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. Such directives were issued to the auditors from time to time.

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 1980 is given in Annexure 'A'.

6. The Comptroller and Auditor General is the sole auditor of 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 71 Government Companies (including 21 subsidiaries and excluding Kerala Water Transport Corporation Limited which was under liquidation from March 1965) as on 31st March 1980 as against 69* Government Companies (including 19 subsidiaries) at the close of the previous year. The following 4 Companies were either incorporated or became Government Companies during the year.

	Name of the Company	*Date of incorporation*	*Authorised Capital (Rupees in lakhs)*	*Remarks*
1.	Kerala State Handicapped persons' Welfare Corporation Limited	1st September 1979	200.00	Accounts for 1979-80 were not due
2.	Steel Complex Limited	12th December 1969	500.00	Became a Government Company in October 1979
3.	Keltron Resistors Limited	29th April 1975	20.00	Became a Government Company in August 1979
4.	Keltron Power Devices Limited	28th January 1976	125.00	Became a Government Company in August 1979

* Includes Kerala Water Transport Corporation Limited under liquidation from March 1965.

Carbon and Chemicals India Limited (incorporated in July 1974) which became a Government Company in July 1978, by virtue of its becoming a subsidiary of Kerala State Industrial Development Corporation Limited, ceased to be a Government Company with effect from 12th June 1979.

1.02. Compilation of Accounts

53 Companies (including 20 subsidiaries) finalised their accounts for the year 1979-80. The accounts of a Company incorporated in September 1979 were not due. In addition, 11 Companies finalised their accounts for the earlier years. A synoptic statement showing the summarised financial results of 64 Companies based on the latest available accounts is given in Annexure-B. The accounts of the following 17 Companies (including one subsidiary) were in arrears for the period noted against each.

Sl.No.	*Name of the Company*	*Extent of arrears*
1	Kerala State Coir Corporation Limited	1976-77 to 1979-80
2	Kerala Livestock Development and Milk Marketing Board Limited	1977-78 to 1979-80
3	The State Farming Corporation of Kerala Limited	1977-78 to 1979-80
4	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	1978-79 and 1979-80
*5	Kerala State Small Industries Development and Employment Corporation Limited	1978-79 and 1979-80
6	The Kerala Premo Pipe Factory Limited	1978-79 and 1979-80

* Kerala State Small Industries Corporation Limited (incorporated on 21st July 1961) was amalgamated with the Company from 18th March 1977; but the accounts for the period 1st April 1976 to 17th March 1977 have not been finalised.

Sl. No.	Name of the Company	Extent of arrears
7	The Kerala State Civil Supplies Corporation Limited	1978-79 and 1979-80
8	Kerala State Construction Corporation Limited	1979-80
9	Handicrafts Development Corporation of Kerala Limited	1979-80
10	Kerala Tourism Development Corporation Limited	1979-80
11	Kerala State Cashew Development Corporation Limited	1979-80
12	The Kerala Fisheries Corporation Limited	1979-80
13	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	1979-80
14	Sitaram Textiles Limited	1979-80
15	The Kerala State Financial Enterprises Limited	1979-80
16	Scooters Kerala Limited	1979-80
17	Kerala Agro-Machinery Corporation Limited	1979-80

The position of arrears in the finalisation of accounts was last brought to the notice of Government in February 1981.

1.03. Paid-up capital

The total investment by Government by way of share capital in 57 Companies (excluding 14 subsidiaries) as on 31st March 1980 was Rs. 9,168.52* lakhs as against Rs. 7,296.73 lakhs in 58 Companies (excluding 11 subsidiaries) as at the end of the previous year. The aggregate paid-up capital of these 57

* The amount as per Finance Accounts is Rs. 8,873.48 lakhs and the difference of Rs. 295.04 lakhs is under reconciliation.

Companies as on 31st March 1980 was Rs. 9,955.36 lakhs as detailed below:—

Particulars	*Number of Companies*	*Investment by*			
		State Government*	*Central Government*	*Others*	*Total*
			(Rupees in lakhs)		
(i) Companies wholly owned by the State Government	37	6,647.73	..	..	6,647.73
(ii) Companies jointly owned with the Central Government/Others	20	2,520.79	270.60	516.24	3,307.63
	57	9,168.52	270.60	516.24	9,955.36

1.04. Loans

The balance of long-term loans outstanding in respect of 45 Companies (including 8 subsidiaries) as on 31st March, 1980 was Rs. 12,187.78 lakhs (State Government: Rs. 5,275.06 lakhs; other parties: Rs. 6,912.72 lakhs) as against Rs. 8,631.35 lakhs as on 31st March 1979 in 50 Companies (including 17 subsidiaries).

1.05. Guarantees

1.05.1. The State Government had guaranteed the repayment of loans and payment of interest thereon for 38 Companies. The amount guaranteed and the amount outstanding thereagainst as on 31st March 1980 were Rs. 9,038.26 lakhs and Rs. 5,030.61† lakhs respectively as detailed below:—

Name of the Company	*Amount guaranteed*	*Amount outstanding as on 31st March 1980*
	(Rupees in lakhs)	
Kerala Land Development Corporation Limited	1,596.36	676.53
Kerala State Construction Corporation Limited	1,532.63	NA‡

* The amount as per Finance Accounts is Rs. 8,873.48 lakhs and the difference of Rs. 295.04 lakhs is under reconciliation

† Differs from the figure shown in statement No. 6 of the Finance Accounts 1979-80 by Rs. 2.00 lakhs due to incorporation of information subsequently received from Kerala State Electronics Development Corporation Ltd.

‡ Not available

Name of the Company	*Amount guaranteed*	*Amount outstanding as on 31st March 1980*
	(*Rupees in lakhs*)	
Kerala State Civil Supplies Corporation Limited	1250.00	242.55
Kerala Urban Development Finance Corporation Limited	1012.50	1012.50
Kerala State Industrial Development Corporation Limited	902.50	901.00
Kerala State Electronics Development Corporation Limited	570.00	568.00†
Sitaram Textiles Limited	282.00	253.36
Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	266.60	266.60
The Kerala Fisheries Corporation Limited	222.97	38.79
Kerala Fishermen's Welfare Corporation Limited	200.00	122.19
Kerala State Industrial Enterprises Limited	150.00	150.00
Kerala Agro-Machinery Corporation Limited	133.00	128.37
Kerala Electrical and Allied Engineering Company Limited	125.00	125.00
Kerala State Film Development Corporation Limited	100.00	100.00
The State Farming Corporation of Kerala Limited	86.00	37.70
The Kerala Agro-Industries Corporation Limited	75.00	11.64
Chalakudy Refractories Limited	55.00	52.78
Traco Cable Company Limited	55.00	30.25
Trivandrum Rubber Works Limited	35.00	35.00

† Differs from the figure shown in statement No. 6 of the Finance Accounts 1979-80 by Rs. 2.00 lakhs due to incorporation of information subsequently received from Kerala State Electronics Development Corporation Ltd.

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Name of the Company	*Amount guaranteed*	*Amount outstanding as on 31st March 1980*
	(Rupees in lakhs)	
Handicrafts Development Corporation of Kerala Limited	32.00	6.37
Kerala State Drugs and Pharmaceuticals Limited	30.00	15.00
Keltron Crystals Limited	30.00	30.00
Keltron Magnetics Limited	30.00	24.70
Kerala State Small Industries Development and Employment Corporation Limited	30.00	23.80
The Plantation Corporation of Kerala Limited	30.00	2.10
United Electrical Industries Limited	28.98	20.71
Keltron Rectifiers Limited	25.00	25.00
Oil Palm India Limited	25.00	25.00
Foam Mattings (India) Limited	25.00	24.38
Kerala Tourism Development Corporation Limited	17.20	17.20
The Kerala Ceramics Limited	17.00	15.82
The Kerala State Financial Enterprises Limited	15.00	13.98
Kerala State Bamboo Corporation Limited	15.00	5.68
Kerala State Detergents and Chemicals Limited	9.63	8.16
Kerala Garments Limited	9.00	7.36
Malabar Cements Limited	8.93	8.93
Kerala Soaps and Oils Limited	7.96	1.21
Pallathra Bricks and Tiles Limited	3.00	2.95
Total	9,038.26	5,030.61 †

† Please see foot note on pages 4 and 5

1.05.2. In consideration of the guarantees given by Government, the Companies have to pay to Government guarantee commission at the rate of 1 *per cent* per annum on the amount guaranteed. In 6 cases, the payment was in arrears as per details given below:—

	Name of the Company	*Amount in arrears as on 31st March* 1980 (*Rupees in lakhs*)
1.	Handicrafts Development Corporation of Kerala Limited	1.77
2.	The Kerala Fisheries Corporation Limited	1.72
3.	Trivandrum Rubber Works Limited	1.40
4.	Kerala State Small Industries Development and Employment Corporation Limited	0.25
5.	Kerala Tourism Development Corporation Limited	0.11
6.	Pallathra Bricks and Tiles Limted	0.03
	Total	5.28

1.06. Performance of Companies

1.06.1. The following table gives details of 23 Companies (including 7 subsidiaries) which earned profit during 1979-80 and the comparative figures for the previous year:—

Sl. No.	*Name of the Company*	*Paid-up Capital*		*Profit (+)/Loss (—)*	
		1978-79	1979-80	1978-79	1979-80
				(*Rupees in lakhs*)	
1.	Travancore Sugars and Chemicals Limited	51.00	51.00	(+) 0.43	(+) 9.69
2.	Forest Industries (Travancore) Limited	17.71	17.71	(+) 2.50	(+) 0.61
3.	United Electrical Industries Limited	83.90	93.90	(+) 2.22	(+) 17.79
4.	The Travancore-Cochin Chemicals Limited	634.75	634.75	(—) 134.24	(+) 4.71
5.	Traco Cable Company Limited	119.92	129.92	(+) 48.62	(+) 48.27

Sl. No.	Name of the Company	Paid-up Capital		Profit (+)/Loss (—)	
		1978-79	1979-80	1978-79	1979-80
				(Rupees in lakhs)	
6.	Kerala State Industrial Development Corporation Limited	494.00	494.00	(+) 26.94	(+) 15.93
7.	Steel Complex Limited	224.43	224.43	(—) 14.57	(+) 16.81
8.	Kerala State Textiles Corporation Limited	104.00	124.00	(+) 4.38	(+) 9.05
9.	The Plantation Corporation of Kerala Limited	515.10	530.10	(+) 100.30	(+) 94.15
10.	Trivandrum Spinning Mills Limited	65.86	185.00	(+) 0.04	(+) 32.40
11.	The Kerala Agro-Industries Corporation Limited	391.06	411.06	(—) 19.06	(+) 4.03
12.	Kerala Urban Development Finance Corporation Limited	19.07	19.16	..	(+) 0.66
13.	The Kerala Minerals and Metals Limited	204.05	479.05	(+) 11.09	(+) 18.17
14.	Kerala State Electronics Development Corporation Limited	469.86	669.86	(+) 6.84	(+) 6.34
15.	Keltron Magnetics Limited	15.01	15.01	(—) 2.48	(+) 0.16
16.	Kerala State Industrial Enterprises Limited	537.11	642.11	(+) 0.32	(+) 0.18
17.	Travancore Plywood Industries Limited	48.59	48.59	(—) 9.70	(+) 0.57
18.	Kerala Soaps and Oils Limited	149.97	149.97	(—) 1.72	(+) 10.50
19.	Kerala State Drugs and Pharmaceuticals Limited	85.00	130.00	(+) 3.42	(+) 3.13
20.	Kerala State Detergents and Chemicals Limited	53.80	71.80	..	(+) 1.49
21.	Kerala Inland Navigation Corporation Limited	22.00	22.00	(—) 0.51	(+) 0.23
22.	Kerala State Industrial Products Trading Corporation Limited	8.30	11.30	(—) 0.49	(+) 9.20
23.	Kerala Forest Development Corporation Limited	414.37	425.62	(+) 11.90	(+) 13.62

1.06.2. Kerala State Industrial Products Trading Corporation Limited only had declared dividend at 15 *per cent* for the year 1979-80.

1.06.3. The following table gives details of 23 Companies (including 9 subsidiaries) which incurred loss during the year 1979-80 and the comparative figures for the previous year.

	Name of the Company	*Paid-up Capital on 31st March*		*Profit(+)/Loss (—) during*	
		1979	1980	1978-79	1979-80
		(Rupees in lakhs)			
1.	Travancore Titanium Products Limited	159.75	159.75	(+)74.50	(—)35.99
2.	Pallathra Bricks and Tiles Limited	20.06	24.06	(—) 4.49	(—) 2.79
3.	Astral Watches Limited	8.00	8.00	..	(—) 0.42
4.	Oil Palm India Limited	200.00	200.00	(—) 12.27	(—) 18.02
5.	Meat Products of India Limited	19.38	19.38	(—) 4.84	(—) 7.28
6.	Kerala State Handloom Development Corporation Limited	63.67	84.92	(—) 8.69	(—) 1.57
7.	Kerala Garments Limited	10.01	10.01	(—) 2.67	(—) 3.04
8.	The Chalakudy Refractories Limited	43.03	49.25	(—) 6.17	(—) 4.94
9.	Kerala State Bamboo Corporation Limited	20.00	34.00	(—) 3.55	(—) 7.37
10.	Keltron Counters Limited	50.00	50.00	(—) 19.76	(—) 18.83
11.	Keltron Crystals Limited	24.01	24.01	(—) 6.19	(—) 1.46

	Name of the Company	Paid-up Capital on 31st March		Profit (+)/Loss(—) during	
		1979	1980	1978-79	1979-80
				(Rupees in lakhs)	
12.	Kerala Land Development Corporation Limited	240.00	265.00	(—) 7.77	(—) 66.76
13.	Trivandrum Rubber Works Limited	168.69	213.62	(—) 48.97	(—) 30.52
14.	The Kerala Ceramics Limited	107.95	107.95	(—) 46.53	(—) 47.43
15.	Kerala Electrical and Allied Engineering Company Limited	105.82	105.82	(—) 42.95	(—) 15.05
16.	Kerala Shipping Corporation Limited	171.18	171.18	(—) 42.53	(—) 90.59
17.	Steel Industrials Kerala Limited	39.40	173.40	..	(—) 4.96
18.	Kerala State Film Development Corporation Limited	155.46	208.46	(—) 2.31	(—) 0.60
19.	Kerala State Coconut Development Corporation Limited	70.23	105.30	(—) 1.22	(—) 11.02
20.	The Rehabilitation Plantations Limited	203.54	219.08	..	(—) 0.45
21.	Overseas Development and Employment Promotion Consultants Limited	17.00	23.29	(—) 6.16	(—) 7.33
22.	Kerala Fishermen's Welfare Corporation Limited	25.00	25.00	(—) 6.45	(—) 15.38
23.	Kerala State Engineering Works Limited	0.81	5.81	(—) 0.39	(—) 12.34

1.06.4. The accumulated loss in respect of 40 Companies (Paid-up capital: Rs. 5,019.51 lakhs) amounted to Rs. 5,453.92 lakhs. Particulars of 14 Companies, the accumulated loss of which had exceeded their paid-up capital, are given below:—

	Name of the Company	*Year*	*Paid-up capital*	*Accumulated loss*
			(Rupees in lakhs)	
1.	The Travancore-Cochin Chemicals Limited	1979-80	634.75	786.24
2.	Pallathra Bricks and Tiles Limited	1979-80	24.06	33.05
3.	Steel Complex Limited	1979-80	224.43	293.81
4.	Meat Products of India Limited	1979-80	19.38	23.81
5.	Keltron Counters Limited	1979-80	50.00	119.47
6.	Trivandrum Rubber Works Limited	1979-80	213.62	312.06
7.	Travancore Plywood Industries Limited	1979-80	48.59	54.49
8.	The Kerala Ceramics Limited	1979-80	107.95	321.29
9.	Kerala Electrical and Allied Engineering Company Limited	1979-80	105.82	200.60
10.	Kerala Shipping Corporation Limited	1979-80	171.18	215.93
11.	Kerala State Engineering Works Limited	1979-80	5.81	12.73
12.	The Kerala Fisheries Corporation Limited	1978-79	148.95	620.96
13.	Handicrafts Development Corporation of Kerala Limited	1978-79	68.86	85.20
14.	The Kerala State Cashew Development Corporation Limited	1978-79	124.00	1,601.53
	Total		1,947.40	4,681.17

1.06.5. The following table gives the details of Companies under construction and the total expenditure incurred during the year and the previous year which had been capitalised.

	Name of the Company	Paid-up capital		Expenditure	
		1978-79	1979-80	1978-79	1979-80
		(Rupees in lakhs)			
1.	Dielectro Magnetics Limited	16.33	16.33	24.54	13.17
2.	Keltron Resistors Limited	..	15.00	..	7.27
3.	Keltron Power Devices Limited	0.01	50.00	35.59	48.54
4.	Keltron Rectifiers Limited	2.00	22.00	28.76	81.38
5.	Kerala Automobiles Limited	15.00	27.00	0.75	1.71
6.	Malabar Cements Limited	125.00	450.00	1.71	25.40
7.	Foam Mattings (India) Limited	..	19.00	3.06	106.18

1.07. In addition, there were seven Companies covered under section 619 B of the Companies Act, 1956 as per details given below:—

Name of the Company	*Accounts for the year ending*	*Paid-up capital*	*Investment by*				*Loss during the year*	*Accumulated loss*
			State Government	*Government Companies*	*Corporations*	*Others*		
			(Rupees in lakhs)					
Transformers and Electricals Kerala Limited	31st March 1980	399.39	161.29	49.20	..	188.90	74.78	..
Keltron Component Complex Limited	31st March 1980	160.97	..	73.00	44.43	43.54	54.41	115.14
South India Wire Ropes Limited	31st March 1980	49.99	..	18.30	10.39	21.30	10.12	102.88
Vanjinad Leathers Limited	31st March 1980	59.92	..	17.59	20.50	21.83	24.33	83.64
Kunnathara Textiles Limited	30th September 1979	60.00	12.00	24.00	..	24.00	15.66	15.84
Excel Glasses Limited	30th September 1979	69.75	..	23.06	20.59	26.10	15.26	121.20
Kerala Rubber and Reclaims Limited	31 st March 1977	24.88	..	9.00	8.00	7.88	13.48	19.61

1.08. The Companies Act, 1956 empowers the Comptroller and Auditor General of India to issue directives to the auditors of Government Companies in regard to the performance of their functions. In pursuance of the directives so issued, special reports of the Company auditors on the accounts of 10 companies were received during the year. The important points noticed in these reports are summarised below:—

Nature of defect	*Number of Companies where defects were noticed*	*Reference to serial number of Companies in Annexure-B*
Absence of accounts manual	4	9, 36, 37, 46
Absence of regular costing system	1	36
Absence of adequate budgetary system	2	34, 46
Absence of internal audit manual	6	15, 22, 31, 36, 37, 40
Absence of internal audit system	2	31, 46
Internal audit system not commensurate with the nature and size of business	1	35
Sales below cost of production	1	35
Non-maintenance/defective maintenance of land/property/assets registers	2	31, 35
Absence of system of ascertaining idle time for labour and machinery	4	5, 12, 35, 36,
Non-fixation of maximum/minimum limits of stores and spares	1	40
Failure to obtain confirmation of balances under sundry debtors	6	9, 15, 31, 35, 36, 40

1.09. Under section 619(4) of the Companies Act, 1956, the Comptroller and Auditor General of India has a right to comment upon or supplement the audit reports of the company auditors. Under this provision, review of the annual accounts of Government Companies is conducted in selected cases. Some of the errors/omissions, *etc.*, noticed in the course of review of annual accounts are detailed below:—

Name of the Company and period to which the accounts relate	*Particulars of comments*
1. The State Farming Corporation of Kerala Limited-1976-77	Excess provision of Rs. 43,606 towards interest and consequent over statement of loss.
2. Kerala State Small Industries Development and Employment Corporation Limited—1977-78	Omission to account for goods in transit resulting in over statement of loss by Rs. 70,789.81.
3. Kerala Tourism Development Corporation Limited—1978-79	Inclusion of book value of unserviceable and damaged stock (Rs. 37,364) and non-provision of accounting fee (Rs. 14,000) resulting in understatement of loss by Rs. 51,364.
4. Astral Watches Limited—1979	Spoilage of components valued at Rs. 73,625.50 not provided in the accounts.
5. Kerala Soaps and Oils Limited—1979-80	Unserviceable stores included in the account at full value of Rs. 76,299.85.
	Excess capitalisation of interest (Rs. 1,08,739) and omission to account for consumption of furnace oil (Rs. 22,004) resulting in inflation of profit by Rs. 1,30,743.
6. Kerala State Industrial Enterprises Limited—1979-80	Advertisement expenses of Rs. 15,070 not provided in the accounts resulting in profit being inflated.
7. Kerala State Coconut Development Corporation Limited—1979-80	Omission to provide for shortage of stock (Rs. 10,448) and ex-gratia payment (Rs. 13,671.40) resulting in loss being under stated.
8. Kerala State Detergents and Chemicals Limited—1979-80	Omission to provide for transport charges(Rs. 7,654.86), and over-valuation of materials and finished goods (Rs. 93,338.30) and over statement of purchase of raw materials (Rs. 36,528.74) resulting in inflation of profit by Rs. 64,464.42

Name of the company and the period to which the accounts relate	*Particulars of comments*
9. Kerala Electrical and Allied Engineering Company Limited—1979-80	Omission to provide for (i) payments due to a customer (Rs. 2,48,223.00) (ii) excise duty realisable (Rs. 1,86,548.24) as also under invoicing (Rs. 54,976.76) resulting in net under statement of loss by Rs. 6,698.
10. The Kerala Agro-Industries Corporation Limited—1979-80	Omission to provide for liabilities for purchase of pumpsets (Rs. 1,22,017.80), expenses (Rs. 48,391.63), overstatement of income relating to hire purchase interest (Rs. 64,263.93) and excess provision of liability (Rs. 41,524.25) resulting in net over-statement of profit amounting to Rs. 1,93,149.11.
11. Steel Complex Limited—1979-80	Over valuation of closing stock of electrodes resulting in over statement of net profit by Rs. 3,54,555.35.
12. Trivandrum Rubber Works Limited—1979-80	Excess provision of interest (Rs. 1,34,472.67) and short provision for expenses (Rs. 28,705.53) resulting in over-statement of loss by Rs. 1,05,767.14.

In addition, the following companies had adopted the accounts (for the years specified against each), and reports thereon in the annual general meetings without the comments of the Comptroller and Auditor General of India thereby contravening the provisions of section 619(5) of the Companies Act:

1. Astral Watches Limited (1979)
2. Kerala State Textiles Corporation Limited (1979-80)
3. The State Farming Corporation of Kerala Limited (1976-77)
4. Kerala Electrical and Allied Engineering Company Limited (1979-80)
5. Pallathra Bricks and Tiles Limited (1979-80)

1.10. Investment of funds

The State Government releases funds for payment to Government Companies towards share capital contribution, loans, grants, etc., from time to time. Such funds were often found to be not required for immediate use on account of delay in the execution of projects or for other reasons. In September 1973, the State Government directed that the surplus funds should be deposited in the treasury savings bank accounts. Some of the Companies, however, deposited the surplus funds with commercial banks resulting in loss of interest for the reason that banks pay no interest on current accounts and the rate of interest on short-term deposits (ranging from 2.5 to 4 *per cent*) was less than that for treasury savings bank deposits (6 *per cent*).

Some Companies also incurred losses due to simultaneous operation of overdraft account and current accounts in different banks and also due to delay in the transfer of surplus funds from current account to treasury savings bank accounts.

A test check of investments of surplus funds by 5 Companies revealed the following:—

Sl. No.	*Name of the Company*	*Remarks*
1.	Scooters Kerala Limited	The Company received from the Government Rs. 50 lakhs (up to 1977-78) and Rs. 25 lakhs (in April 1979) towards share capital contribution. Surplus funds available (Rs. 19.12 lakhs up to March 1979 which increased to Rs. 31.67 lakhs at the end of September 1979), due to delay in implementation of the project, were deposited in short-term deposits bearing 2.5 to 4 *per cent* interest. This resulted in loss of interest of about Rs. 2.19 lakhs for the period from April 1978 to January 1981. The Management stated (August 1978) that the deposits

Sl. No.	Name of the Company	Remarks
		were made in the banks as an incentive to get financial assistance to buyers of scooters. Government endorsed (April 1981) the views of the Management. As no definite terms had been settled with the banks, the effect of the incentive could not be assessed in audit, from the records of the Company.
2.	Kerala Automobiles Limited	The Company received Rs. 15 lakhs in February/March 1978 from Government towards share capital contribution. The entire amount was deposited in current account (minimum balance during April 1978 to December 1978: Rs. 11.02 lakhs). From January 1979, surplus funds were deposited in short-term deposits (bearing 3 to 4 *per cent* interest). This resulted in loss of interest of about Rs. 1 lakh. Government stated (April 1981) that initial investment was due to the Company not being aware of the instructions and subsequently the Company decided (January 1980) to invest surplus funds with banks to develop business liaison with them and to persuade them to represent the Company as required by the term lending institutions.
3.	Kerala State Small Industries Development and Employment Corporation Limited	Advancestowards sale price of cement were deposited by stockists/consumers into the current account of the Company with the State Bank of Travancore, Ernakulam. As the amounts were heavy the Company transferred Rs. 31 lakhs in January 1978 and Rs. 72 lakhs in February

Sl. No.	*Name of the Company*	*Remarks*
		1978 to short-term deposits till the end of March 1978, when the deposit accounts were closed. The Company had overdraft ranging from Rs. 29.02 lakhs to Rs. 61.37 lakhs carrying interest of 14.5 *per cent* per annum during this period. The failure of the Company to reduce the overdraft instead of placing the amounts in current account and then transferring them to short-term deposits resulted in an avoidable payment of interest of about Rs. 1.13 lakhs. The overdraft account was closed in September 1978.
4.	Kerala Forest Development Corporation Limited	The Corporation was entrusted by the Government with the disposal of tree growth in specified forest areas transferred to it for planting soft wood. The tree growth was sold in auction and the contractors who purchased it were required to remit the sale proceeds into a current account of the Company with the bank. The balances in the current account at the end of the month were to be transferred to the savings bank account of the Company in the Treasury. A test-check in audit (November 1979) revealed delay in transferring the amounts during April 1976 to July 1979 resulting in loss of interest amounting to Rs. 1.75 lakhs.
5.	Kerala Fishermen's Welfare Corporation Limited	Government provided the Company with funds amounting to Rs. 181.80 lakhs upto May 1980 towards share capital, grants, etc. Surplus funds were deposited

Sl. No.	*Name of the Company*	*Remarks*
		by the Company with banks, yielding interest of 4 to 5 *per cent* per annum. Computed with reference to the minimum balance at any time during the period from April 1978 to May 1980 (ranging from Rs. 10.03 lakhs to Rs. 46.43 lakhs), the loss of interest worked out to Rs. 0.42 lakh. Government stated in March 1981 that funds were deposited with banks to elicit a more co-operative attitude in financing the implementation of schemes of the Company.

Section II

KERALA STATE ELECTRONICS DEVELOPMENT CORPORATION LIMITED

2.01. Introduction

On the recommendations of a high level committee appointed by the State Government (November 1971) to study the scope for integrated development of electronic industries in Kerala, the Kerala State Electronics Development Corporation Limited was incorporated on 29th September 1972 initially as a subsidiary of Kerala State Industrial Development Corporation Limited. It became an independent Government Company in June 1973.

2.02. Objects

The main objects of the Company are to promote, manage, supervise, finance, advise, assist, aid and collaborate with other undertakings or schemes for the advancement and development of electronics, to carry on business in and relating to research, development, manufacture, assembly, repair, *etc.* of electronic circuits, equipments, *etc.*, and to set up facility for research and development, inspection, quality control, prototype development, *etc.*, required by the electronic industry.

2.03. Capital structure

The authorised capital of the Company is Rs. 800 lakhs divided into 800,000 equity shares of Rs. 100 each. The paid-up capital, as on 31st March 1980, was Rs. 669.86 lakhs.

2.04. Borrowings

2.04.1. Apart from raising of loans on the hypothecation of Company's assets from banks and from the Government of India/State Government, the Company has been raising funds by floating debenture bonds (November 1975 onwards) and accepting deposits from public (March 1976 onwards).

The table below indicates the particulars of borrowings at the close of the three years up to 1979-80:—

		As on 31st March		
		1978	1979	1980
			(*Rupees in lakhs*)	
1.	Debenture bonds	275.00	385.00	495.00
2.	Loans from Government of Kerala	30.00	95.00	178.00
3.	Loans from Government of India	20.55	29.77	29.77
4.	Fixed deposits from the public	73.54	96.78	133.38
5.	Term loan from banks	35.00	48.00	46.00
6.	Cash credit from banks	76.43	114.56	146.24
7.	Loan from Kerala State Industrial Development Corporation Ltd	20.00	..	..
	Total	530.52	769.11	1,028.39

The overdue amounts of principal and interest on loans obtained from the State and Central Governments as at the end of 1979-80 were as follows:—

	Principal	*Interest*	*Penal interest attracted up to March* 1980
	(Rupees in lakhs)		
State Government	3.85	17.07	3.04
Central Government	5.57	1.48	0.37

The penal interest had not yet been paid (May 1981).

Government stated (February 1981) that there was delay in getting funds from Government in the form of share capital necessitating increased borrowings and that the non-payment of instalments and interest was for the speedy implementation of various projects.

The total amount of debentures outstanding as on 31st March 1980 was Rs. 495 lakhs which included Rs. 440 lakhs in respect of debentures of Rs. 110 lakhs each issued on 31st May 1976, 31st May 1977, 30th August 1978 and 6th August 1979. An amount of Rs. 358.50 lakhs out of Rs. 440 lakhs so raised was placed in short-term deposits with the subscriber banks at rates of interest of 2.5 to 4 *per cent* as indicated below:—

Debentures		*Short-term deposits*			
Date	*Amount (Rupees in lakhs)*	*Date*	*Amount (Rupees in lakhs)*	*Period*	*Number of subscriber banks*
31st May 1976	110.00	2nd June 1976	79.50	46-61 days	6
31st May 1977	110.00	31st May 1977	75.00	46 days	8
30th August 1978	110.00	30th August 1978	94.00	16-91 days	10
6th August 1979	110.00	6th August 1979	110.00	16-91 days	14

The Company was, during the same period, availing of cash credit facilities with three banks with interest at 14 to 15 *per cent* per annum. The amount of overdraft was Rs. 71.50 lakhs in June 1976 and varied from Rs. 68 lakhs to Rs. 70 lakhs during June to October 1977 and Rs. 56 lakhs to Rs. 61 lakhs during September to November 1978. The entire deposits made in June 1976 (Rs. 79.50 lakhs) were withdrawn in July 1976 on maturity/cancellation and credited to the cash credit account. Had the funds raised been used to reduce balance in the cash credit accounts instead of placing them in short-term deposits, the Company could have saved Rs. 1.65 lakhs as interest (for the period 2nd June 1976 to 20th July 1976 and 1st June to 15th July 1977). Similar loss arising from payment of higher interest on cash credit balances in respect of the periods 16th July to October 1977, September to November 1978 and August to November 1979 could not be assessed for want of particulars (March 1981).

Government stated (February 1981) that if the funds raised for financing projects were credited to the cash credit account, the drawings would have been very low resulting in reduction of credit limits by the banks.

2.04.2. *Guarantees*

The State Government had guaranteed the repayment of the debentures, long-term loans from banks and the cash credit facility from a scheduled bank obtained as indicated below:—

Particulars of guarantee	*Maximum amount guaranteed*	*Amount outstanding as on 31st March 1980*	*Rate of guarantee commission*
	(*Rupees in lakhs*)		
1. Debenture bonds	495.00	495.00	Nil
2. Long-term loan from banks	48.00	46.00	1 *per cent* with rebate of 0.25 *per cent* for prompt payment (6 monthly)
3. Cash credit facility	27.00	28.50 (including interest of Rs. 1.50 lakhs)	

In respect of the cash credit, the Company defaulted in payment of guarantee commission on due dates during the period from January 1976 to January 1979. In respect of long-term loans, guarantee commission which fell due during the period March 1978 to March 1979 was also not paid on due dates. The rebate that could not be availed of due to delays in payment of commission amounted to Rs. 0.37 lakh.

Government stated (February 1981) that the Company was expecting to get the guarantee commission waived and hence it could not avail of the rebate facility.

2.05. Financial position

The table below summarises the financial position of the Company for the 3 years up to 1979-80:—

		1977-78	1978-79	1979-80
			(*Rupees in lakhs*)	
	Liabilities			
(a)	Paid-up capital (including advances for shares)	394.86	469.86	669.86
(b)	Reserves and surplus	8.67	15.51	21.85
(c)	Borrowings (including cash credit)	527.33	747.70	1,006.97
(d)	Trade dues and other liabilities	94.60	143.82	311.58
	Total	1,025.46	1,376.89	2,010.26
	Assets			
(a)	Gross block	99.62	148.83	201.63
(b)	*Less*: Depreciation	14.66	22.50	34.13
(c)	Net fixed assets	84.96	126.33	167.50
(d)	Capital work-in-progress	17.96	31.11	95.58
(e)	Investments	152.62	159.62	245.58
(f)	Current assets, loans and advances	713.41	991.02	1,421.93
(g)	Intangible assets	56.51	68.81	79.67
	Total	1,025.46	1,376.89	2,010.26
	Capital employed	703.77	975.70	1,282.58
	Net worth	347.02	416.56	612.04

Note:—1. Capital employed represents net fixed assets (excluding capital work-in-progress) *plus* working capital.

2. Net worth represents paid-up capital *plus* reserves *less* intangible assets.

2.06. Working results

The table below summarises the working results of the Company for the 3 years up to 1979-80:—

	1977-78	1978-79	1979-80
		(Rupees in lakhs)	
A. INCOME			
Sales	250.37	261.85	457.33
Other income	70.54	97.33	155.59
Closing stock	42.31	56.48	169.27
Total	363.22	415.66	782.19
Less: Opening stock	49.20	42.31	56.48
Total	314.02	373.35	725.71
B. EXPENDITURE			
Raw materials, components and other expenses	295.77	326.95	658.50
Interest and bank charges	40.04	56.73	86.00
Depreciation	5.44	7.85	11.63
Total	341.25	391.53	756.13
Less: Transfer to product engineering expenses and pre-engineering expenses	32.35	25.02	36.76
Total	308.90	366.51	719.37
Net profit (A—B)	5.12	6.84	6.34
Less: Investment allowance reserve	..	2.54	1.74
Profit after adjustment of Investment allowance reserve	5.12	4.30	4.60
Return on Capital employed	44.12	62.46	89.87
Percentage of return on Capital employed	6.3	6.4	7.0

The profit of Rs. 6.34 lakhs made during the year 1979-80 was mainly on account of the margin obtained on the sale of items purchased for resale (Rs. 9.92 lakhs) and the collection of octroi duty in excess of the actual expenditure thereon (Rs. 2.21 lakhs).

The profit of Rs. 6.34 lakhs is also to be reviewed in the context of the following facts:—

(i) Claiming of sole selling agency commission of Rs. 1.07 lakhs on direct purchases from a subsidiary, which was not admissible as they constituted direct sales by the subsidiary;

(ii) Overvaluation of inventory by Rs. 0.60 lakh (185 rejected picture tubes valued at purchase price instead of at realisable value);

(iii) Excess transfer of expenditure to deferred revenue account by Rs. 6.29 lakhs;

(iv) Overcapitalisation of expenditure by Rs. 8.37 lakhs (relating to Central Marketing Organisation and Keltron Equipment Complex); and

(v) Charging of higher rates (9.5 to 15 *per cent*) of interest on loans to subsidiaries/associates compared to interest paid on borrowed funds (6.25 to 12 *per cent*).

2.07. Investment in subsidiaries/associates

As at the end of 1979-80, the Company had 7 subsidiaries and 5 other companies under the same management (associate companies). These companies except one (Keltron Counters Limited) were promoted by the Company utilising the letters of intent/industrial licences for the manufacture of various electronic products. The Management of Keltron Counters Limited (formerly the Metropolitan Instruments Limited) was taken over in December 1973 and it became a subsidiary of the Company in August 1974.

The Company's investment in these 12 companies as at the end of 1979-80 was Rs. 830.69 lakhs as indicated below:—

Name of Company	*Month and year of incorporation*	*Paid-up capital as on 31st March 1980*	*Investment by the Company*				*Percentage of share holdings of the Company to the total share capital of subsidiaries/associates*
			Shares	*Loans*	*Balance in current account*	*Total*	
			(Rupees in lakhs)				
Subsidiaries							
1. Dielectro Magnetics Limited	April 1974	16.33	11.88	13.25	6.81	31.94	72.8
2. Keltron Counters Limited	July 1964	50.00	38.21	105.55	81.80	225.56	76.4
3. Keltron Crystals Limited	October 1974	24.00	19.75	8.00	5.63	33.38	82.3
4. Keltron Magnetics Limited	March 1975	15.00	15.00	4.50	1.03	20.53	100.0
5. Keltron Resistors Limited	April 1975	15.00	15.00	5.00	10.64	30.64	100.0
6. Keltron Power Devices Limited	January 1976	50.00	50.00	47.00	34.56	131.56	100.0
7. Keltron Rectifiers Limited	March 1976	22.00	22.00	32.00	16.90	70.90	100.0
Associates							
1. Keltron Component Complex Limited	October 1974	160.97	70.13	130.00	25.67	225.80	43.6

Name of Company	Month and year of incorporation	Paid-up capital as on 31st March 1980	Investment by the Company: Shares	Loans	Balance in current account	Total	Percentage of share holdings of the Company to the total share capital of subsidiaries/associates
		(Rupees in lakhs)					
2. Keltron Ferrites Private Limited	March 1975	4.90	1.20	0.30	1.64	3.14	24.5
3. Keltron Varistors Private Limited	April 1975	1.84	0.45	0.80	0.95	2.20	24.5
4. Keltron Projectors Limited	April 1975	3.91	1.96	16.18	15.84	33.98	50.1
5. Keltron Entertainment Systems Limited	April 1975	..	..	9.50	11.56	21.06	..
Total		363.95	245.58	372.08	213.03	830.69	..

2.08. Production performance

The production activity of the Company was confined to the Keltron Equipment Complex at Karakulam (Trivandrum District) with the following activities:—

(a) Television unit—Assembly of television receivers, closed circuit television, loud speaker equipment, *etc.*

(b) Digital unit—Assembly of electronic calculators and other digital systems, and

(c) Industrial electronics unit—Manufacture of electronic systems, voltage stabilisers, battery chargers, inverters, *etc.*

The table below indicates the details of actual production during the 3 years up to 1979-80 against the installed capacity:—

	Date of Industrial licence	*Installed capacity*			*Actual production*		
		1977-78	1978-79	1979-80	1977-78	1978-79	1979-80
		(Quantity in numbers)					
1. T. V. Receivers	16th February 1975	5,000	5,000	10,000	5,033	4,142	11,364
2. Electronic Calculators	4th January 1975	5,000	5,000	5,000	2,463	3,510	5,279
3. Electronic Printers	21st April 1976	5,000	5,000	5,000	42	131	166
4. Static Inverter System	8th September 1975	5,000	5,000	5,000	1,703	1,095	2,166
5. Variable speed drives	11th May 1976	2,000	2,000	2,000	92	60	70
6. XV Plotter and digital incremental plotter	19th May 1976	200	200	200	8	1	1
7. Electronic cash registers	4th January 1975	Nil	250	250	Nil	10	98
8. Electronic card attendance systems	30th April 1977	Nil	100	100	Nil	14	7
9. Electronic display for weighing scales	30th April 1977	Nil	1,500	1,500	Nil	18	16
10. Cameras (TV)	25th October 1977	Nil	Nil	100	Nil	Nil	30

The low rate of production of calculators and other digital items during 1977-78 was attributed by the Company (August 1979) to changes in the models of calculators introduced by the Company during the middle of the year. The reasons attributed for shortfall in production during 1978-79 were go-slow policy of the workers followed by a strike for 45 days in September/ October 1978 on bonus issue. As regards other items, the shortfall in production was due to less orders received from customers.

2.09. Television Receivers

2.09.1. The Company concluded an agreement (30th August 1973) with Electronics Corporation of India Limited (E C I L), a Central Government Company for the transfer of know-how for the manufature of 19″ and 20″ television receivers. The agreement was to be effective for 5 years or till the manufacture of 25,000 television receivers whichever was earlier. The consideration for the know-how was Rs. 2.50 lakhs of which Rs. 0.50 lakh was payable with the signing of the agreement and the balance at Rs. 8 per television receiver manufactured. The television receivers were to carry the brand name 'ECTV' and supplied to ECIL at price to be mutually agreed upon from time to time.

This agreement was superseded by another agreement (1st June 1974) effective for 5 years from 1st April 1974 or till 25,000 television receivers were manufactured whichever was earlier.

The agreement with ECIL ceased with effect from 1st April 1979. Since then the Company has been manufacturing TV receivers in its own brand name 'Keltron TV' and also for sale to ECIL (in the brand name of ECTV) against specific purchase orders received from ECIL.

2.09.2. *Production*

The Company obtaind an industrial licence (February 1974) for the production of 5,000 television receivers per annum with an option to increase production by 25 *per cent.* Production was commenced in March 1974 without the preparation of a detailed project report. The Company received a letter of intent in December 1977 for expansion of capacity to 10,000 receivers per annum. The industrial licence increasing the capacity to 10.000 receivers per annum was received in July 1979 and the installed capacity was also raised to this extent. The table below indicates the production during the period 1974-75 to 1979-80 of ECTV and Keltron television receivers:—

	ECTV		*Keltron TV*		*Total*	
Year	*Budget*	*Actual*	*Budget*	*Actual*	*Budget*	*Actual*
			(*Numbers*)			
1974-75	NA†	992	..	..	NA†	992
1975-76	5000	3365	..	..	5000	3365
1976-77	3000	4059	..	..	3000	4059
1977-78	6250	5033	..	..	6250	5033
1978-79	6250	3702	300	300	6550	4002*
1979-80	5000	2018	5000	9172	10000	11190**

The Management attributed the shortfall (January 1980) to difficulties in establishing reliable local suppliers for components and parts, especially TV cabinets, and the lower production in 1978-79 was attributed to a 45 day strike in the factory (September-October 1978) preceded and followed by go-slow agitation.

2.09.3. *Sales*

In terms of the agreement (June 1974), the entire production except to the extent permitted by ECIL was to be sold to ECIL at rates to be mutually agreed upon from time to time. During the period for which the agreement was in force (i.e. up to 31st March 1979), the Company sold 15,535 receivers (HW 303 model) at agreed prices ranging from Rs. 2,072.50 to Rs. 2,205

†NA represents not available.

* This does not include 140 monitors produced during the year.

** The actual production during 1979-80 as per accounts is 11364 which includes 174 monitors.

per receiver resulting in a loss of Rs. 7.63 lakhs as detailed below:—

Year	*Number of receivers sold*	*Cost of production per receiver*	*Sales price per receiver*	*Gain (+)/ Loss(—)*	*Total gain(+)/ loss (—)*
		(*Rupees*)			
1975-76	3348	2335.58	2205	(—) 130.58	(—) 4,37,182
1976-77	650	2114.70	2106	(—) 8.70	(—) 5,655
	3330	2114.70	2100	(—) 14.70	(—) 48,951
1977-78	4932	2093.73	2100	(+) 6.27	(+) 30,924
1978-79	3275	2164.77	2072.50	(—) 92.27	(—) 3,02,184
	15,535*				(—) 7,63,048

In respect of the sale of 509 receivers of other models to ECIL during 1978-79, the Company incurred a loss of Rs. 0.47 lakh.

During the year 1979-80, the Company sold 1995 receivers (DW 321 model: 579 receivers at Rs. 2240.50 to Rs. 2275 and HW 321 model: 1416 receivers at Rs. 2116.50 to Rs. 2152.50) to ECIL against the purchase orders of December 1978 and July 1979. While loss on sale of DW 321 model (579 receivers) had not been assessed, the loss sustained on the sale of 1416 receivers of HW 321 model amounted to Rs. 0.82 lakh.

Government stated (February 1981) that by the arrangement with ECIL, the Company was able to perfect the technology involved for its own production and for bringing out TV receivers in its own brand name.

In respect of 7492 Keltron TV receivers sold during 1979-80, the loss sustained by the Company amounted to Rs. 0.24 lakh.

* The difference between actual production and sale of receivers represents sales to other parties with the permission of ECIL.

2.09.4. *Short realisation of excise duty*

As per the agreement, the excise duty paid by the Company on the receivers was payable by ECIL on delivery. This provision was complied with till July 1976. However, as per purchase order issued by ECIL in August 1976 the Company was required to pay excise duty on a price of Rs. 2010 per receiver though the price for the Company was Rs. 2100 per receiver. The Company paid duty accordingly, but under protest up to December 1977. From January 1978, the Central Excise authorities demanded payment of duty (at 20 *per cent*) and additional surcharge (5 *per cent* effective from 1st March 1978) on a price of Rs. 2200 (Rs. 2010 stipulated in the supply orders *plus* fixed charges of Rs. 190 per receiver realised by ECIL from customers). ECIL, however, continued to reimburse duty to the Company based on a price of Rs. 2010 only. As a result, the short realisation of excise duty from ECIL in respect of supplies (5968 receivers) during January 1978 to March 1979 amounted to Rs. 2.35 lakhs approximately.

The Management stated (January 1980) that an appeal had been filed and in the event the Excise authorities decline to refund the amount, the matter would be taken up with ECIL for reimbursement. The decision on the appeal was awaited (May 1981).

In July 1978, the Central Excise authorities demanded excise duty of Rs. 2.12 lakhs on 5576 receivers (at 20 *per cent*) on the difference in price of Rs. 190 per receiver (i.e. Rs. 2200-2010) in respect of the despatches from 23rd August 1976 to 31st December 1977. The demand had not been complied with so far (May 1981).

Government stated (February 1981) that the matter was under correspondence with the Central Excise Department and that if the amount was paid, it would be recovered from ECIL.

2.09.5. *Heavy dues*

According to the agreement with ECIL 50 *per cent* of the transfer price was to be received on proof of despatch and the balance on inspection and acceptance of TV receivers but within a maximum period of 15 days of receipt of receivers. But when the agreement expired on 31st March 1979, the amount due from ECIL was Rs. 22.81 lakhs. Of this, Rs. 9.89 lakhs was realised leaving a balance of Rs. 12.92 lakhs (May 1981). The Company had not analysed the outstandings.

Government stated (February 1981) that the Company had been having detailed discussions with ECIL for realisation of this amount.

2.10. Calculators

2.10.1. *Uneconomic production of calculators*

(a) The Company has been fixing the prices of different models of calculators taking into account the prevailing prices of similar products in the market. The prices of models 1008, 1112, 1212, 1412 and 1512 so fixed in September 1976 were below the cost of production. The Company continued production of these models up to January 1977 involving a loss of Rs. 1.14 lakhs (162 calculators).

Out of the 162 calculators, 47 were in stock as on 31st March 1981 and 11 were kept in cannibalised condition for servicing.

(b) The production of 17 out of 25 models introduced up to 1979-80 was found to be uneconomic and resulted in a loss of Rs. 10.33 lakhs during the three years up to 1979-80 as detailed below:—

Up to	*Models introduced*	*Uneconomic models*	*Production during the year*		*Loss (Rupees in lakhs)*
			Total (in numbers)	*Uneconomic*	
1977-78	11	11	2463	2463	5.54
1978-79	18	15	3510	1596	2.17
1979-80	25	17	5279	3622	2.62

Government stated (February 1981) that in view of the acute competition in the market for electronic calculators, it became necessary occasionally to revise prices to ensure a proper share of the market and in that process, it was not possible to ensure a fixed profit on all models of calculators.

2.10.2. *Loss due to excess consumption of calculator chips*

The Company commenced production of scientific desk type electronic calculators (Model No. 2510) in September 1977. As against a set of three calculator chips required for the production of each calculator, 4309 chips were used for the production of 1275 calculators (September 1977-January 1979) resulting in an excess consumption of 406 chips, (after allowing for wastage at 2 *per cent* as fixed by the Company) valued at Rs. 0.91 lakh.

The Management stated (January 1980) that the wastage of chips was more than two *per cent* and would vary depending upon the quality of chips purchased and the skill of operations.

2.11. Industrial electronics production unit

2.11.1. An Industrial Electronic Production (IEP) Unit was formed (September 1975) for the production of battery chargers, power plants, variable speed drives, static invertors, voltage stabilisers, rectifiers, *etc.* The detailed project report was approved (March 1977) after commencement of production in the last quarter of 1975-76. The initial project cost of Rs. 82.50 lakhs was revised in November 1975 to Rs. 100 lakhs. The information regarding actual expenditure on the execution of the project was not available (May 1981).

The production was regulated in accordance with demand. The actual sales for 4 years up to 1979-80 were far below the anticipated sales as per the project report, as indicated in the table below:—

Year	*Sales*		*Percentage of actual sales to sales as per project report*
	As per project report	*Actuals*	
	(Rupees in lakhs)		
1976-77	87.00	37.75	43.4
1977-78	134.75	53.74	39.9
1978-79	229.90	57.15	24.9
1979-80	311.20	77.97	25.1

The Management stated (January 1980) that it would take much time to stabilise due to the reluctance of customers to entrust orders to new manufacturers in view of the complicated technology involved.

2.11.2. *Loss due to delay in the execution of orders*

In August/September 1978 the Company received five orders for power plants of various capacities from the Indian Telephone Industries Limited (ITIL), Bangalore for a total value of Rs. 16.60 lakhs. The purchase orders stipulated that the rates were firm and no increase in rate would be accepted till the completion of the supply. The items were to be supplied by November/December 1978.

In July 1979, when even the prototypes were not ready, the Company approached ITIL requesting for price revision on the ground that there was considerable escalation in the cost of raw materials (25 to 30 *per cent*) labour and overheads subsequent to receiving the orders. However, in order to maintain good relationship with the purchaser, the Company agreed to absorb the increase in cost of labour and overheads and claimed Rs. 3.27 lakhs only towards increase in the cost of components and raw materials. The claim was rejected (August 1979) by the purchaser on the ground that the rates quoted were 'firm' and that the Company had defaulted in the delivery schedule.

The Company did not press for the claim thereafter. The execution of the orders had not been completed (March 1981).

The Management stated (November 1980) that though the Company had asked for price increase it could not be assumed that it would be making loss to that extent. Since the Company had not compiled the cost particulars, the actual position could not be ascertained.

It was also observed from the cost data prepared by the Company (October 1979), in connection with another quotation that the material cost of a 60 + 190 A power plant of the same specification was Rs. 1,07,800 against the rate of Rs. 94,450 chargeable for supply to ITIL.

2.11.3. *Selling price*

The Company has no scientific system either to assess the estimated cost of production at the time of quoting or actual cost on completion of supply. The estimated cost assessed for the purposes of valuation of closing stock in respect of the finished goods as on 31st March 1980 in the IEP unit alone was found to be in excess of the selling price agreed upon by Rs. 1.46 lakhs.

Government stated (February 1981) that it might not be possible to ensure profit in respect of some orders undertaken for IEP items especially in the initial years of production as orders were sometimes accepted on marginal cost basis for market penetration.

2.11.4. *Extra expenditure due to overlooking of the prescribed specifications*

(a) In response to a tender enquiry (June 1979) of the Director General of Supplies and Disposals (DGS & D) for the supply of 500 HP Thyristor Controlled Variable Speed Drive unit with a 500 HP DC Motor, the Company quoted (July 1979) Rs. 6.06 lakhs. The offer was accepted (November 1979).

As per the tender specifications, the push button and key switches were to be "flame-proof". The Company quoted against the tender assuming the cost of switches without flame-proof character as the Company felt that the flame-proof designs were required only in chemical industries. The DGS & D insisted on incorporating flame-proof switches and buttons as envisaged in the tender specification. The Company thereupon demanded a price increase of Rs. 0.12 lakh for the purpose which was turned down by the DGS & D as the tender specifications were specific.

(b) Similarly, the provision contained in the tender estimate of the Company was for a single bridge of non-reversible duty, whereas in order to meet the requirements contained in the tender specification for acceleration and deceleration, the unit should have dual bridge suitable for regeneration. The additional cost on this account was assessed by the Company at Rs. 0.70 lakh. Since the tender specification was specific, the Company had to agree to provide dual bridge without any increase in the price. Thus due to submission of tender without verifying the tender specifications before quoting, the total extra expenditure not anticipated at the time of quoting amounted to Rs. 0.82 lakh.

The Management stated (November 1980) that even at the rate quoted, the Company had sufficient margin to take care of the extra work needed to satisfy the customer's demand. However, no details in support of this contention were supplied.

The Management also stated that profitability had to be viewed on an overall basis for the Company as orders would have to be accepted for different profit margins depending upon the market situation.

2.12. Purchases

2.12.1. (a) The Company placed order (March 1978) for the supply of 280 numbers of imported printer (type 310) with a public sector company (canalising agency at Delhi) and imported (November 1978) another 180 numbers direct from a

Japanese firm under Yen credit licence available with the Company. The procurement of printers at higher rate against Yen credit resulted in an avoidable extra expenditure of Rs. 0.30 lakh. The Management stated (January 1980) that the import was made in order to develop a second source of supply and to utilise the import licence to the fullest extent.

(b) The Company had been purchasing picture tubes required for the manufacture of television receivers from a public sector company at New Delhi against 100 *per cent* payment in advance. The purchase orders included no provision for the replacement or refund of the value of damaged or rejected supplies. As per the Company's assessment (May1979), the value of rejected tubes out of the supplies received between 1973-74 and 1978-79, amounted to Rs. 1.28 lakhs. The matter was taken up by the Company in May 1979, but no settlement had been arrived at so far (May 1981).

(c) In October 1978, the Company purchased from the same company 1150 calculator chips of the value of Rs. 2.21 lakhs. During inspection in February 1979, 92 chips (value: Rs. 0.23 lakh) were rejected by the Company. The cost was yet to be realised (May 1981).

2.12.2. *Import of materials not suitable for production*

(i) Against the requirements of BU 104 transistors of T03 type (in metal cover), the Company imported (June 1978) from France 5000 transistors of BU 104 TO 220 (plastic case) for a total landed cost of Rs. 0.97 lakh including customs duty of Rs. 0.52 lakh. These were rejected on inspection (October 1978) and re-exported (January 1979) to the suppliers after meeting cost on shipping and air freight. Importing items unfit for the production and their subsequent return resulted in a loss of Rs. 0.24 lakh.

The Management stated (November 1980) that orders were placed for transistors in plastic casing as they were cheaper but the material received had to be rejected as it could not be used in TV receivers for supply to ECIL where mounting was done on the chassis.

(ii) The Company imported (March/July 1979) 28,000 corner correction magnets valued at Rs. 0.07 lakh from Holland. On receipt, the magnets were found to be of square type and hence not suitable for the yoke used for the TV receivers manufactured by the Company. Since the Company had not indicated specifications of the magnets required, it had no option but to accept the quantity imported.

Even at the time of placing the order (May 1978), there was a stock of 29,653 magnets with the Company. The total issue during 1978-79 and 1979-80 was 3,410 numbers only and the stock as on 31st March 1980 was 54,243 numbers (Value: Rs. 0.17 lakh).

2.12.3. *Import of items under banned list—Payment of fine*

Import of calculator parts either in complete knocked-down or semi-knocked-down condition is banned under the import policy declared by the Government of India for the year 1979-80. The Company decided (November 1979) to import from Taiwan 3,000 numbers each of all the components required for the production of LC 20 A model calculators. Accordingly, two orders were placed (January 1980) for a total value of Rs. 1.72 lakhs (US $ 21,000) on an open general licence and on a replenished licence which was valid upto 29th March 1980.

The consignment landed at Cochin in April 1980 and the Customs Department imposed a fine of Rs. 0.15 lakh (Rs. 5 per calculator) as all the components imported when joined together would form a complete calculator the import of which was banned.

Government stated (November 1980) that this import was in the light of the import policy of the Government of India 1979-80 permitting import of components up to a value of Rs. 3 lakhs by the small scale sector. Evidently, the view taken by the Government was not considered valid by the Customs Department with reference to the particular consignment and the penalty had to be paid (May 1980).

2.12.4. *Non-levy of penalty on belated supplies*

Based on the report (November 1979) of the Senior Manager (Materials) that it was proposed to manufacture pocket calculators in digital group where some spare capacity was likely to be available from December 1979 onwards, purchase orders were placed (November 1979) on a Delhi firm for 1500 numbers each of display, key board parts and chips (in semi-knocked-down form) for a total value of Rs. 0.93 lakh. It was stipulated in the purchase order that the supply should be completed within 15 days from the date of receipt of the bank draft towards advance payment and that a penalty of Rs. 500 per day after a grace period of one week from the due date would be levied. The terms of the orders were accepted by the supplier (December 1979) and an advance of Rs. 0.90 lakh was paid to the party on 4th December 1979. The supplies commenced on 19th December 1979 were completed by 11th February 1980. The penalty of Rs. 0.24 lakh realisable for the delay (from 26th December 1979 to 11th February 1980) had not, however, been levied. The Management stated (November 1980) that since the value of items supplied late was insignificant, it was decided not to levy the penalty. As 1000 chips and 580 key board parts out of 1500 numbers each ordered for, were received after the stipulated date and as the assembly could be completed only after receipt of all the parts, the waiver of the penalty was not justifiable.

2.13. Marketing

2.13.1. The Company had established (1973-74) a Central Marketing Organisation to market its products as well as those of subsidiaries/associates whereby the entire function relating to the marketing of products was assumed by the Central Marketing Organisation, with its branch offices at Madras, New Delhi, Bombay, Calcutta, Trivandrum and Bangalore. In addition, there were sales offices at Hyderabad and Ahmedabad. The sales were made either directly or through a net work of dealers throughout the country.

The Company had entered into sole distributorship agreements for the sale of products manufactured by its subsidiaries and associates and the general rate of commission payable was

15 *per cent* on the net price of the products sold. The total sole selling agency commission earned by the Company amounted to Rs. 14.57 lakhs, Rs. 23.05 lakhs and Rs. 41.60 lakhs respectively during the 3 years up to 1979-80.

2.13.2. *Undue concessions to subsidiaries*

In June 1976, the Board of Directors decided that the sole selling agency commission due for the year 1975-76 from Keltron Counters Limited should be 5 *per cent* as against 15 per cent provided in the agreement dated 31st July 1974. The sales promotion and selling expenses incurred by the Company during the year were, however, 10.1 *per cent* of the sale effected. On this basis, the selling expenses for the sales (Rs. 61.94 lakhs) of the subsidiary's product would work out to Rs. 6.25 lakhs as against Rs. 3.06 lakhs recovered, resulting in a short recovery of Rs. 3.19 lakhs.

The Management stated (March 1977) that the rate of commission was fixed taking into account the expenses incurred by the Company and the working results of KCL. It may be mentioned, however, that KCL had earned a profit of Rs. 0.55 lakh during 1975-76 as against a profit of Rs. 0.28 lakh in 1974-75. Besides, the rate of commission was fixed at 15 *per cent* for the following two years (1976-77 and 1977-78) when the subsidiary had incurred heavy losses (Rs. 30.48 lakhs and Rs. 20.06 lakhs).

2.13.3. *Undue concession to dealers*

The Company sold electronic calculators either directly or through a net work of dealers appointed in March/April 1976. In accordance with standing arrangements already made the dealers had to make 100 *per cent* payment to the Company for supplies. The prices and terms of supplies of calculators to the dealers were subject to change from time to time without notice. In August 1976, the Company decided to reduce the prices of certain models of calculators from October 1976.

In December 1976, the Company intimated to the dealers its decision to pay compensation to mitigate the loss suffered by them on their stocks due to price reduction. Credit notes for Rs. 1.02 lakhs were issued accordingly to 5 dealers (March-December 1977), though the dealership agreement did not provide for such compensation on the revision of price.

The Management stated (August 1979) that as a matter of policy the Company used to issue credit notes to the dealers who satisfy the various conditions of the Company consequent upon any price difference and that credit notes were issued to those dealers who had complied with the formalities.

A test check (July 1979), however, revealed that the Company issued credit notes based on the stock reported by the dealers without verifying whether the dealers had not already sold the calculators stated to have been purchased at higher rates and lying in stock on 1st October 1976. Incidentally such credit notes had not been given following the price reductions in December 1977, March 1978 and March 1979.

2.14. Sales

2.14.1. The budgeted and actual sales for the 3 years up to 1979-80 were as follows:—

Particulars	1977-78		1978-79		1979-80	
	Budget	*Actual*	*Budget*	*Actual*	*Budget*	*Actual*
			(Rupees in lakhs)			
TV receivers	139.25	121.41	165.38	112.42	229.53	287.35
Calculators	70.00	51.91	100.13	61.29	94.88	41.17
Industrial Electronics	112.00	53.74	152.44	57.15	154.39	77.97
Others (including trading items)	77.00	23.32	60.00	30.98	60.00	50.84
Total	398.25	250.38	477.95	261.84	538.80	457.33

The Management stated (August 1979) that in order to get a better performance, the Company had been fixing higher targets than what was practicable.

2.14.2. *Sales below cost*

(a) In May 1977, the Integral Coach Factory (ICF) placed an order for 800 inverters at Rs. 245 each *f.o.r.* destination (as agreed to by the Company) less discount at 15 *per cent* subject to approval of the prototype. In November 1977, the ICF gave the clearance for only 450 inverters which were supplied during January-April 1978. In June 1978, the Company agreed to supply the balance 350 numbers also at the same price. These were supplied during October 1979—March 1980. Based on the actual cost of production of Rs. 320.96 (excluding royalty at 3 *per cent* and marketing overheads at 10 *per cent*)the Company incurred a loss of Rs. 0.90 lakh.

The Management stated (August 1979) that the Company agreed to supply all the inverters numbering 800 since the buyer was likely to buy large and medium capacity inverters. The Company, however, had not so far (March 1981) received any further orders from the buyer.

(b) In September 1977 the Company received an order from the Eastern Railways, Calcutta for the supply of 220 flourescent lamp fittings complete with static inverters and tubes at its quoted rate (March 1977) of Rs. 295 each less 15 *per cent* discount *f.o.r.* destination. The Company had not estimated its cost of production at the time of offering the rates and the transaction resulted in a loss of Rs. 0.28 lakh.

Government stated (February 1981) that there was no loss in these transactions as the works were done by sub-contracting. However, no details in support of this contention were supplied.

2.15. Book debts

The Company sells its products against cash or on credit. The Company had not framed any guidelines or limits for credit sales. The following table indicates the volume of book debts and sales for the 5 years up to 1979-80:—

As on 31st March	*Book debts*	*Sales during the year*	*Percentage of debts to sales*
		(Rupees in lakhs)	
1976	58.71	142.67	41.2
1977	92.24	187.39	49.2
1978	147.51	250.38	58.9
1979	202.16	261.85	77.2
1980	280.55	457.33	61.3

The year-wise break-up of the book debts was not available with the Company.

2.16. Inventories

2.16.1. The value of raw materials, stores, finished goods, *etc.* as at the close of the 3 years up to 1979-80 were as follows:—

	1977-78	1978-79	1979-80
		(Rupees in lakhs)	
1. Raw material and stores	93.97	108.14	148.43
2. Finished goods	21.20	29.20	119.87
3. Work-in-progress	17.91	22.21	26.95
4. Goods purchased for resale	3.19	5.07	22.44
5. Loose tools	5.06	5.83	5.65
6. Moulds	0.74	0.49	1.25
7. Spares at cost	..	..	3.19
Total	142.07	170.94	327.78

A test check in audit revealed the following:—

(i) The raw materials (31st March 1980) included 342 items (value: Rs. 5.16 lakhs) procured during 1975-76 to 1977-78 for the production of electronic printers. At the rate of consumption of these items during 1979-80 the stock represented the requirements for six years.

(ii) The stock of raw materials and stores (March 1980) included calculator chips and display tubes (value: Rs. 1.17 lakhs) purchased for use in those models of calculators the production of which had been discontinued since January 1977.

The Management stated (January 1980) that the calculator chips and display tubes would be needed for repairs and replacements by the repair centres and that the inventory of finished goods and sub assemblies of old models of calculators would be reduced by aggressive marketing strategy.

2.16.2. The table below indicates the value of purchases, consumption and closing stock of raw materials for the 3 years up to 1979-80:—

Year	*Purchase*	*Consumption* (*Rupees in lakhs*)	*Closing stock*
1977-78	192.82	140.67	93.97
1978-79	166.61	152.44	108.14
1979-80	381.53	341.24	148.43

In spite of the fast development in technology in the fields of electronics, the Company had not assessed the extent of obsolescent items of stock with a view to initiate timely action for disposal and replacement.

Government stated (February 1981) that the Management was aware that some of the items in stock might not be useful immediately but such items could not be disposed of only on account of obsolescence of the final product, because those components would be needed for after sales service. No assessment on the part of the Management of the requirements of after sales service was, however, available on record.

The physical verification conducted in March 1980, revealed a shortage of 39 picture tubes of 20 inch size (value: Rs. 0.17 lakh). This had not been adjusted in the accounts for the year 1979-80.

2.16.3. *Accumulation of old model calculators*

As on 31st March 1980, there were 439 calculators (works cost: Rs. 7.34 lakhs) of various models, the production of which was stopped between 1975-76 and 1978-79.

Government stated (February 1981) that special efforts would be needed to market these calculators and that aggressive marketing strategy was being evolved to increase the sale of old model calculators.

2.16.4. *Idle stock of finished goods-IEP Division*

The value of finished goods as on 31st March 1980 amounted to Rs. 22.98 lakhs. Of this, goods of the value of Rs. 4.49 lakhs were produced prior to 1979-80.

Government stated (February 1981) that the observation of Audit regarding idle finished goods was not correct as various items manufactured earlier were being sold in the market. However, it was observed that the Company could dispose of only one item (value: Rs. 0.06 lakh) during 1980-81 from the old stock.

2.17. Projects under implementation

2.17.1. *Keltron Controls Project*

Government of India approved (June 1978) the application of the Company for the manufacture of electronic process control instrumentation system in collaboration with a firm of France. The instrumentation system proposed for manufacture would have extensive application in thermal and nuclear power stations, industrial boilers of all kinds, marine boilers as well as process application in industries such as chemicals, petrochemicals, fertilizers, pulp and paper, cement, food, *etc.* This project which was originally proposed to be implemented through one of the subsidiary companies (Keltron Counters Limited) was decided (November 1978) to be implemented directly by the Company for the purpose of speedy implementation of the project and also to facilitate the marketing of the products.

The project is being established at Aroor in Alleppey District which is an industrially backward area.

The cost of the project originally estimated (December 1978) at Rs. 447.65 lakhs was revised (August 1979) to Rs. 739.26 lakhs. The steep upward revision of the project cost was attributed by the Company (August 1979) to changing the original concept of a mere assembly plant, to that of a full fledged manufacturing division with facilities for fabrication shop, pre-treatment and finishing press shop, machine shop, tool maintenance, besides assembly and calibration set up. The expectation of the Company to complete the project by the end of 1980, had not materialised (May 1981).

The project cost, originally envisaged, revised cost and the expenditure up to 1979-80 are tabulated below:—

		Project Cost Original	*Project Cost Revised*	*Actual expenditure up to 31st March 1980*
		(*Rupees in lakhs*)		
1.	Land and site development	25.30	26.30	*
2.	Building	32.96	118.76	2.03
3.	Plant and machinery (imported)	7.85	38.45	..
4.	Plant and machinery (indigenous)	81.88	169.71	..
5.	Other fixed assets	53.92	81.50	2.45
6.	Payment to collaborators	45.64	45.64	6.92
7.	Other payments to collaborators	14.90	14.90	..
8.	Other expenses for know-how transfer	15.20	17.00	14.24
9.	Pre-operative expenses	60.00	100.00	64.27
10.	Start up expenses	20.00	20.00	..
11.	Provision for contingency	15.00	32.00	..
12.	Margin money for working capital	75.00	75.00	..
		447.65	739.26	89.91

* The Company took possession of 17 acres of land for the project and an advance of Rs. 8.01 lakhs had been paid for it.

The Company appointed (January 1979) a firm of architects for the proposed building at a remuneration of Rs. 0.60 lakh based on the estimated cost of the building at Rs. 30 lakhs. In March 1979, on a representation from the architects, the fee was revised as Rs. 0.60 lakh *plus* consultation fee up to 1.25 *per cent* of the civil construction subject to an over all ceiling of Rs. 1 lakh. This was again revised (May 1979) as 3 *per cent* of the completed cost of the building and an agreement was concluded with the firm. A sum of Rs. 0.48 lakh was paid to the firm (June 1979) being first instalment of the fee. In August 1979, the Company required the architects to defer all the activities as it was felt that the firm did not have adequate infrastructure facilities for satisfactory completion of the work. Again in September 1979, the Company informed the firm that on a meticulous consideration of all the necessary details in relation to the contract and the fact that the firm had not carried out any useful work so far, the Company had come to the conclusion that it was not possible to continue the contract. The firm was asked to treat the contract as terminated with effect from 11th September 1979 and to refund the amount paid as advance (Rs. 0.48 lakh).

Considering the alleged default on the part of the firm for which the contract had to be terminated, the Company should ordinarily have taken suitable action against the firm. But no such action was taken. The Management stated (November 1980) that the Company was aware that the agreement with the firm did not contemplate any course of action in the event of the contract being terminated. The extent of work done by the architect had not yet been evaluated and the advance had not been adjusted (May 1981).

2.17.2. *Electronic Printers*

The Company received a letter of intent (February 1975) for the production of 18 column printer and an industrial licence (April 1976) for the manufacture of 5000 printers per annum. The State Government approved the project (July 1976) involving a total capital outlay of Rs. 53 lakhs. The project envisaged the development of a sophisticated drum impact printer for electronic desk calculators and other applications where a hard copy would be required. The development of the printer was taken up for the purpose of import substitution. The trial production was to be commenced in June/July 1975 and regular production from October 1975. Though the Company informed the Government of India (October 1979) that commercial production had been started from the financial year 1979-80, as stated by the Company (November 1980), commercial production could not be started during that year due to certain technical problems.

The Government of India gave a loan of Rs. 8.35 lakhs (Rs. 7.89 lakhs in March 1976 and Rs. 0.46 lakh in July 1976) for this project carrying interest at 10 *per cent* per annum which was subsequently converted into interest free loan wth effect from 17th January 1978. The total expenditure on the project as on 31st March 1980 (excluding stores valuing Rs. 5.16 lakhs in stock) was Rs. 12.56 lakhs as indicated below:—

	(*Rupees in lakhs*)
1. Value of printer equipment	5.42
2. Revenue expenses capitalised	7.14*
Total	12.56

Of the 363 printers produced from 1976-77 to 1979-80, 158 printers (value: Rs. 0.88 lakh) were lying in the shop floor or in branches and included under finished goods (March 1980).

In July 1977, the Company estimated that by using the printers produced by it, instead of importing them, the cost of production per calculator (Model 2212, 2312 and 2412) would be reduced by Rs. 500. However, this did not materialise as the project could not be successfully commissioned. Government stated (February 1981) that certain problems have to be solved before starting commercial production and that the market acceptance was the ultimate consideration for commencement of commercial production.

*Rs. 9.13 lakhs *less* sales proceeds on trial production : Rs. 1.99 lakhs.

The Management stated (November 1981) that as the electronic printer was developed for the first time in the country, considerable tooling and precision engineering work was involved and many technical problems were experienced in the development and proto type production stage. They further stated that certain technical problems were also raised by consumers and such problems could not have been anticipated.

2.18. Testing and Development Centre

In October 1972, the Electronics Commission, Government of India, approved the scheme under which State Government were to be given grants for the setting-up of testing and development centres in areas where there was a cluster of electronic industries, especially in the small scale sector, which found it difficult to arrange its own independent testing and development facilities. The Central Government grant was to be limited to 75 *per cent* of the capital cost of the centre subject to a limit of Rs. 25 lakhs per State. In December 1973, the Company forwarded its proposal to set up a Testing and Development Centre at an estimated capital cost of Rs. 44.72 lakhs and an annual recurring expenditure of Rs. 3.85 lakhs excluding depreciation. The Government of India approved (June 1974) the proposal specifying that the capital cost of the scheme not covered by the grant from the Government of India and the entire recurring cost of the scheme should be borne by the State Government.

The Company set up the Testing and Development Centre at Trivandrum during 1975-76. Up to March 1980, the Company received grants amounting to Rs. 42.86 lakhs (Rs. 22.86 lakhs from the Government of India and Rs. 20 lakhs from the State Government) and had acquired fixed assets for Rs. 31.90 lakhs.

The table below indicates the details of materials and components used and salaries and wages paid during the 3 years up to 1979-80 and the service charges realised:—

Year	*Expenditure incurred on*				*Service charges realised*	*Short fall*
	Materials and components	*Salaries and wages*	*Other expenses*	*Total*		
			(*Rupees in lakhs*)			
1977-78	0.47	0.92	3.68	5.07	4.58	0.49
1978-79	0.30	1.02	2.62	3.94	3.09	0.85
1979-80	0.64	1.31	3.29*	5.24*	0.12	5.12

During 1979-80 the centre obtained a grant of Rs. 2.93 lakhs from the State Government to meet the shortfall.

Government stated (February 1981) that the substantial reduction in the service charges realised during 1979-80 was due to adoption of rates for the service charges at the rates fixed by the Government of India in April 1979. Government further stated that there was no need to charge depreciation as per the instructions received from the Government of India and the idea behind this decision was to give subsidised service support to the nascent electronic industry in the State.

2.19. Projects under development

The Company had received loans, grants and advances amounting to Rs. 26.20 lakhs up to 1979-80 from the

*Including depreciation of Rs. 2.30 lakhs not provided for in the accounts.

Government of India for the development of 5 projects the details of which are given below:—

Name of project	Estimated cost	Amount received				Expenditure incurred		Unspent balance (+)/ Excess utilisation (—)
		Grant	*Loan*	*Advance*	*Total*	*Fixed assets*	*Development expenses*	
					(Rupees in lakhs)			
1. Input Output writer project	7.50	3.20	3.20	..	6.40	1.27	2.63	(+)2.50
2. Speed control of large induction motors	9.70	..	9.16	..	9.16	0.45	8.50	(+)0.20
3. DC to DC conversion system	9.30	..	7.72	..	7.72	3.36	5.09	(—)0.73
4. Semi conductor grade photo resist	3.58	1.33	1.34	..	2.67	1.34	4.48	(—)3.14
5. Very High Frequency/ Ultra High Frequency radio telephone project	1.00	..	..	0.25	0.25	..	0.05	(+)0.20
Total	31.08	4.53	21.42	0.25	26.20	6.42	20.75	(—)0.97

2.20. Internal audit

The Company has an internal audit wing. A review of the internal audit reports (for the period March 1976 to August 1978) revealed that major areas of the Company's activities (*viz.* production, sales, inventory, realisation of dues, management of funds and major items of purchase) had not been covered. The statutory auditors in their reports on the accounts for the years 1978-79 and 1979-80 to the share holders had stressed the need for strengthening the internal audit department.

2.21. Working results of subsidiaries/associates

Of the 7 subsidiaries and 5 associate companies, only 8 companies had commenced commercial production up to 1979-80. The details of paid-up capital, accumulated loss and net worth of each unit are detailed below:—

	Name of company	*Year of production*	*Paid-up capital*	*Accumulated loss*	*Reserves and surplus*	*Net worth*
				(Rupees in lakhs)		
Subsidiaries						
1.	Keltron Counters Limited	Running concern	50.00	119.47	0.18	(—)69.29
2.	Keltron Crystals Limited	Fourth year	24.00	15.16	5.95	(+)14.79
3.	Keltron Magnetics Limited	Second year	15.01	1.53	5.14	(+)18.62
Associates						
4.	Keltron Component Complex Limited	Second year	160.97	115.14	15.00	(+)60.83
5.	Keltron Ferrites Private Limited	Third year	4.90	1.88*	1.87	(+)4.89
6.	Keltron Varistors Private Limited	Fourth Year	1.84	1.03*	..	(+)0.81
7.	Keltron Projectors Limited	Fifth year	3.91	11.86*	..	(—)7.95
8.	Keltron Entertainment systems Limited	Fourth year	..	5.00	..	(—)5.00
	Total		260.63	(—)271.07	28.14	(+)17.70

The accumulated loss in the case of Keltron Counters Limited and Keltron Projectors Limited had exceeded their paid-up capital.

In the case of Keltron Counters Limited, the Management stated (January 1980) that steps had been taken to sell some

*The accumulated loss up to 1978-79 only since the accounts for the subsequent years were not made available.

surplus machinery and restructure the unit and that an experienced management team had been put in charge of the affairs of the company.

2.22. Keltron Counters Limited

The Company took over (5th December 1973) the management of a private sector company at Trivandrum (The Metropolitan Instruments Limited) subsequently renamed (August 1975) as Keltron Counters Limited (KCL) which had declared a lock-out in October 1973 on account of labour disputes. As proposed by the Company in November 1973 and agreed to by Government (December 1973) it purchased shares of KCL (at par) for Rs. 4.90 lakhs (equity shares: Rs. 3.93 lakhs and preference shares: Rs. 0.97 lakh) from another Government Company (Kerala State Industrial Development Corporation Limited) and invested a further sum of Rs. 10 lakhs in the equity capital. Thus KCL became its subsidiary in August 1974. Before investing in the share capital of KCL, the Company had assessed (November 1973) its financial position as critical due to bad financial planning, high percentage of material cost in relation to selling prices, over estimation of profits due to over-valuation of stock in preceding years, *etc.* The Chartered Accountants engaged by the Company to examine the previous year's accounts of KCL reported (February 1974) that the loss from 1st January 1973 to 5th December 1973, would be Rs. 39.06 lakhs. Even though the intrinsic value of the shares was nil, the Company again purchased (December 1974) 41865 equity shares of Rs. 10 each of KCL at the negotiated price of Rs. 7.85 per share from a private company on the consideration that (a) this would facilitate better control, (b) majority control by a public sector company would help in negotiations with Indian Telephone Industries Ltd and other Governmental Organisations and (c) the Company had very good potential for growth if properly organised. It was envisaged that the accumulated loss would be wiped out in four years.

It may, however, be observed that as KCL had become a subsidiary and was a Government Company, the controlling interest was already with the Company. Further acquisition of 41865 shares (for Rs. 3.29 lakhs) from the private share holder when the intrinsic value of share was nil did not, therefore, serve any purpose.

The table below indicates the actual production against the licensed and installed capacity during the three years up to 1979-80:—

Year	*Licensed and installed capacity*	*Actual production*	*Percentage of capacity utilisation*
		(*Numbers*)	
1977-78	10,00,000	91,198	9.1
1978-79	10,00,000	1,33,735	13.4
1979-80	10,00,000	1,77,687	17.8

The KCL attributed the shortfall in production during 1977-78 to insufficient orders, during 1978-79 to strike by workmen for 78 days (September-November 1978) and during 1979-80 to poor demand for counting devices. The Management stated (November 1981) that no detailed market study was conducted before take over.

The extent of loss sustained by KCL during the three years up to 1979-80 is indicated below:—

Year	*Net loss (Rupees in lakhs)*
1977-78	20.06
1978-79	19.76
1979-80	18.83

The KCL attributed, higher incidence of salaries and wages and higher rate of financing charges as the reasons for the loss in the year 1977-78. While the loss during 1978-79 was attributed to lower production, the loss during 1979-80 was attributed to higher incidence of financing charges.

2.23. Keltron Crystals Limited

2.23.1. The engineers of the Company had developed the technical know-how for the manufacture of quarts crystals and to implement the project, a company under the name Keltron Crystals Limited (KXL) was incorporated on 8th October 1974. Though the commercial production was expected to commence in November 1975, trial production was commenced only in February 1976 and commercial production in January 1977.

The project initially (June 1974) estimated to cost Rs. 56.50 lakhs was implemented at a cost of Rs. 62 lakhs with an installed capacity of 84,000 crystals per annum against the licensed capacity of 120,000 crystals per annum. The details of production against the installed capacity and sales during the three years up to 1979-80 are indicated below:—

Year	*Installed Capacity* (*Numbers*)	*Actual production* (*Numbers*)	*Percentage of capacity utilisation*	*Quantity sold* (*Numbers*)	*Value* (*Rupees in lakhs*)
1977-78	84,000	27,152	32.3	21,710	10.05
1978-79	84,000	31,833	37.9	31,528	13.14
1979-80	84,000	36,733	43.6	36,327	21.94

The Management of KXL stated (July 1980) that being a purely customer-made item, utilisation of capacity had to be limited to the actual orders received.

The KXL has been working at a loss and the accumulated loss (before providing for depreciation of Rs. 11.14 lakhs) up to 1979-80 amounted to Rs. 15.16 lakhs as detailed below:—

Year	*Loss* (*Rupees in lakhs*)	*Depreciation not provided* (*Rupees in lakhs*)	*Total* (*Rupees in lakhs*)
1976-77 (January to March 1977)	1.56	2.67	4.23
1977-78	5.94	2.79	8.73
1978-79	6.20	2.84	9.04
1979-80	1.46	2.84	4.30
Total	15.16	11.14	26.30

The Management stated (August 1979) that the loss was mainly due to the delay in the acceptance of the Company's products in the domestic market.

2.23.2. *Sales rejections*

In April 1977, a U. K. firm informed the Company of their intention to place a purchase order for 10,000 crystals of various frequencies. The order was subject to acceptance of samples by the purchaser. The acceptance issued by the Company (May 1977) specified that the supply would be completed by May 1977.

The production of 10,000 crystals was completed by July 1977. Though the order indicated that letter of credit would be opened before the despatch of crystals, the first consignment of 4,200 crystals (Invoice value: Rs. 0.51 lakh) was airlifted to the customer in July 1977 against sight draft. When the consignment reached London, the purchaser refused to clear the consignment on the ground that the prospective buyer of the crystals had already purchased the same from other sources. The efforts of the Company to persuade the purchaser to accept the consignment had not yielded any results.

At the instance of the Company, samples from the consignment lying in London were tested by the firm in February 1979, when it was found that the crystals failed in "stability tests". The Company attributed (September 1979) this to aging of the crystals on account of the conditions under which they were stored in London. The crystals had been brought back to India (October 1980) and were under clearance (November 1981).

The Management stated (July 1980) that the despatch of the consignment without opening the letter of credit was on business considerations as penetration into overseas market was considered vital for the future development of the Company.

The Management of KXL stated (June 1981) that the price realisable in domestic market would be of the order of about five times the export price.

The cost of the balance crystals manufactured against the order and lying in stock was Rs. 0.77 lakh. Since the crystals were manufactured against specific requirements, the possibility of disposal of the same was remote.

2.24. Keltron Magnetics Limited

2.24.1. The Company received a letter of intent for the manufacture of 2.75 million pieces of colour TV delay lines with 100 *per cent* export commitment. A Company under the name of Keltron Magnetics Limited (KML) was incorporated for the purpose on 1st March 1975 and it became a subsidiary of the Company on 31st May 1976. The Company entered into (January 1975) two agreements with a Belgium firm under which the foreign firm agreed to supply the required capital equipment, spare parts, raw materials and components for the manufacture of the products and buy back the entire production of colour TV delay lines of KML during the first five years of commercial production.

The Company had received import licence in January 1976 but could not start commercial production earlier than September 1978. The total project cost amounted to Rs. 43.96 lakhs.

The actual production of colour TV delay lines during the 3 years up to 1979-80 against licensed and installed capacity are indicated below:—

Year	*Licensed and installed capacity*	*Actual production*	*Percentage of utilisation of installed capacity*
	(Number in lakhs)		
1977-78	27.50	0.01	0.1
1978-79	27.50	2.25	8.2
1979-80	27.50	5.01	18.2

The Company could utilise only a part of its installed capacity since buy back from the Belgium firm was less than the agreed quantity.

The foreign firm informed (January 1980) the Company that the market for colour TV delay lines was depressed and hence it would not be able to maintain the business for 1980 at the same level as in 1979. In March 1980 the foreign firm sought release from the obligation to buy back the TV delay lines. It was decided (April 1980) to terminate the buy back agreement for a total compensation of US $ 2.25 lakhs (Rs. 17.40 lakhs); the settlement was arrived at in September 1980. The Company does not have any domestic demand for the product. The implications of the settlement and the resultant financial consequences (in maintaining the factory, finding out foreign market, diversification of production line, etc.) and the scope of the subsidiary company had not been assessed (May 1981). The Company stated (September 1980), that some diversification was being contemplated for the utilisation of the built in infrastructure and that regular orders from Poland were expected.

2.24.2. *Loss in purchase of unnecessary machinery*

The Company concluded (January 1975) an agreement with the Belgium firm for the supply of machinery and other equipment for the production of 15 lakh pieces of colour TV delay lines for a total purchase price of BF. 8,835,673 (Rs.22.06 lakhs). The list of machinery and equipment detailed in the agreement, however, contained a loom priced at BF. 1,626,373 (Rs. 4.07 lakhs) which was not in any way connected with the production of colour TV delay lines.

The agreement was assigned (May 1976) by the Company to KML. The loom received in March 1977 along with other equipment was kept in the premises of KML up to March 1979 when it was returned to the suppliers at Belgium. Inclusion of an unnecessary item of machinery in the list detailed in the agreement resulted in a loss of Rs. 2.17 lakhs (interest: Rs. 1.75 lakhs, freight: Rs. 0.38 lakh and others: Rs. 0.04 lakh).

The Management stated (December 1979) that—

(i) the inclusion of the loom in the range of equipment selected was designed to impart a versatility to the production set-up with a view to take care, within the frame-work of the industrial licence, possible demands in the competitive international electronics industries; and

(ii) the re-export of the loom was done after a series of discussions with the foreign firm, when it became clear that there could be no economical use of the loom in the context of the demand likely to arise for the products other than colour TV delay lines.

Sudsidiaries which have not commenced commercial production

2.25. Dielectro Magnetics Limited

2.25.1. Dielectro Magnetics Limited (DML), Kuttipuram was incorporated in April 1974 with the object of establishing a medium scale manufacturing unit for the production of ceramic capacitors using the technical know-how developed at the National Physical Laboratory, New Delhi. The industrial licence was obtained in June 1976. It became a subsidiary of the Company with effect from May 1977.

The Project with an estimated cost of Rs. 60.50 lakhs has a production capacity of 25 million pieces of capacitors per annum. As per the project report (August 1974) the unit was to start commercial production within 42 months from the commencement of the project (May 1976). The factory was commissioned in December 1977 and the trial production was commenced from January 1978. Commercial production was commenced only in October 1980. The delay in this regard was attributed (August 1980) by the Management of DML to: (i) technical problems arising from the acquisition of indigenous items of machinery which could not give satisfactory performance and to (ii) problems in getting adequate and uninterrupted power supply. However, the project report had assessed that the standard indigenous equipment would be available with the established manufacturers and their availability in time would not pose any serious problem. It was noticed in audit (December 1980) that DML received 100 *per cent* allotment of power supply from March 1979 against the HT agreement of December 1977.

The total expenditure incurred on the project till 31st March 1980 amounted to Rs. 86 lakhs.

2.25.2. DML entered (July 1976) into an agreement with a Cochin firm for supply, fabrication, installation and commissioning of the kilns, ovens and furnace on a turn-key basis for a contract amount of Rs. 7.39 lakhs (including excise duty of Rs. 0.07 lakh). The equipment was commissioned by March 1979 and the total amount paid to the firm was Rs. 6.91 lakhs.

Though the project report envisaged the use of discs produced by DML, purchase of ceramic discs from outside agencies was resorted to as the plant and machinery supplied and erected by the Cochin firm could not give satisfactory performance. The price paid for outside purchase worked out to 11 paise per disc against 7 paise per disc estimated by DML for its own production. Thus the purchase of 9 lakh discs from outside agencies upto 31st March 1980 had resulted in an additional expenditure of Rs. 0.36 lakh. DML would be incurring additional expenditure on this account till the defects in the equipment supplied by the Cochin firm were rectified. As per the terms of the agreement, the contracted equipment was to be guaranteed for a period of one year after erection and commissioning (March 1979) against any manufacturing defects. However, the additional expenditure incurred had not yet been recovered from the firm.

2.26. Keltron Rectifiers Limited

2.26.1. Keltron Rectifiers Limited (KRL) promoted by the Company was incorporated on 22nd March 1976 with the main object of manufacturing, buying, selling and dealing in apparatus and equipment using electro magnetic waves, electronic and other devices and dealing in other allied activities. KRL became a subsidiary of the Company with effect from 12th August 1977.

The project cost originally estimated (April 1976) at Rs. 97 lakhs was revised to Rs. 102.11 lakhs (November 1976), to Rs. 110.96 lakhs (February 1977), to Rs. 125 lakhs (September 1978) and to Rs. 131 lakhs (April 1979), against which an expenditure of Rs. 130 lakhs was incurred up to March 1980.

According to the project report approved by the Board of Directors (April 1976), the project should have been completed and commercial production started early in 1977-78. The industrial licence was, however, obtained only in April 1978 and the project completed in April 1980.

The Management of Keltron Rectifiers Limited stated (April 1980) that the delay in getting import licence for the machinery and raw materials was the main reason for the delayed implementation of the project. It was, however, observed in audit (June 1981) that though the import licence was obtained in June 1978, the last order for the import of machinery (Rs. 2.09 lakhs) was placed only in July 1979 and the supply thereof was received in April 1980.

The Management stated (September 1980) that trial production was started in April 1980.

2.27. (a) Keltron Power Devices Limited

The Keltron Power Devices Limited (KPDL) was incorporated in January 1976 to implement a project of manufacturing one million power transistors per annum, in the range of 5 to 300 watts. Due to non-availability of loans from financing institutions, the project was rephased, reducing the targeted production to 8 lakh power transistors in 15 to 115 watts range (August 1978). The cost of the project (Rs. 135.29 lakhs as estimated) was to be met partly by Company's contribution (Rs. 50 lakhs in equity and Rs. 35 lakhs as term loan). The equity capital was contributed in March 1980. The actual cost incurred on the project up to March 1980 was Rs. 159.33 lakhs; commercial production was started only in April 1980 as against the targeted date of April 1979. The delay was attributed by the Management to delay in receipt of imported machinery and raw materials and in the stabilisation of production.

(b) Keltron Resistors Limited

Keltron Resistors Limited (KRL) was incorporated in April 1975 for production and supply of 200 million carbon film resistors per annum.

The project was estimated (August 1977) to cost Rs. 45 lakhs and the plant was expected to go into production by the middle of 1978. The actual expenditure till March 1980 was Rs. 49.48 lakhs; commercial production commenced only in April 1980. The company became a subsidiary of Keltron in August 1979.

Summing up

(i) The Company incorporated in September 1972 with the main object of promoting and developing electronic industries, was having seven subsidiaries and five associate companies (March 1980). These Companies except Keltron Counters Limited were promoted by the Company for implementing various letters of intent and industrial licences for the manufacture of various electronic products.

(ii) The Company had been defaulting the repayment of instalments of principal and payment of interest on loans from the Central and State Governments resulting in the levy of Rs. 3.41 lakhs as penal interest.

(iii) Funds raised against debenture bonds were invested in low yielding short-term deposits instead of utilising them to reduce the bank borrowings under the cash credit limit. This involved avoidable payment of interest of Rs. 1.65 lakhs.

(iv) The Company's investment in 7 subsidiaries and 5 associate companies amounted to Rs. 830.69 lakhs; only eight companies had commenced production.

(v) The Company sold 18,039 TV receivers to ECIL at rates below cost resulting in a loss of Rs. 8.92 lakhs up to March 1980.

(vi) Shortfall in realisation of excise duty from ECIL amounted to Rs. 2.35 lakhs.

(vii) Out of 25 models of calculators introduced into the market during the years up to March 1980, 17 models were sold at prices below cost, resulting in a loss of Rs. 10.33 lakhs during the three years up to 1979-80.

(viii) During the 3 years up to 1979-80 the sale of items produced in Industrial Electronics Production Unit to that estimated in the Project Report, varied from 24.9 to 39.9 *per cent.*

(ix) Picture tubes were being purchased against 100 *per cent* advance payment. The Company had received up to 1978-79 rejected tubes valuing Rs. 1.28 lakhs. The Company's claim (May 1979) for refund of the cost had not been settled so far.

(x) Out of 12 dealers, 5 dealers were issued with credit notes for Rs. 1.02 lakhs (March-December 1977) in order to compensate them for reduction in sale price of calculators effected from October 1976 without verification that the dealers had not already sold the calculators stated to have been purchased at higher rate.

(xi) The actual sales during three years up to 1979-80 lagged behind the targets of sales.

(xii) There was heavy accumulation of finished (Rs. 4.43 lakhs) and obsolete goods (Rs. 7.34 lakhs).

(xiii) The Company could not commence commercial production of electronic printers (expenditure on project: Rs. 17.72 lakhs) due to technical problems, though the Company evolved the technical know-how, received the licence in April 1976 and the trial production commenced in 1976-77.

(xiv) The Company had set up a Testing and Development Centre at Trivandrum and had acquired assets worth Rs. 31.90 lakhs. The revenue earnings of the Centre declined from Rs. 4.58 lakhs in 1977-78 to Rs. 3.09 lakhs in 1978-79 and to Rs. 0.12 lakh in 1979-80.

(xv) Out of 7 subsidiaries and 5 associate companies, 8 companies which commenced production, were incurring losses. The accumulated loss in the case of Keltron Counters Limited and Keltron Projectors Limited (Rs. 131.33 lakhs) had exceeded the paid-up capital (Rs. 53.91 lakhs).

(xvi) In the case of Keltron Counters Limited, the percentage utilisation of installed capacity varied from 9.1 to 17.8 during the three years up to 1979-80.

(xvii) In the case of Keltron Crystals Limited, the utilisation of installed capacity varied from 32.3 to 43.6 *per cent* during the 3 years up to 1979-80.

(xviii) Keltron Crystals Limited exported 4,200 crystals (value:Rs. 0.51 lakh) against an order for 10,000 crystals to a UK firm which had not been accepted by the buyer as the same failed in stability tests. The crystals had been brought back to India and were under clearance. The balance quantity of 5,800 crystals manufactured against the order was lying undisposed of.

(xix) In the case of Keltron Magnetics Limited, set up for production of colour TV delay lines, the actual utilisation of the installed capacity was very low as the foreign firm which had earlier offered to buy the entire production for 5 years, backed out. There was no domestic demand for the product.

(xx) The import of a machinery not required for its production line by Keltron Magnetics Limited and subsequent re-export thereof resulted in a loss of Rs. 2.17 lakhs.

SECTION III

THE TRAVANCORE-COCHIN CHEMICALS LIMITED

3.01. Introduction

The Travancore-Cochin Chemicals Limited was incorporated in November 1951 with the main object of undertaking manufacture and sale of caustic soda, other allied chemicals and by-products. It took over (December 1951) the Travancore and Mettur Chemicals, a partnership firm engaged in the setting up of a caustic soda plant. The caustic soda plant was installed by December 1953 and commercial production commenced in January 1954. At present the Company is engaged in the manufacture of caustic soda, sodium hydrosulphite, sodium sulphide and chlorine.

The working of the Company was reviewed in Section III of the Audit Report (Commercial) for the year 1973-74. The implementation of the Fourth Stage Expansion Scheme and subsequent production performance of the Company up to 1976-77 were also discussed in Section V of the Audit Report (Commercial) for the year 1976-77.

3.02. *Organisational set up*

As on 31st March 1980, there were ten directors including the Chairman and Managing Director. The Chairman and Managing Director was nominated by Government and two directors were nominated by the financial institutions. Two officers of Government, three officers of other Government Companies, an officer of the State Bank of Travancore and a director of a private sector company were the other directors.

The Chairman and Managing Director is the chief executive of the Company.

3.03. Capital structure

3.03.1. *Share Capital*

The authorised capital of the Company was Rs. 8 crores divided into 80,00,000 equity shares of Rs. 10 each. The paid-up capital as on 31st March 1980 was Rs. 634.75 lakhs.

3.03.2. *Borrowings*

The borrowings of the Company (including the cash credit and deferred payment credit) as on 31st March 1980 are indicated below:—

Source	*Long-term loans*	*Other loans*	*Total*
		(Rupees in lakhs)	
1. State Government (Rs. 32.73 lakhs—unsecured)	32.98	..	32.98
2. Loans from the consortium of financial institutions			
(i) Industrial Development Bank of India	465.00	..	465.00

Source	Long-term loans	Other loans	Total
	(Rupees in lakhs)		
(ii) Industrial Finance Corporation of India	136.25	..	136.25
(iii) Life Insurance Corporation of India	100.00	..	100.00
(iv) State Bank of Travancore	275.00	..	275.00
(v) Indian Overseas Bank	125.00	..	125.00
3. Kerala State Industrial Development Corporation Limited (unsecured)	67.00	..	67.00
4. Trade bills discounted	..	31.47	31.47
5. Others—Material loan	..	2.85	2.85
Total	1,201.23	34.32	1,235.55

The debt-equity ratio of the Company was 1.74:1 in 1977-78, 1.84:1 in 1978-79 and 1.89:1 in 1979-80. As the Company had been incurring losses from 1972-73 to 1978-79, the repayment of principal (Rs. 443.25 lakhs) and payment of interest (Rs. 535.97 lakhs) for the period from 1975-76 to 1979-80 fell into arrears. The penal interest payable for delayed payment amounted to Rs. 42.32 lakhs.

The financial institutions agreed (June 1980) to grant the following concessions to enable the Company to tide over the financial crisis:

(i) funding of interest arrears amounting to Rs. 535.97 lakhs free of interest, till the loan amount was repaid fully as per the revised schedule of payments; and

(ii) reduction in the rate of interest to the extent of 1.5 to 3 *per cent* on the various loans effective from April 1980.

3.04. Financial position

The table below summarises under broad headings the financial position of the Company for the three years up to 1979-80:—

		1977-78	1978-79	1979-80
			(*Rupees in lakhs*)	
	Liabilities			
(a)	Paid-up capital	634.75	634.75	634.75
(b)	Reserves and surplus	0.39	0.39	5.09
(c)	Borrowings (including cash credit)	1,277.53	1,393.43	1,235.55
(d)	Trade dues and other liabilities (including provision)	538.54	584:25	786.17
	Total	2,451.21	2,612.82	2,661.56
	Assets			
(a)	Gross block	2,171.46	2,171.14	2,210.76
(b)	*Less*: Depreciation	1,023.15	1,167.23	1,307.79
(c)	Net fixed assets	1,148.31	1,003.91	902.97
(d)	Development projects (capital work-in-progress)	187.10	236.15	299.05
(e)	Investments	0.80	0.80	1.00
(f)	Current assets, loans and advances	463.01	585.72	672.30
(g)	Accumulated loss	651.99	786.24	786.24
	Total	2,451.21	2,612.82	2,661.56
	Capital employed	1,126.90	1,064.95	854.32
	Net worth	(—) 16.85	(—) 151.10	(—) 146.40

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.

3.05. Working results

The following table gives a summary of the working results of the Company for the 3 years up to 1979-80:—

Particulars	1977-78	1978-79 (Rupees in lakhs)	1979-80
A. INCOME			
Sales	637.61	737.83	1,025.68
Provision for contingencies transferred	10.93	..	..
Other income	21.33	28.86	30.45
Total	669.87	766.69	1,056.13
B. EXPENDITURE			
Opening stock of finished goods	47.97	24.26	24.54
Raw materials consumed	150.10	170.90	176.84
Power, fuel, stores and repairs	215.55	176.05	281.79
Salaries, wages, bonus and other welfare expenses	151.38	152.30	162.45
Excise duty	52.83	62.61	93.79
Interest and finance charges	158.53	168.89	172.03
Selling, administrative and other expenses	25.06	22.94	23.73
Depreciation	151.39	147.52	141.99
Total	952.81	925.47	1,077.16
Less: Closing stock of finished goods	24.26	24.54	25.74
Net expenditure (cost of sales)	928.55	900.93	1,051.42
C. Profit (+)/Loss (—)	(—) 258.68	(—) 134.24	(+) 4.71
Percentage of profit to sales	..	..	0.46

The product-wise profit (+)/loss(—) on the sales of various products of the Company for the 3 years up to 1979-80 as per cost accounts maintained by the Company are given below:—

Name of the product	*Profit(+)/loss(—)*		
	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
Caustic soda lye	(—) 126.85	(—) 76.17	(+) 43.60
Caustic soda solid	(—) 24.96	(—) 12.79	(—) 2.04
Caustic soda flakes	(—) 40.81	(—) 40.30	(+) 3.91
Sodium hydrosulphite	(—) 34.90	(—) 10.88	(—) 16.92
Sodium sulphide	(—) 14.47	(—) 13.63	(—) 24.27
Net results as per cost accounts	(—) 241.99	(—) 153.77	(+) 4.28
Adjustment of expenditure (—)/ income (+) not taken into accounts	(—) 16.69	(+) 19.53	(+) 0.43
Net results as per profit and loss account	(—) 258.68	(—) 134.24	(+) 4.71

3.06. Production performance

3.06.1. *Caustic soda*

Raw materials for the production of caustic soda and chlorine are salt, electricity and water. In the mercury cell process, which produces high quality rayon grade material, salt is purified in solution and is split up into sodium and chlorine by electrolysis. The sodium is dissolved in mercury as an amalgam, and in the second stage of re-action, this amalgam is reacted with distilled water to produce caustic soda. Caustic soda is a basic alkali used in the manufacture of articles of daily use like soap, paper and textiles.

The Company initially started commercial production with an installed capacity of 20 tonnes of caustic soda per day which on the completion of the fourth stage expansion (October 1975 had increased to 180 tonnes per day. Actual production in the old (up to the third stage expansion) and new plants for the three years up to 1979-80 as compared to installed capacity and budgeted production is indicated below:—

	1977-78			1978-79			1979-80		
	Old plant	*New plant*	*Total*	*Old plant*	*New plant*	*Total*	*Old plant*	*New plant*	*Total*
					(*in tonnes*)				
Installed capacity	26400	33000	59400	26400	33000	59400	26400	33000	59400
Budgeted production	17770	23850	41620	15790	25410	41200	14200	27000	41200
Actual production	11234	16206	27440	10248	16635	26883	10977	20025	31002
					(*per cent*)				
Percentage of actual production to installed capacity	42.6	49.1	46.2	38.8	50.4	45.3	41.6	60.7	52.2

The production of caustic soda depends upon the number of cells operated and the electric load (in kilo amperes) charges in the plant. On a review in audit (September 1980) of the daily cell operation statements, it was found that the number of cells available for operation and the electric load at which the cells were operated were much less than the number of cells provided and the designed electric load of the plants, resulting in lower utilisation of installed capacity of the plants as per details below:—

	Old plant		
	25 *KA* *cell unit*	50*KA* *cell unit*	135*KA* *cell unit*
		(*Numbers*)	
Total number of cells in the units	25	38	22
Average number of cells operated			
1977-78	11	26	18
1978-79	10	24	18
1979-80	8	26	20

* Calculated on the basis of 330 working days in a year.

	Old plant		
	25 *KA* cell unit	50 *KA* cell unit	135 *KA* cell unit
Range of load at which the cells were operated	(*Kilo amperes*)		
1977-78	18-20	37-40	97-114
1978-79	18-20	35-38	94-103
1979-80	16-17	40-45	99-113

In respect of the old plant, the low availability of the cells and the low load operation from 1977-78 to 1979-80 were attributed by the Management (August 1980) to corroded conditions of the cells in the plant. In respect of the new plant, the low availability of cells during 1977-78 was attributed to the defective assembly of anodes in the cells, defects in the cell switches etc. The defects in rectifier transformers were stated by the Management (September 1980) to be the main constraints in increasing the load on cells during 1978-79 and 1979-80.

The Company decided (January 1980) to implement a programme to modernise the old plant at an estimated cost of Rs. 150 lakhs in order to attain the rated capacity, improve process efficiency and effect reduction in future maintenance cost. The programme which was to be completed by November 1980 had not so far (July 1981) been completed. The delay was attributed by the Management (January 1981) to (i) delay in receipt and repair of cell components from suppliers and (ii) delay in carrying out modification of the design. The expenditure on modification programme up to the end of 1979-80 amounted to Rs. 36.70 lakhs. The Company reported (January 1979) to the State Government that the problems of the new plant had been diagnosed and corrective steps were taken to bring the plant to full production towards the end of 1978-79. The corrective steps involved mainly repairs and replacements of circuit switches and certain other essential repairs and replacements such as replacement of anodes in cells, make up of mercury level in cells, for which Government disbursed an amount of Rs. 30 lakhs in March 1979. The Company could, however, replace only 12 out of 22 switches up to 1979-80. The Management stated (December 1980) that the remaining switches would be replaced in a phased programme. According to the Company (April 1981) an expenditure of Rs. 39.40 lakhs was incurred in connection with the works.

3.06.2. *Low concentration of caustic soda lye*

The caustic soda lye produced in the electrolystic cells is either sold as lye or further concentrated to give caustic soda in solid or flake form. If the concentration is low, extra expenditure has to be incurred in evaporating the excess water to produce solids or flakes. The extra consumption of furnace oil has been dealt with in paragraph 3.08.6(b).

The table below gives the percentage of caustic soda content in the caustic lye produced for the 3 years up to 1979-80 against the normal concentration of 45 to 48 *per cent*.

Year	*Old plant*		*New plant*
	25 *KA cell unit*	50 *KA cell unit*	135 *KA cell unit*
	(*Percentage of concentration*)		
1977-78	34.5	37.7	45.9
1978-79	28.8	38.8	38.4
1979-80	27.0	42.8	40.7

The Management attributed (September 1980) the low concentration of caustic soda lye in 25 KA cell unit during 1977-78 to 1979-80 to—

—non-availability/low availability of cells with horizontal decomposers;

—cell operation at lower loads; and

—frequent power interruptions.

In the case of 50 KA cells and 135 KA cells low concentration during the period from 1977-78 to 1978-79 was attributed by the management to—

—frequent interruptions in production;

—maintenance of lower loads on cells; and

—mercury overflow problem (in 135 KA cells).

The Company agreed to sell to a private company in Calicut caustic soda lye with a minimum concentration of 45 *per cent*. According to the agreement, the Company was to allow rebate to the buyers at Rs. 4 to Rs. 12 per tonne for shortfall in the percentage of concentration of caustic soda lye. The rebate allowed to the buyer in respect of 12,000 tonnes of soda lye supplied by the Company amounted to Rs. 0.51 lakh for the period from April 1978 to March 1980.

3.06.3. *Chlorine*

Chlorine is a by-product in the manufacture of caustic soda. A part of the chlorine so produced is burnt with hydrogen to make hydrochloric acid (HCl) and another is liquified for sale as liquid chlorine. Chlorine is used for purification of water, bleaching and as base for insecticides, plastics and organic chemicals.

The details of production and utilisation of chlorine for the 3 years up to 1979-80 are given below:—

	Production	*Utilisation for*		*Total*	*Percentage of utilisation to production*
		HCl acid and HCl gas	*Liquid chlorine*		
			(*in tonnes*)		
1977-78	24,147	10,710	5,281	15,991	66.2
1978-79	23,657	10,257	6,008	16,265	68.7
1979-80	27,824	10,713	6,336	17,049	61.3

Chlorine gas which could not be utilised had to be rendered harmless by treating with burnt lime. Expenditure of Rs. 20.76 lakhs, Rs. 14.40 lakhs and Rs. 17.60 lakhs was incurred by the Company during the 3 years up to 1979-80 respectively on this account.

3.06.4. *Sodium hydrosulphite*

Sodium hydrosulphite is produced by the reaction of zinc dust with liquid sulphur dioxide and the conversion of zinc hydrosulphite so formed into sodium hydrosulphite by double decomposition with caustic soda solution. The chemical finds application in textile industry, principally when using vat dyestuffs for lightening or levelling out dyeings, stripping dyed shades, pre-reducing vat dyestuffs in textile, printing and also in sugar industry as a strong bleaching and reducing agent.

The following table indicates the installed capacity, budgeted production and actual production of sodium hydrosulphite for the 3 years up to 1979-80:—

	Installed capacity	*Budgeted production* (*in tonnes*)	*Actual production*	*Percentage of production to installed capacity*
1977-78	2,100	1,020	242	11.5
1978-79	2,100	900	352	16.8
1979-80	2,100	360	110	5.2

The Management stated (September 1980) that the demand for sodium hydrosulphite was very poor in the face of severe competition, as other manufacturers were following cheaper method of manufacture while the Company was following a costlier method, *viz.*, zinc processing. However,this does not justify the low production as the actual production was as low as one third of the budgeted quantity for the three years in succession.

3.06.5. *Sodium sulphide*

The sodium amalgam produced by electrolysis of sodium chloride brine is heated with polysulphide solution when the sodium from the amalgam is converted into sodium sulphide. Sodium sulphide finds application in tanning operations, textile dyeing and printing photography and other industries.

The following table indicates the installed capacity and budgeted/actual production of sodium sulphide during the 3 years up to 1979-80:—

	Installed capacity	*Budgeted production* (*in tonnes*)	*Actual production*	*Percentage of capacity utilisation*
1977-78	2,100	1,775	573	27.3
1978-79	2,100	1,200	456	21.7
1979-80	2,100	600	342	16.3

The Management attributed (September 1980) the shortfall in production to lack of demand caused by the introduction of cheaper sodium sulphide in the market and poor performance of the plant. The Company had not evolved any programme for achieving greater utilisation of plant capacity (July 1981).

3.07. Sales

3.07.1. *Pricing policy*

While the price of caustic soda is fixed with reference to the Alkali Manufacturers' Association's decision, the Company fixed its own sale price for sodium hydrosulphite and sodium sulphide.

The Company sells caustic soda and sodium sulphide direct to its customers. Sodium hydrosulphite was marketed outside the State through a commission agent.

Sales were effected on ex-factory basis. A maximum credit period of 30 days was allowed to bulk consumers except in the case of one customer for whom a credit period of 45 days was allowed. The Company had entered into long-term agreement with other companies within the State for sale of chlorine and chlorine products.

3.07.2. *Sales performance*

The table below indicates budgeted and actual sales during the 3 years up to 1979-80:—

	1977-78			1978-79			1979-80		
	Budgeted (*in tonnes*)	*Actuals*	*Shortfall (percentage)*	*Budgeted* (*in tonnes*)	*Actuals*	*Shortfall (percentage)*	*Budgeted* (*in tonnes*)	*Actuals*	*Shortfall (percentage)*
A. Caustic soda products									
Caustic soda lye	30,900	20,212	34.6	23,000	19,797	13.9	28,000	22,497	19.7
Caustic soda solid	1,825	2,470	..	7,700	1,075	86.0	4,400	2,207	49.8
Caustic soda flakes	6,980	4,068	41.7	7,750	4,793	38.2	7,600	4,957	34.8
B. Other products									
Hydrogen chloride gas	7,200	4,966	31.0	7,200	4899	31.9	8,600	6,134	28.7
Hydrochloric acid 100 *per cent*	5,867	5,132	12.5	9,780	4,799	50.9	7,800	3,933	49.6
Liquid chlorine	9,600	5,282	45.0	11,250	6,007	46.6	9,200	6,329	31.2
Sodium hydrosulphite	1,070	289	73.0	900	323	64.1	360	89	75.3
Sodium sulphide	1,810	620	65.7	1,200	438	63.5	600	353	41.2
Total	65,252	43,039	34.0	68,780	42,131	38.7	66,560	46,499	30.1

The shortfall in sales was attributed (September 1980) by the Management to shortfall in demand combined with problems encountered in production such as low availability of cells. However, a report forwarded (June 1978) to Government by the Company indicated "Although to a large extent, marketing was pointed as the major problem of Travancore-Cochin Chemicals Limited, an investigation showed that during the same period, the caustic soda industry as a whole in India had above 70 *per cent* capacity utilisation (despite power cuts suffered by units outside Kerala). During January to June 1978, the capacity utilisation of Travancore-Cochin Chemicals Limited was only 36 *per cent* as against the industry average of 75 *per cent*. Hence it was difficult to accept that marketing was the most important problem".

3.07.3. *Sale of hydrochloric acid*

The Company concluded an agreement (August 1977) with a joint sector undertaking to supply mercury-free hydrochloric acid of 30 *per cent* strength for a period of 20 years. According to the agreement, the supply was to commence in October 1978 and the quantity to be supplied was 5,000 tonnes per annum with an option to the buyer to increase the purchases up to 30,000 tonnes per annum. The Company had approved (March 1977) a project for the manufacture of mercury-free hydrochloric acid for effecting supply to the joint sector undertaking, and applied for industrial licence in April 1977. Due to delayed receipt (April 1978) of industrial licence, the project which was expected to be commissioned in October 1978 could be commissioned only in February 1980.

According to the agreement (August 1977) the Company was entitled to a revision in the price of acid based on increase in electricity charges and cost of salt as per the prescribed formula at an interval of every two years from the date of agreement (5th August 1977). Based on the price escalation formula, the price of acid should have been increased by Rs. 33.23 per tonne from 5th August 1979. But no such revision was carried out and the short-realisation in respect of 3,383 tonnes of acid supplied up to June 1980 amounted to Rs. 1.12 lakhs.

Taking into consideration the fact that the buyer had to procure 3,139 tonnes of mercury-free acid from other sources till the Company started regular supplies, the Board decided (April 1980) that the Company would offer the concession of not revising the price till an equivalent quantity which the buyer procured from other sources was supplied.

Government stated (March 1981) that "as a policy to keep best customer relationship, the decision of the Board to revise the price only with effect from July 1980 was justified and equitable." However, as there was no contract to supply any specified quantity at a specified price, the concession was gratuitous.

The Company proposed (October 1980) to the buyer that the biennial increase in price of Rs. 33.23 per tonne as per the terms of the agreement would be made effective for supplies made from 1st July 1980.

The Company supplied 7,689 tonnes of acid during the period from July 1980 to June 1981 and the claim towards increase in price amounted to Rs. 2.55 lakhs. The buyer had not accepted the claim so far (June 1981).

3.07.4. *Inventory control and material management*

The following table indicates the comparative position of inventory at the close of the 3 years up to 1979-80:—

	1977-78	1978-79	1979-80
		(Rupees in lakhs)	
Raw materials (including those in transit)	59.42	104.55	95.35
Stores and spares (including those in transit)	149.09	162.66	172.93
Finished goods	24.26	24.53	25.74
Other tools and equipment	0.82	0.73	0.78
Total	233.59	292.47	294.80

Raw materials, stores and spares in stock at the end of 1979-80 represented 13.97 months' consumption as compared to 15.15 months' and 13.26 months' consumption for 1978-79 and 1977-78 respectively.

The number of items in stock was about 5,800 at the end of 1979-80. Though the perpetual inventory system of stock verification was followed, the number of items not physically verified were 1,079 (Rs. 13.26 lakhs) in 1977-78 and 1,716 (Rs. 12.97 lakhs) in 1978-79. The Company engaged (November 1979) a consultancy firm of Madras to decide and implement proper material management system for a lumpsum fee of Rs. 0.50 lakh. The consultants could not, however, finalise movement analysis, ABC analysis, fixing of economic order quantity, fixing of maximum/minimum and re-order point levels of various items of stores as laid down in the terms of their appointment. An amount of Rs. 0.45 lakh was paid to them in September 1980. Payment of a substantial part of the remuneration when several items of work were not completed, lacked justification.

The consultants had also conducted physical verification of 4,100 items of stock during 1979-80. The net shortage of stores revealed during physical verification was fixed at Rs. 17.47 lakhs (surplus: Rs. 24.21 lakhs and shortage: Rs. 41.68 lakhs) and the amount was written off the accounts in 1979-80. The shortage was attributed by the Management (July 1980) to improper documentation of the transactions for the past several years.

The Company subsequently (September 1980) identified 1,000 items which could not be identified and verified by the consultants. However, the shortages/excesses had not yet been reconciled and adjusted (March 1981).

The consultants had furnished (March 1980) a list of 308 items of stores valued at Rs. 1.65 lakhs as non-moving. No action had been taken for the disposal of non-moving stock (March 1981).

Para up to 3.07.4 discussed on 23/4/84 & 24/4/84.

3.08. Excess consumption of materials

3.08.1. *Common salt*

According to the guaranteed norms prescribed by the manufacturers, the rate of consumption of common salt for the production of 1 tonne of caustic soda in the old plant and in the new plant is 1.5551 tonnes and 1.524 tonnes respectively. The Company had fixed the norms as 2.00 tonnes and 1.90 tonnes respectively so as to cover the handling and storage loss and the impurities in the salt procured. The table below gives the particulars of consumption of common salt for the 3 years up to 1979-80 which was in excess of even the higher norms fixed by the Company:—

	1977-78		1978-79		1979-80	
	Old plant	*New plant*	*Old plant*	*New plant*	*Old plant*	*New plant*
			(in tonnes)			
Caustic Soda produced	11,234	16,206	10,248	16,635	10,977	20,025
Norms fixed by the Company	2	1.9	2	1.9	2	1.9
Quantity required as per norms fixed by the Company	22,468	30,791	20,496	31,607	21,954	38,048
Actual consumption of common salt	58,193		53,741		62,442	
Excess consumption over norms fixed by the Company	4,934		1,638		2,440	
			(Rupees)			
Rate per tonne of common salt	131		183		175	
			(Rupees in lakhs)			
Value of excess consumption over norms fixed by the Company	6.46		3.00		4.27	

The Management ascribed the following reasons (September 1980) for the excess consumption:—

— transhipment, handling and storage loss of salt;

— loss of brine during washing of purification plant, cleaning of reaction tank and washing salt pit.

The State Government cited (March 1981) the following reasons for the excess consumption:—

— frequent power interruption and voltage drops resulting in loss of brine from the system;

— not cleaning the reaction tanks in plant I periodically resulting in loss of brine;

— high handling loss while transferring salt from the storage to the elevators due to long distance involved; and

— heaping of salt outside the godown as godown space was limited.

The Government further stated that these aspects were under study and remedy would be worked out when the salt storage and handling problem was tackled.

Since the points referred to above were expected to be known to the Company when it fixed the revised norms, the excess consumption over and above the revised norms was not justifiable.

3.08.2. *Mercury*

Mercury is used as cathode for electrolysis in the production of caustic soda. Though it does not form part of the product, a small quantity is used up in the manufacturing process. The cost of mercury issued to replenish the cells for loss in manufacturing process is charged off to revenue annually on the basis of standard rates fixed by the Company.

An assessment of the physical balance of mercury in the plant was conducted only once, at the end of 1979-80. The table below gives the details of consumption of mercury since inception up to 1979-80, in the production of caustic soda which was in excess of the design norms and norms fixed by the Company:—

		Old plant	*New plant*
1.	Production of caustic soda (in tonnes)	3,60,920	75,269
		(*Kilograms*)	
2.	Guaranteed norm per tonne of caustic soda	0.155	0.022
3.	Norms fixed by the Company per tonne of caustic soda	0.350	0.150
4.	Quantity required as per guaranteed norms	55,943	1,656
5.	Quantity required as per norms fixed by the Company	1,26,322	11,290

	Old plant	New plant
	(kilograms)	
6. Actual consumption	1,82,495*	47,372
7. Excess consumption based on guaranteed norms	1,26,552	45,716
8. Excess consumption based on the norms fixed by the Company	56,173	36,082

The cost of excess consumption on the basis of guaranteed norms amounted to Rs. 244.62† lakhs and to Rs. 131 lakhs on the basis of norms fixed by the Company. While the excess consumption in the old plant occurred during a period of 26 years (January 1954 to March 1980), the excess consumption in the new plant occurred within a period of 5 years (October 1975 to March 1980).

3.08.3. *Power*

The Company manufactures caustic soda by electrolysis of purified sodium chloride by using AC power converted in the rectifier into DC power for electrolysis. The table below gives the particulars of guaranteed norms, norms fixed by the Company, power consumed and excess power consumed for the 3 years up to 1979-80:—

	1977-78		1978-79		1979-80	
	Old plant	*New plant*	*Old plant*	*New plant*	*Old plant*	*New plant*
	(*Kwh per tonne of caustic soda produced*)					
Guaranteed norms	3250	2950	3250	2950	3250	2950
Norms fixed by the Company	3400	3000	3400	3000	3400	3000
Power consumed	3714	3266	3713	3107	3838	2977
Excess consumption of power over norms fixed by the Company (D C)	314	266	313	107	438	..
Excess consumption converted to AC power	337	280	336	112	471	..
	(*paise*)					
Rate per unit paid to the Kerala State Electricity Board	5.16	4.39	6.34	6.10	7.07	6.63
	(*Rupees in lakhs*)					
Value of excess consumption of power	1.95	1.99	2.18	1.13	3.66	..

* After deducting 8541 kgs. of mercury utilised for the manufacture of sodium sulphide.

† Excess consumption valued at Rs. 140 per kg., the rate prevalent at the end of 1979-80, when the excess consumption came to notice.

The extra expenditure due to excess consumption of power amounted to Rs. 3.94 lakhs in 1977-78, Rs. 3.31 lakhs in 1978-79 and Rs. 3.66 lakhs in 1979-80.

The Management stated (September 1980) that in the old plant the control of individual cell voltage was carried out manually and this resulted in excess consumption of power. According to the Management (September 1980), the difference between the standard and actuals in the new plant was only nominal. Government stated (March 1981) that the Company would be in a position to control power consumption in the old plant after completing the modernisation, and that the excess consumption in the new plant was due to technical problems which had since been tackled.

3.08.4. *Zinc dust*

The following table indicates the details of zinc dust required as per norms fixed and actual consumption thereof for the production of sodium hydrosulphite for the 3 years up to 1979-80:—

	1977-78	1978-79	1979-80
		(in tonnes)	
Total production	242	352	110
Zinc dust required as per standard (510 kgs/tonne)	123.42	179.52	56.10
Actual consumption	133.45	168.20	58.00
Excess consumption	10.03	..	1.90
		(Rupees)	
Rate per tonne	17,533.51	..	16,425.00
		(Rupees in lakhs)	
Value of excess consumption	1.76	..	0.31

The Management stated (September 1980) that the working of the plant at a reduced capacity and interruptions in production had resulted in excess consumption of the material.

3.08.5. *Sulphur dioxide*

The following table gives the details of sulphur dioxide required as per norms fixed and actual consumption thereof in the manufacture of sodium hydrosulphite during the 3 years up to 1979-80:—

	1977-78	1978-79 (*tonnes*)	1979-80
Production of sodium hydrosulphite	242	352	110
Quantity of sulphur dioxide required-910 kgs/tonne as per standard	220.220	320.320	100.100
Actual consumption	244.505	327.700	115.000
Excess consumption	24.285	7.380	14.900
		(*Rupees*)	
Rate per tonne	2,522.34	2,813.11	3,872.00
		(*Rupees in lakhs*)	
Value of excess consumption	0.61	0.21	0.58

The Management stated (September 1980) that the working of hydrosulphite plant at a lower rated capacity led to excess consumption of sulphur dioxide.

3.08.6. *Furnace oil*

Furnace oil is used in the caustic concentration fusion (CCF) plant and boiler house. The steam produced in the boiler is consumed for heating up of brine, sodium hydrosulphite and sodium sulphide plants.

(a) The following table indicates the details of furnace oil required as per norms fixed, actual consumption thereof and excess consumption in the boiler during the 3 years up to 1979-80:—

	1977-78	1978-79 (*kilo litres*)	1979-80
1. Required as per norms fixed			
(i) Heating up of brine (caustic)	80.000	80.000	80.000
(ii) Heating up of CCF plant	80.000	80.000	80.000

		1977-78	1978-79 (kilo litres)	1979-80
(iii)	For production of sodium hydrosulphite (1.5 kilo-litre per tonne)	363.612	527.933	165.000
(iv)	For production of sodium sulphide (0.35 kilo litre per tonne)	200.537	159.734	119.700
(v)	For normal wastage of steam	180.000	180.000	180.000
	Total	904.149	1027.667	624.700
2.	Actual consumption	2067.970	1676.924	1544.150
3.	Excess consumption	1163.821	649.257	919.450
			(Rupees)	
4.	Average rate per kilo litre	997.70	996.91	1215.64
			(Rupees in lakhs)	
5.	Value of excess consumption	11.61	6.47	11.18

The Management stated (December 1980) that in the absence of a device for measuring steam production, the quantity of steam produced in the boilers and the requirements of steam for the manufacture of various products could not be assessed. The reasons for not introducing any such device were not known.

(b) The following table gives details of furnace oil required as per norms fixed, actual consumption and excess consumption thereof in the CCF plant during the 3 years up to 1979-80:—

		1977-78	1978-79 (tonnes)	1979-80
1.	Production of solid/flakes	5631	5873	7153
			(Kilo litres)	
2.	Furnace oil required at 150 litre per tonne fixed by the Company in July 1978	844.650	880.950	1072.950
3.	Actual consumption	882.411	1000.606	1125.900
4.	Excess consumption	37.761	119.656	52.950
			(Rupees)	
5.	Average rate per kilo litre	997.70	996.91	1215.64
			(Rupees in lakhs)	
6.	Value of excess consumption	0.38	1.19	0.64

Government stated (March 1981) that under the existing conditions, a steady and continuous running was not possible on account of power and other interruptions, operational problems and poor plant conditions which were progressively being tackled.

3.09. Installation of sulphur dioxide plant

3.09.1. *Project estimate*

The company had two plants for the manufacture of sodium hydrosulphite (capacity: 3,000 tonnes) from sulphur dioxide. The Company was obtaining the raw material, *viz.* sulphur dioxide from Fertlizers and Chemicals Travancore Limited. As the supplies were not reliable, one of the plants was rendered idle and the other plant could not be fully utilised. The Company, therefore, decided to have its own captive unit and secured a letter of intent from the Government of India for the manufacture of 25 tonnes per day of liquid sulphur dioxide as also for the expansion of the second hydrosulphite plant from 7 tonnes to 14 tonnes per day; but a decision to prune the installed capacity to 15 tonnes per day had to be taken on account of certain perceptible changes in the market conditions (Project Report—Fourth Stage Expansion—1971).

Later, on account of emergence of cheaper substitutes in the market in the place of sodium hydrosulphite it was decided (December 1978) to explore the possibility of selling the excess production of sulphur dioxide after meeting the captive requirements of cylindered sulphur dioxide. Permission of the Government of India was obtained (February 1980) for the production and selling of cylindered sulphur dioxide from the plant installed for captive consumption. The Company had not made any assessment of the market potential for cylindered sulphur dioxide so far (June 1981). The Company decided (February 1980) to formulate schemes for diversification involving the use of sulphur dioxide. No such scheme had yet been formulated (June 1981).

According to the original estimates (October 1971), the outlay proposed was Rs. 64.70 lakhs (excluding finance charges). As per the revised estimates (September 1974), the proposed outlay, including financing charges (Rs. 18.45 lakhs), was Rs. 194.26 lakhs. As against the proposed outlay, the actual expenditure up to 1979-80 amounted to Rs. 232.91 lakhs, which included interest charges amounting to Rs. 70.12 lakhs.

3.09.2. *Delay in completion*

The Company placed (June 1974) an order with a firm in Calcutta for the design, supply, erection and commissioning of the liquefaction unit of the plant for a lump sum of Rs.15.05 lakhs. The price was increased to Rs. 18.40 lakhs (June 1976) due to modifications in the design of the plant. As per the terms of the contract, the contractor should have completed the installation of the plant before November 1974 and as per the amendment made in June 1976, the installation should have been completed before December 1976. The work had not been completed so far (March 1981). According to the Management (March 1981) the delay was due to

(i) approval of changes to original specification suggested by contractors which necessitated preparation of revised drawings, the approval by consultants, negotiation with contractors on price increase,etc., and

(ii) strike in the premises of contractors which necessitated the transfer of the order for liquefier vessels to another firm.

Due to delay in completion of the installation of the liquefaction plant, the Company lost the benefit of performance guarantee, etc., under some other contracts as indicated below:—

(i) The Company entered into an agreement with a firm in Zurich (March 1973) for the supply of process know-how, basic engineering and technical services. The fee payable to the firm for these services was Sw.Francs 2,81,350 and up to August 1975, Sw. Francs 2,53,215 (Rs. 7,62,557.86) being

90 *per cent* of the agreed price had been paid. The balance 10 *per cent* (Rs. 1,04,600) to be paid within 30 days after the plant has been erected, commissioned and gone into commercial production was paid in April 1980. It was also specified that the validity period of the agreement shall be 5 years from the date of commencement of production, provided production was not delayed beyond three years from the date of signing the agreement. The performance guarantee provided in the agreement became inoperative in March 1976 in view of the above stipulation.

(ii) On the advice of the Zurich firm, the Company entered into an agreement (March 1973) with a Calcutta firm for detailed engineering and other technical services. The contract covered services to be rendered for setting up a liquid sulphur dioxide plant based on the process know-how and basic engineering details supplied by the Zurich firm for a fee of Rs. 2.65 lakhs to be paid in 5 instalments, the last instalment of Rs. 0.15 lakh to be paid after commissioning and guarantee test, but not later than 36 months after signing the agreement. The entire contract price of Rs. 2.65 lakhs was paid as per the agreement before the commissioning of the plant.

(iii) All the imported parts of the plant were obtained in October 1974, at a cost of Rs. 4.51 lakhs (Sw.Francs 1,55,767) supplied by the Zurich firm. The material guarantee period for these items of machinery in terms of the order placed with foreign suppliers (Agreement of March 1973) was 18 months from the date of shipment of the last consignment. The last consignment of this unit was shipped in January 1975, and hence the validity period of the guarantee expired in July 1976.

The project which was to be commissioned in November 1974 had not been commissioned so far (March 1981). The delay in the commissioning of the plant resulted in payment of interest charges amounting to Rs. 70.12 lakhs on idle capital outlay (Rs. 162.79 lakhs) for the period up to 1979-80.

3.10. Credit control

The table below indicates the volume of book debts, sales and percentage of debts to sales as at close of the 3 years up to 1979-80:—

As on 31st March	*Book debts*			*Sales during the year*	*Percentage of debts to sales*
	Considered good	*Considered doubtful*	*Total*		
		(Rupees in lakhs)			
1978	133.95	0.80	134.75	585.00	23.0
1979	178.85	0.86	179.71	674.24	26.7
1980	241.99	0.75	242.74	932.10	26.0

Debtors represented about 2.76 months' turnover during 1977-78, 3.20 months' turnover during 1978-79 and 3.13 months' turnover during 1979-80. Debts as on 31st March 1980 outstanding for more than one year are analysed below:—

	Government Departments/ Companies	*Private parties*	*Total*
		(Rupees in lakhs)	
1. Debt outstanding between one to two years	0.46	4.90	5.36
2. Debts outstanding between two to three years	0.21	1.16	1.37
3. Debts outstanding over three years	0.43	3.30	3.73
	1.10	9.36	10.46

The non-recovery of dues was mainly due to the policy followed by the Company in granting extension of credit period for some major customers on account of financial and marketing problems faced by them to maintain business and retain the Company's market share.

3.11. Man-power analysis

(i) The table below indicates the expenditure on salaries and wages as compared to value of production during the 3 years up to 1979-80:—

Particulars	1977-78	1978-79	1979-80
Number of employees	1091	1091	1128
		(*Rupees in lakhs*)	
Salaries and wages (including fringe benefits)	151.38	152.30	162.45
Value of production	561.30	674.51	933.31
Percentage of salaries and wages to value of production	27.00	22.6	17.4

The increase in value of production was mainly due to increase in selling prices of products.

(ii) The sodium sulphide and sodium hydrosulphite plants were working at a very low capacity during three years due to lack of demand for the products.

Though the plants were working only at intervals, the workers engaged for these plants were deployed throughout the year resulting in payment of idle wages. The following table indicates the total number of skilled and unskilled workers employed, salaries and wages paid compared to value of production in respect of sodium hydrosulphite and sodium sulphide plants for the 3 years up to 1979-80:—

Particulars	1977-78	1978-79	1979-80
Total number of skilled and unskilled workers employed in the two plants at the end of the year	93	86†	73†
Salaries and wages to workers * (Rupees in lakhs)	12.17	12.63	11.43
Value of production (Rupees in lakhs)	62.12	77.13	36.56
Percentage of salaries and wages to value of production	19.6	16.4	31.3

† Represents number of employees after diversion to other plants.

* Excluding salaries and wages paid to supervisory and other administrative personnel.

The Management stated (December 1980) that the employees of these plants were given alternate jobs in 1978-79 and 1979-80. However, it was found that only 3 employees in 1978-79 and 8 employees in 1979-80 were diverted to other plants. Government stated (March 1981) that even though sodium sulphide and sodium hydrosulphite plants were partially idle during these years, the labour could not be offered alternate engagements till 1977-78 due to the resistance of labour unions and that from 1978-79 onwards, the Company had started giving alternate jobs to idle workmen after facing a confrontation with the unions. The Company had not assessed the extent of idle time of labour employed on under-utilised plants.

3.12. Internal Audit

The Internal audit section of the Company is headed by an Internal auditor who is under the overall control of Deputy General Manager (Administration). No manual laying down the scope and function of the Internal audit section has been prepared so far (March 1981).

3.13. Other topics of interest

3.13.1. *Loss due to short collection of Central excise duty*

The Company had been collecting handling charges from customers for sodium hydrosulphite (at Rs. 2.40 per tonne from March 1970 to 22nd September 1974 and at Rs. 25 per tonne from 23rd September 1974 onwards) and caustic soda solid and flakes (at Rs. 50 per tonne from September 1974 onwards) sold to them. According to Central Excise and Salt Act, 1944, excise duty is leviable on handling charges which form an element of the whole sale cash price of the products delivered ex-factory. This was not known to the Company and hence the Central excise duty on handling charges was not collected from the customers. Based on the claim made by the Central Excise Department, the Company remitted (May 1977) a sum of Rs. 0.62 lakh towards excise duty on the element of handling charges in respect of sales for the period from March 1970 to September 1975. The failure to recover Central excise duty from customers in accordance with statutory provisions resulted in a loss of Rs. 0.62 lakh.

3.13.2. *Irregular payment to a contractor*

The contract for the supply, fabrication and rubber-lining of pipes and fittings of the caustic chlorine plant under the fourth stage expansion scheme was awarded (January 1974) to a Madras firm at a cost of Rs. 12.57 lakhs and an advance payment of Rs. 3.77 lakhs was made. Though the prices were firm, the contractor demanded (April 1974) 40 *per cent* increase in the price of certain components (bends of ASTM standards) on the plea that there was a mistake in their quotation about the quality of the material to be supplied. The Board in their meeting (June 1976) agreed to meet 50 *per cent* of the increase in price demanded by the contractor. The extra expenditure to the Company due to the acceptance of the claim for price increase not envisaged in the contract amounted to Rs. 0.46 lakh.

3.13.3. *Loss on sale of graphite slabs and rods*

The Company sold (April-May 1978) 6,612 kgs. (240 numbers) graphite slabs and 528 kgs. (240 numbers) graphite rods to a firm at Calcutta. Of this, 3,306 kgs. (120 numbers) were imported graphite slabs. The sale price of Rs. 37.50 per kg. for slabs and Rs. 72.10 per kg. of rods was fixed by taking current price plus 5 *per cent* escalation till re-procurement plus carrying cost at 15 *per cent* for 18 months plus handling charges at 5 *per cent*.

The Company placed an order (October 1979) with a Japanese firm for purchase of graphite slabs and rods of the same sizes as those sold to the Calcutta firm. The average cost of the imported graphite slabs and rods were Rs. 47.63 and Rs. 80.40 per kg. respectively. The disposal of the essential store materials in April–May 1978 and subsequent import at a higher cost resulted in an extra expenditure of Rs. 0.71 lakh.

Summing up

(i) The Company incurred losses of Rs. 258.68 lakhs and Rs. 134.24 lakhs in 1977-78 and 1978-79 respectively but earned a marginal profit of Rs. 4.71 lakhs in 1979-80. Against the paid-up capital of Rs. 634.75 lakhs, the accumulated loss up to 1979-80 amounted to Rs. 786.24 lakhs (125·9 *per cent* of the paid-up capital).

(ii) The production of caustic soda was below the installed capacity and the percentage of capacity utilisation during the 3 years up to 1979-80 varied from 38.8 to 42.6 and 49.1 to 60.7 for old and new plants respectively.

(iii) The caustic soda produced was also of low concentration resulting in extra expenditure and losses. Against the designed concentration of 45 to 48 *per cent* for caustic soda lye, the percentage of concentration during the three years up to 1979-80 varied from 27.0 to 42.8 and 38.4 to 45.9 for old and new plants respectively which necessitated expenditure on further processing to convert it into solid or flakes.

(iv) The percentage of utilisation of the chlorine produced varied from 61.3 to 68.7. The Company had to incur an expenditure of Rs. 52.76 lakhs during the 3 years up to 1979-80 for treating the surplus chlorine with burnt lime to render it harmless.

(v) The production of sodium hydrosulphite and sodium sulphide during the 3 years up to 1979-80 varied from 5.2 to 16.8 *per cent* and 16.3 to 27.3 *per cent* of installed capacity respectively.

(vi) The actual sales lagged behind the targets during the 3 years up to 1979-80 for all the products.

(vii) The physical verification of stock items conducted by the consultants appointed for the purpose revealed a net shortage of Rs. 17.47 lakhs (shortage: Rs. 41.68 lakhs; excess: Rs. 24.21 lakhs). The Company had 308 items of non-moving stores valued at Rs. 1.65 lakhs (March 1980).

(viii) The consumption of common salt and electric power for the manufacturing of caustic soda exceeded the guaranteed norms and norms fixed by the Company. The value of excess consumption of salt, and electric power during the 3 years up to 1979-80 worked out to Rs. 13.73 lakhs and Rs. 10.91 lakhs respectively. There was an assessment of the physical balance of mercury in the cells only at the end of 1979-80 and based on the physical balance available, the excess consumption of mercury over a period of 26 years worked out to Rs. 131 lakhs.

(ix) The consumption of zinc dust for the production of sodium hydrosulphite during 1977-78 and 1979-80 exceeded the norms and the value of excess worked out to Rs. 2.07 lakhs. Similarly, the excess consumption of sulphur dioxide during the 3 years up to 1979-80 exceeded the norms and the value of excess consumption worked out to Rs. 1.40 lakhs.

(x) The consumption of furnace oil used in boiler during the 3 years up to 1979-80 exceeded the norms fixed and the value of excess consumption amounted to Rs. 29.26 lakhs. Similarly, the value of excess consumption in caustic concentration fusion plant during the 3 years up to 1979-80 worked out to Rs. 2.21 lakhs.

(xi) The sulphur dioxide plant had not been commissioned so far (March 1981) due to delay on the part of a contractor to erect and commission the liquefaction unit of the plant. Due to delay in commissioning the plant, the Company lost the benefit of performance guarantee, *etc.* under some other contracts apart from incurring interest charges amounting to Rs. 70.12 lakhs on the capital outlay of Rs. 162.79 lakhs on the plant up to 1979-80.

(xii) The failure to recover Central excise duty from the customers in accordance with the statutory provisions resulted in a loss of Rs. 0.62 lakh.

(xiii) The Company had disposed of certain items of essential store materials in 1978 and imported the same items subsequently at a higher cost resulting in an extra expenditure of Rs. 0.71 lakh.

SECTION IV

KERALA STATE INDUSTRIAL ENTERPRISES LIMITED

4.01. Introduction

The Kerala State Industrial Enterprises Limited was incorporated on 25th January 1973 as a fully owned State Government Company and started functioning from 1st June 1973. The Company was to act as a holding Company of an identified group of Government owned companies in the State to bring the totality of such companies into a size sufficient to afford top quality management, maximise production, increase profitability and create necessary resources for their growth and contribution to the future development of the State.

4.02. Objects

The main objects of the Company are to carry on the business of an investment Company and for that purpose to acquire and hold either in the name of the Company or in the name of its nominees, shares, stocks and debentures, debenture stock, bonds, *etc.*

4.03. Activities

The following fully owned Government companies became subsidiary companies of the Company in November 1973:—

(i) Kerala Soaps and Oils Limited, Kozhikode

(ii) Kerala Electrical and Allied Engineering Company Limited, Mamala/Kundara

(iii) Travancore Plywood Industries Limited, Punalur

(iv) Trivandrum Rubber Works Limited, Trivandrum

(v) The Kerala Ceramics Limited, Kundara

(vi) Kerala State Drugs and Pharmaceuticals Limited Alleppey

Another company, *viz.* the Kerala State Detergents and Chemicals Limited, Kuttippuram incorporated (January 1975) for the implementation of the project for the manufacture of synthetic detergents, also became a subsidiary of the Company in June 1976.

In March 1976, Government nominated the Company as the agency for the management of Super Clays and Minerals Mining Company (Private) Limited, Cannanore which was declared as a relief undertaking under the Kerala Relief Undertakings (Special Provisions) Rules, 1972. In April 1979, the State Government entrusted to the Company the agency for running an Air Cargo Complex. The Company was also designated (April 1979) as the agency for canalising export of vegetables.

4.04. Organisational set up

The Articles of Association of the Company provide for a maximum of 15 Directors, all of whom including the Chairman are to be nominated by Government. The number of Directors including the Chairman and Managing Director as on 31st March 1980 was 8.

4.05. Capital structure

The authorised capital of the Company is Rs. 8 crores divided into 8,00,000 equity shares of Rs. 100 each. The paid-up capital (including share capital advance) as on 31st March 1980 was Rs. 642.11 lakhs fully subscribed by the State Government.

4.06 Financial position

4.06.1. The table below summarises the financial position of the Company for the 3 years up to 1979-80:—

	1977-78	1978-79	1979-80
Liabilities		(*Rupees in lakhs*)	
(a) Paid-up capital (including advance towards share capital)	412.11	537.11	642.11
(b) Reserves and surplus	0.15	0.26	0.44

		1977-78	1978-79	1979-80
			(Rupees in lakhs)	
(c)	Borrowings			
	(i) Debenture bonds	55.00	55.00	55.00
	(ii) Loans from Government of Kerala	35.00	85.00	221.49
	(iii) Loan from Kerala Toddy Workers Welfare Fund Board	..	..	53.00
(d)	Trade dues and other current liabilities (including provisions)	23.91	19.66	22.97
	Total	526.17	697.03	995.01
	Assets			
(a)	Gross Block	3.43	3.50	3.90
(b)	*Less*: Depreciation	1.20	1.48	1.78
(c)	Net fixed assets	2.23	2.02	2.12
(d)	Investments	63.60	142.40	234.06
(e)	Current assets, loans and advances	460.28	552.61	758.83
(f)	Miscellaneous expenditure	0.06	..	..
	Total	526.17	697.03	995.01
	Capital employed	423.98	589.82	824.71
	Net worth	412.20	537.37	642.55

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

2. Net worth represents paid-up capital *plus* reserves and surplus *less* intangible assets.

4.06.2. *Diversion of funds*

The Company negotiated a loan of Rs. 100 lakhs at 11.5 *per cent* interest per annum from Kerala Toddy workers Welfare Fund Board during the period from January to

May 1980 (Rupees 53 lakhs received up to March 1980) for the following:—

		(*Rupees in lakhs*)
(i)	Purchase of balancing equipment for increasing hydrogenation capacity (Kerala Soaps and Oils Limited)	14.15
(ii)	Enhancement of soap production (Kerala Soaps and Oils Limited)	21.76
(iii)	Revival of Switchgear division (Kerala Electrical and Allied Engineering Company Limited)	5.00
(iv)	Revival of foundry division (Kerala Electrical and Allied Engineering Company Limited)	10.00
(v)	Decorative veneer project (Travancore Plywood Industries Limited)	21.75
(vi)	Purchase and Installation of oil fired boiler (Travancore Plywood Industries Limited)	10.00
(vii)	Additional cake line (Kerala State Detergents and Chemicals Limited)	12.00
(viii)	Provision for margin money	5.34
	Total	100.00

The loan was guaranteed by the State Government. The Company, however, advanced out of the borrowed funds Rs. 10 lakhs to Trivandrum Rubber Works Limited and Rs. 33 lakhs to the Kerala Ceramics Limited during the period from February to July 1980 (carrying interest at 14 *per cent* per annum) in view of the losses incurred by them and the balance amount of Rs. 57 lakhs was spent towards the execution of the expansion schemes. The Management stated (September 1980) that the two companies incurred cash losses exceeding Rs. 25 lakhs each during 1979-80 for which no funds were made available by Government and that in the absence of diversion, day-to-day operations of these companies would have been impossible.

4.07. Working results

The working results for the 3 years up to 1979-80 are summarised below:—

	1977-78	1978-79	1979-80
		(Rupees in lakhs)	
INCOME			
Interest on loans	16.10	14.12	30.20
Sales *	68.18	54.19	54.41
Management fee	3.40	1.92	0.24
Other income	1.82	6.76	5.13
Total	89.50	76.99	89.98
EXPENDITURE			
Interest on loans	7.06	8.76	15.69
Purchases*	68.18	54.19	54.41
Salaries and expenses	14.17	13.72	19.70
Total	89.41	76.67	89.80
Profit before tax	0.09	0.32	0.18
Tax provision	Nil	0.21	Nil
Profit after tax	0.09	0.11	0.18

* Represents exports of subsidiaries and other companies channelled through the Company.

The Company levied management fees consisting of (i) fixed contribution of Rs. 2,000 per month from each subsidiary company and (ii)fee ranging from Rs. 100 to Rs. 500 per day for the services rendered by the executives of the Company. Recovery of fee for the services of the executives was dispensed with from April 1978 and of the fixed contribution from April 1979.

The Company had not evolved a system of apportionment of the cost of services rendered to the subsidiaries and realising the amount from them. The Company decided not to recover an amount of Rs. 3 lakhs due towards management fee from the 7 subsidiaries for the period from 1974-75 to 1977-78 and to forgo recovery of interest amounting to Rs. 93.97 lakhs due from 4 of them for the period from 1976-77 to 1978-79 as detailed below:—

Name of Company	*Amount of interest due from* 1976-77 *to* 1978-79	*Interest not recovered*
	(*Rupees in lakhs*)	
Kerala Soaps and Oils Limited	30.06	23.04
Kerala Electrical and Allied Engineering Company Limited	39.92	27.81
Trivandrum Rubber Works Limited	38.58	24.98
The Kerala Ceramics Limited	22.94	18.14
Total		93.97

The Management stated (March 1981) that the Company was expected to charge interest on the released funds, if necessary, to the extent the companies were able to pay interest, and not for making profit.

4.08. Expansion Schemes

The table below gives the details of schemes considered for implementation by the subsidiary companies:—

Name of Company undertaking the project	*Particulars of schemes*	*Estimated cost (Rupees in lakhs)*	*Stage of implementation*	*Expenditure incurred up to March 1980 (Rupees in lakhs)*
Kerala State Industrial Enterprises Limited	China clay Complex (a) Wall tiles (b) Insulators (c) Stone-ware pipes (d) Sanitary wares	370.00	Registration of a subsidiary company for implementation of the project was pending.	0.28
Trivandrum Rubber Works Limited	Scooter Tyres	50.00	Project report was received in March 1980 and market study was in progress.	..
Trivandrum Rubber Works Limited	Journal lubricating pad	27.15	According to the Management (March 1981), the project would be commissioned in December 1981.	..
Kerala Soaps and Oils Limited	Soap production and hydrogenation	118.00	The first phase was completed in 1980 and according to the Management (March 1981), the second and third phases would be completed in June 1981 and December 1981 respectively.	43.02
Kerala Electrical and Allied Engineering Company Limited	Expansion of foundry unit	4.50	Professional consultancy service awaited.	..
Travancore Plywood Industries Limited	Decorative veneers	21.75	Civil works were in progress. According to the Management (March 1981), the project would be completed in the middle of 1981.	4.83

The scheme for the implementation of china clay complex (item 1) was initiated with the idea of taking over of Super Clays and Minerals Mining Company (Private) Limited, Cannanore which was declared by the Government of Kerala in 1976 as a relief undertaking. According to the Management (March 1981), a project report for this scheme together with the Memorandum and Articles of Association was forwarded in the middle of 1979 to the State Government but the clearance from Government was awaited (August 1981).

No time-bound programme for the completion of market study, consultancy arrangements and financing arrangements had been drawn up for the implementation of projects relating to manufacture of scooter tyres, and expansion of foundry unit.

4.09. Sales Policy

4.09.1. *Domestic sales*

The Company opened sales depots at Coimbatore (July 1976), Bombay (August 1976), Bangalore (April 1977), Calicut (July 1977) and Cochin (December 1977) and also took over (May 1979) the sales depot at Trivandrum run by Trivandrum Rubber Works Limited.

The table below indicates the targets of sale fixed for the various depots and actual sales thereagainst for the 3 years up to 1979-80:—

	1977-78			1978-79			1979-80		
	Target	*Actual*	*Short-fall*	*Target*	*Actual*	*Short-fall*	*Target*	*Actual*	*Short-fall*
					(*Rupees in lakhs*)				
Coimbatore	24.00	12.14	11.86	42.00	23.27	18.73	43.20	32.71	10.49
Bombay	66.00	27.90	38.10	59.60	52.82	6.78	75.00	46.53	28.47
Bangalore	24.00	16.45	7.55	49.50	32.12	17.38	32.76	24.56	8.20
Calicut	6.00	2.99	3.01	5.70	14.28	Nil	21.96	16.16	5.80
Cochin	9.60	1.33	8.27	11.40	15.64	Nil	30.72	18.32	12.40
Trivandrum	6.00	8.84	Nil	10.35	11.55	Nil	20.88	16.03	4.85
Total	135.60	69.65	68.79	178.55	149.68	42.89	224.52	154.31	70.21

The Management attributed (September 1980) the shortfall to the following reasons:—

(i) During 1977-78, Travancore Plywood Industries Limited could not keep up the delivery schedule due to acute shortage of timber.

(ii) In 1978-79 and 1979-80 also due to the poor performance of Travancore Plywood Industries Limited, the Company could not cope with sales demand.

(iii) There was labour unrest in Trivandrum Rubber Works Limited during the period June to August 1977.

(iv) Due to quality problems in tread rubber, considerable business was lost from Transport Corporations.

(v) There was glut in cycle tyre market during 1979-80·

4.09.2. *Export performance*

The Company channelises the export of the products manufactured by the subsidiaries. During 1977-78, the Company also exported wooden frames manufactured by another Government Company. The table below indicates the targets fixed and the actual exports thereagainst for the 5 years up to 1979-80:—

Year	*Target*	*Actual*	*Shortfall*	*Percentage of actual to target*
		(*Rupees in lakhs*)		
1975-76	100.90	6.38	94.52	6.3
1976-77	26.00	48.88	..	188.0
1977-78	123.50	63.98	59.52	51.8
1978-79	66.50	52.67	13.83	79.2
1979-80	117.07	46.06	71.01	39.3

While the decline in exports during 1977-78 was stated (August 1981) to be due to non-receipt of anticipated orders from West Asia, the decline during 1978-79 was attributed by Management (September 1980) to shortfall in production and other constraints such as non-availability of shipping space, irregular off-take by buyers, *etc*. The shortfall in exports in 1979-80 was stated (September 1980) to be due to lack of exports of kaolin to Japan as the sale contract with the Japanese buyers was intentionally delayed to get an increase in price.

The Company is entitled to get cash assistance on the *f.o.b.* value of exports. In some cases, the Company claimed cash assistance whereas in other cases, the subsidiaries were allowed to claim the benefits on the basis of 'no claim' certificates issued by the holding Company. The table below indicates the total *f.o.b.* value of exports for which cash assistance was claimed for the 5 years up to 1979-80:—

Year	*F.O.B. value of exports*	*F.O.B. value of exports for which cash assistance was claimed by the holding company*	*Amount claimed*	*Amount received*
		(*Rupees in lakhs*)		
1975-76	6.38	Nil	Nil	Nil
1976-77	48.88	25.15	2.98	2.98
1977-78	63.98	10.83	1.08	1.08
1978-79	52.67	22.06	2.20	2.20
1979-80	46.06	30.16	5.04	4.91
Total	217.97	88.20	11.30	11.17

Cash assistance for exports in respect of Rs. 129.77 lakhs for the period up to 1979-80 was to be claimed by the subsidiaries on the basis of "no claim" certificates issued by the holding Company. The details of actual amount claimed and the cash assistance received were not furnished to Audit (November 1981).

It may be seen that the Company claimed replenishment licences only in respect of exports to the extent of Rs. 88.95 lakhs. The reasons for not claiming replenishment licences for the balance value of exports were not forthcoming (June 1981).

Against an export order (July 1977), the Company despatched 572 flush doors to Kuwait between September 1977 and February 1978. Invoices were raised at the rate of US $ 19.60 per door instead of at the agreed rate of US $ 30.29 per door due to clerical error resulting in short realisation of Rs. 0.63 lakh. No action was taken on the erring individuals.

4.10. Internal audit

The internal audit wing of the Company functioned directly under the control of the Secretary and Finance Manager. The Company decided to take up internal audit of 3 companies from April 1977. Internal audit of these 3 subsidiaries (Kerala Soaps and Oils Limited, Kerala Electrical and Allied Engineering Company Limited and Kerala State Drugs and Pharmaceuticals Limited) for the period 1978-79 and 1979-80 was, however, entrusted to outside agencies and an expenditure of Rs. 0.36 lakh was incurred by the subsidiaries in this connection.

The statutory auditors in their report on the audit of the accounts for 1978-79 stated that internal audit was inadequate in 3 subsidiary companies (Trivandrum Rubber Works Limited, The Kerala Ceramics Limited and Travancore Plywood Industries Limited).

4.11. Working of subsidiaries

The Company's interest as on 31st March 1980 in each of the subsidiaries in the form of share capital, loans, advances, guarantees given, *etc.* was as under:—

Name of the Company	*Date of incorporation*	*Paid-up capital*			*Borrowings*		*Outstandings*		*Guarantees*	
		Total	*Government investment*	*Holding Company's share*	*Total*	*Holding Company's share*	*Total*	*Amount due to Holding Company*	*Total amount guaranteed by Holding Company*	*Amount outstanding*
					(*Rupees in lakhs*)					
Kerala Soaps and Oils Limited	1-11-1963	149.97	144.37	5.60	279.14	180.95	102.91	6.38	95.00	55.12
Kerala Electrical and Allied Engineering Company Limited	5-6-1964	105.82	75.82	30.00	344.78	196.52	114.97	4.30	15.00	14.31
Travancore Plywood Industries Limited	1-11-1963	48.59	48.59	Nil	66.18	5.00	75.44	Nil	Nil	Nil
Trivandrum Rubber Works Limited	1-11-1963	213.62	154.96	58.66	248.41	129.00	53.86	4.63	Nil	Nil
The Kerala Ceramics Limited	1-11-1963	107.95	107.95	Nil	290.79	134.85	151.32	4.57	9.00	Nil
Kerala State Drugs and Pharmaceuticals Limited	23-12-1971	130.00	30.00	100.00	121.06	20.00	30.22	3.03	190.00	40.00
Kerala State Detergents and Chemicals Limited	10-6-1976	71.80	32.00	39.80	123.25	Nil	42.78	7.19	181.13	93.53
Total		827.75	593.69	234.06	1473.61	666.32	571.50	30.10	490.13	202.96

The Company had not received any dividend in respect of investment in the subsidiaries as on 31st March 1980. Guarantee commission was also not being realised from the subsidiaries.

An amount of Rs. 94.10 lakhs was received up to 1979-80 by way of interest on loans advanced to subsidiary companies. Interest of Rs. 7.17 lakhs was overdue for recovery from Kerala Soaps and Oils Limited as on 31st March 1980.

4.12. Control over subsidiary companies

4.12.1. Assistance to subsidiaries was to be provided by the Company under a scheme drawn up in June 1973, in the form of:—

- review of performance of subsidiaries by analysis of data and initiating action on the basis of periodical statements submitted by the subsidiaries;
- holding of periodical meetings with the chief executives of the subsidiaries;
- arranging for industrial engineering studies for production patterns, marketing and inventory control;
- publicity and public relations;
- long-term agreements with the Unions;
- man-power assessment, recruitment and training;
- planning for capital and working funds; and
- liaison work for licences and other assistance at Delhi.

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4.12.2 *Working results*

The table below gives the working results of the subsidiary companies for the 3 years up to 1979-80:—

Sl. No.	Name of the Company	*Sales* 1977-78	1978-79	1979-80	*Net profit* (+)/*loss* (—) 1977-78	1978-79	1979-80	*Accumulated loss* 1979-80
				(*Rupees in lakhs*)				
1.	Kerala Soaps and Oils Limited	171.53	278.70	523.36	(—)16.25	(+)0.36	(+)10.14	112.39
2.	Kerala Electrical and Allied Engineering Company Limited	220.91	253.63	318.90	(—)45.19	(—)43.33	(—)15.41	202.62
3.	Travancore Plywood Industries Limited	162.98	144.81	198.82	(—)10.69	(—)9.70	(+)0.57	54.49
4.	Trivandrum Rubber Works Limited	107.12	168.77	230.77	(—)59.19	(—)49.35	(—)30.52	312.06
5.	The Kerala Ceramics Limited	86.93	100.41	107.78	(—)53.52	(—)46.53	(—)47.43	321.29
6.	Kerala State Drugs and Pharmaceuticals Limited	170.00	273.62	310.61	(+)4.46	(+)2.26	(+)2.86	Nil
7.	Kerala State Detergents and Chemicals Limited	Nil	Nil	155.51	Nil	Nil	(+)1.49	Nil

4.12.3. *Production performance*

The table below gives the details of installed capacity and utilisation of installed capacity of the subsidiaries for the 3 years up to 1979-80:—

Name of subsidiary company Products (unit)	*Installed capacity*	*Actual Production*			*Utilisation of installed capacity*		
		1977-78	1978-79	1979-80	1977-78	1978-79 (*Percentage*)	1979-80
Kerala Soaps and Oils Limited							
(a) Soap (tonnes)	7,900 (increased to 9,000 in 1979-80)	2,566	4,347	6,079	32.5	55.0	67.5
(b) Fish oil (tonnes)	300	47	63	58	15.7	21.0	19.3
Kerala Electrical and Allied Engineering Company Limited							
Distribution transformer (KVA)	1,20,000	77,012	80,028	88,685	64.2	66.7	73.9
Electric Motors (numbers)	300	6	3	Nil	2.0	1.0	Nil
Electric Wiring accessories (numbers)	1,33,000	22,028	6,330	62,863	16.6	4.8	47.2
Meter components (numbers)	2,52,000	46,266	39,312	78,622	18.4	15.6	31.1
C.I. specials and pipes (tonnes)	240	171	41	19	71.3	17.1	7.9
Contactors and starters (numbers)	12,000	Nil	Nil	Nil	Nil	Nil	Nil
Alternators (numbers)	600	196	399	670	32.7	66.5	111.6
Travancore Plywood Industries Limited							
Plywood, block boards, etc. (sq.m. in lakhs)	27.38	11.53	9.50	12.58	42.1	34.7	46.0
Trivandrum Rubber Works Limited							
Cycle tyres (numbers in lakhs)	15	3.47	5.65	5.34	23.1	37.7	35.6
Cycle tubes (,,)	18	Nil	0.18	0.39	Nil	1.0	2.2
Cycle rims (,,)	3	1.03	3.16	3.16	34.3	105.3	105.3
The Kerala Ceramics Limited							
Ceramic grade china clay (tonnes)	5,000	4,859	6,100	5,537	97.2	122.0	110.7
Porcelain (tonnes)	730	564	535	533	77.3	73.3	73.0
Spray Dried Kaolin (tonnes)	18,000	4,260	3,808	4,036	23.7	21.2	22.4

Note:—The production performance of Kerala State Detergents and Chemicals Limited and Kerala State Drugs and Pharmaceuticals Limited is given in paragraph 4.12.9(iii) and paragraph 5.07.2 respectively.

4.12.4. *Kerala Soaps and Oils Limited*

The low utilisation of capacity for the production of fish oil was attributed (September 1980) by Management to lack of demand. The Company estimated production of 100 tonnes of fish oil in 1977-78, 62 tonnes in 1978-79 and 84 tonnes in 1979-80 whereas the actual production was 47 tonnes, 63 tonnes and 58 tonnes respectively. According to the Management (March 1981), the actual installed capacity for the production of soap during 1977-78 and 1978-79 was only 4,300 tonnes and hence the actual utilisation could be considered reasonable. The Management could not state the reasons for reduction in the installed capacity of the plant.

4.12.5. *Kerala Electrical and Allied Engineering Company Limited*

According to the Management (September 1980), the production of certain products (meter components and electric motors) was discontinued due to stiff competition in the market and attention was concentrated on the alternator project, galvanising project and structural division.

4.12.6. *Travancore Plywood Industries Limited*

According to the Management (September 1980), the installed capacity of the new plant (24.13 lakh sq. ms.) was fixed on the basis of timber available in Czechoslovakia as estimated by the manufacturers of the plant whereas according to a study conducted by the Company, the maximum quantity that could be produced by the plant was only 17.5 lakh sq. ms.

The Company had fixed a production target of 15 lakh sq. ms. per annum for 1977-78, 1978-79 and 1979-80, against which the actual production was 11.53 lakh sq. ms. for 1977-78, 9.50 lakh sq. ms. for 1978-79 and 12.58 lakh sq. ms. for 1979-80.

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

- (i) imbalance of the drier;
- (ii) non-availability of timber;
- (iii) shortage of face veneer; and
- (iv) high rate of absenteeism of workers.

4.12.7. *Trivandrum Rubber Works Limited*

The shortfall in the utilisation of capacity for the production of cycle tyres and cycle tubes was attributed by the Management (September 1980) to the age of the machinery (about 20 years old). It was, however, found that the erection of machinery under the expansion scheme by which the annual capacity was raised to 15 lakh cycle tyres and 18 lakh tubes was completed only in September 1970. The actual production of cycle tyres never went beyond 5.65 lakhs and of tubes beyond 0.39 lakh in any of the years during the period from 1970-71 to 1979-80. Production of tubes was stopped in June 1973 and was resumed only in 1978-79.

For the modernisation and renovation of the plant and machinery, the Company approached (September 1974) the Industrial Reconstruction Corporation of India Limited (IRCI) for a reconstruction loan. The application was initially rejected (April 1978) by IRCI. The Company engaged the services of an individual at Calcutta on a lump sum remuneration of Rs. 0.10 lakh during August 1975 to April 1978 for pursuing the loan application. The IRCI sanctioned (January 1979) a loan of Rs. 50 lakhs (at 8.5 *per cent* interest per annum) out of which Rs. 49 lakhs were received during the period from June 1979 to December 1980. The modernisation and renovation works executed by the Company were stated to be in progress (March 1981).

Against the targets of 6.05 lakh, 7.20 lakh, and 10 lakh tyres, the actual production of cycle tyres was 3.47 lakhs, 5.65 lakhs and 5.34 lakhs in the 3 years up to 1979-80 respectively. There was no production of tubes in 1977-78 though the Company had planned to produce 1.73 lakh tubes during the period. Against the targets of 1.15 lakh and 3 lakh tubes for 1978-79 and 1979-80 respectively, actual production was only 0.18 lakh and 0.39 lakh. Government attributed (May 1981) frequent breakdowns, out-dated technology, frequent power interruptions, lack of finance for purchasing raw materials and stiff competition for the Company's products from other manufacturers as reasons for the shortfall in the utilisation of capacity and non-achievement of targets.

4.12.8. *The Kerala Ceramics Limited*

Mention was made in paragraph 5.3 of Section II of the Audit Report (Commercial) for the year 1974-75 about the imbalances in the capacity of the preparatory machines of the porcelain unit. The Company engaged (January 1979) the services of a specialist from U.K. who visited the factory in January 1979 for identifying the problems and suggesting remedial measures. In his report (April 1979), the basic problems of the unit were identified as low productivity and poor quality of the product. Based on his recommendations (July 1979) the Company decided to install a pug mill and other machinery costing Rs. 7.15 lakhs. The import licence applied for in February 1980, was received in June 1980 and the machinery ordered in June 1980 had not arrived so far (March 1981).

The Kaolin Division of the Company was set up in July 1975, with the technical collaboration of 2 Japanese firms who offered free technical know-how for the production of paper coating grade clay and indicated their willingness to purchase 50 *per cent* of the product for export to Japan. After installation of the plant, it was found that though the installed capacity was 1,500 tonnes per month, the actual capacity which could be achieved was only in the range of 400 to 500 tonnes per month. The Company, however, held discussions (July-August 1979) with the collaborators and it was decided (September 1979) to step up production to 1,000 tonnes per month by carrying out improvement and expansion works. As per the time-schedule, the production was to be stepped up to 500 tonnes by the end of May 1980 and to 1,000 tonnes on completion of works by the end of 1981-82. However, the average monthly production from June 1980 to February 1981 was only 189 tonnes.

The following reasons were attributed by the Management (July/August 1979) for the shortfall in production of spray dried kaolin:—

—shortage of good raw clay;

—poor paper coating grade clay content of the raw clay;

—fault in design of the various machinery installed;

—increase in process loss due to non-availability of good raw clay;

—imbalance in the capacity of the various sections of the plant.

4.12.9. *Kerala State Detergents and Chemicals Limited*

(i) *Implementation of Detergent Project*

The setting up of a separate subsidiary company of the Company for the implementation of the project was approved by Government in June 1976. The Kerala State Detergents and Chemicals Limited was accordingly incorporated in June 1976. The project was originally estimated (January 1975) to cost Rs. 352 lakhs. A net surplus of Rs. 72 lakhs was expected at an annual turnover of Rs. 862 lakhs with an employment potential of 130 persons.

The holding Company appointed (March 1975) a firm of consultants in Bombay to provide comprehensive services for the implementation of the project. The agreement (March 1975) envisaged preparation of detailed project report, services on architectural aspects, processing, expediting capital purchases, inspection of capital equipment, supervision, construction, erection and commissioning of the project. According to the detailed project report received from the consultants (January 1976), the project was to be executed in two phases, the first phase costing Rs. 112.53 lakhs and the second phase Rs. 249.35 lakhs. On the basis of technical data furnished by the consultants, the Company invited (March 1976) tenders for the supply of equipment for the first phase. A technical committee consisting of three members (two from the holding Company and the other from the newly formed subsidiary company) was constituted (June 1976) for a comprehensive technical evaluation of the offers received with a view to recommend equipment combination best suited for the phased programme of implementation and to suggest suppliers for the various plants. During the process of evaluation of tenders, the consultants suggested (September 1976) three alternatives, one of them being on a turn-key basis.

The technical committee opted for the turn-key contract and this was accepted (September 1976) by the Board of Directors.

The turn-key contract involved duplication of detailed engineering work pertaining to the process plant, which formed part of the work of the consultants as per the agreement with them in March 1975. In order to avoid such duplication, the Company started negotiations (November 1976) with the consultants for redefining the scope of their activities. The failure of the negotiations resulted in the termination (March 1977) of their services by the Company.

As per the terms of the agreement (March 1975) concluded with the consultants, they were to be paid an amount of Rs. 0.30 lakh for preparation of the project report and 6 *per cent* of the installed cost of plant for their services, travelling expenses and other incidentals. The actual payments made (July 1976 to January 1977) amounted to Rs. 2.10 lakhs (instalments against installed cost: Rs. 1.40 lakhs; detailed project report: Rs. 0.30 lakh; travel expenses: Rs. 0.21 lakh and expenses for project report: Rs. 0.19 lakh). The legal opinion was not in favour of proceeding against the consultants. The terms settled for the consultancy fee on the presumption that working drawings and supervision would be required, had resulted in payments amounting to Rs. 1.40 lakhs to the consultants whose services were actually not found necessary after the project report stage.

The Company awarded the work of supply of plant, machinery and equipment and rendering of services in connection therewith on a turn-key basis to a Bombay firm at a cost of Rs. 33.18 lakhs. As per the agreement (November 1976) with the firm, the plant was to be commissioned within eleven months from the date of agreement (October 1977) but the tenders for civil works were invited only in July 1977; the said work was awarded in October 1977 and was completed in December 1978.

According to the Management (March 1981), the delay in completion of the work was due to revision in designs and drawings effected after the award of the work. The plant was commissioned in May 1979. The delay in initiating action and completion of civil works had thus resulted in the postponement of the commissioning of the project by 19 months.

(ii) *Project estimates*

According to the revised detailed project report (November 1977), the project was to be implemented in two phases; the first phase costing Rs. 124.94 lakhs to produce 3,600 tonnes per annum of cakes and 1,440 tonnes per annum of high density powder and the second phase costing Rs. 177 lakhs to produce, 4,960 tonnes per annum of spray dried powder.

The table below gives the original and revised estimates and actual expenditure on completion of the first phase of the project:–

		First phase		*Actual expenditure*
		Original estimate (January 1976)	*Revised estimate (November 1977)*	
			(Rupees in lakhs)	
1.	Land and development	6.21	6.28	2.39
2.	(i) Factory buildings	14.67	11.98	12.33
	(ii) Residential quarters	3.83	3.65	7.41
3.	Plant and machinery	26.92	43.26	35.40
4.	Technical consultancy and engineering fees	4.97	3.46	2.92
5.	Miscellaneous assets and other assets	4.04	15.93	14.56
6.	Preliminary and pre-operative expenses	12.55	10.06	27.66
7.	Working expenses	8.00	5.20	..
8.	Provision for contingencies	8.16	6.62	..
9.	Margin money for working capital	23.18	18.50	..
	Total	112.53	124.94	102.67

For the implementation of the project, the subsidiary company was sanctioned term loans by the Industrial Development Bank of India (Rs. 85.65 lakhs), Industrial Credit and Investment Corporation of India (Rs. 42.50 lakhs) and Industrial Finance Corporation of India (Rs. 42.50 lakhs) in July 1977, November 1977 and January 1978 respectively. As per the terms of the loans the subsidiary company was liable to pay commitment charges at the rate of 0.5 *per cent* per annum on the principal amount which remained undrawn after a period of six months from the date of sanctioning the loans. Due to delay in the drawal of the loan amount in full, the subsidiary company had to pay Rs. 1.50 lakhs during the period from January 1978 to March 1981 towards commitment charges.

The Company was to execute the documents (mortgage deed, etc.) within six months from the date of sanctioning the loan. The execution of the documents in respect of Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) and Industrial Finance Corporation of India (IFCI) was delayed by 18 months, 14 months and 26 months respectively. The delay on the part of the Company in executing the documents resulted in the Company availing bridge loans (at higher rates of interest) of Rs. 26 lakhs from IDBI in March 1978 and Rs. 20 lakhs from IFCI in November 1979. The bridge loans of Rs. 26 lakhs of IDBI and Rs. 20 lakhs of IFCI were converted to regular loans in July 1979 and September 1980 respectively. The avoidable expenditure towards interest at higher rates of bridge loans obtained from the financial institutions amounted to Rs. 0.89 lakh during the period from March 1978 to September 1980.

The proceeds of the bridge loan (Rs. 26 lakhs) received (March 1978) from IDBI were deposited in current account with the bank instead of in the treasury savings bank. As treasury deposits carry interest of 6 *per cent* per annum there was a loss of interest amounting to Rs. 0.25 lakh for the period from March 1978 to October 1978. The Management stated (July 1979) that the question of opening and operating the treasury savings bank account had not been examined.

(*iii*) *Production Performance*

Commercial production commenced in July 1979. During the period of 260 days from July 1979 to March 1980, the plant was operated for 4,229 hours as against 6,240 available hours resulting in 2,011 idle hours due to power failure, mechanical trouble, *etc*. Actual production of detergent cakes was only 1,617 tonnes from July 1979 to March 1980 which worked out to 382 kgs. per hour against the plant capacity of 500 kgs.

As against the installed capacity of 1,440 tonnes of high density powder, actual production during 1979-80 was only 930 kgs. and nil in 1980-81. The project report (January 1976) envisaged that "high density detergent powder with equal detergency for equal weight, but at lower cost, can be manufactured with the result that it can meet the demand for powders by mass consumers". The Management, however, stated (March 1981) that the Company did not proceed with the manufacture of high density powder on account of the declining trend in market noticed for this type of products manufactured by the already well established units.

Acid slurry (consisting of alkyl benzene, oleum and sulphuric acid) starch, soda ash and thirteen other items of chemicals form the raw material for the manufacture of detergent cake.

The standard weight of a cake fixed by the Company is 135 grams. During the period from July 1979 to March 1980 the Company produced 117.09 lakh cakes with 1,617 tonnes of finished material; while as per the standards fixed by the Company, 1,581 tonnes of finished material would have been sufficient.

The weight of cakes produced in February 1980 was as high as 140.3 grams. The total excess weight added to the cakes produced during the period from July 1979 to March 1980 was 36 tonnes resulting in a loss of Rs. 4.61 lakhs (based on the average realisable value of Rs. 12,800 per tonne).

The table below indicates the value of excess consumption of the principal raw materials during 1979-80:—

Sl. No.	*Raw material*	*Percentage excess*	*Cost of excess consumption (Rupees in lakhs)*
1.	Sulphuric Acid	8.2	2.41
2.	Soda ash	5.6	0.27
3.	Sodium tripoli phosphate	3.2	0.60
4.	Starch	10.2	0.55
5.	Foam booster	15.2	0.64
6.	Wax	23.9	0.30
	Total		4.77

(*iv*) *Implementation of second phase*

The Company concluded (June 1977) an agreement with a Bombay firm to supply, erect and commission the machinery for the second phase at a cost of Rs. 107.55 lakhs. According to the terms of the agreement, the sabiz plant was to be commissioned by 1st June 1979 and the sulphurex plant by 1st December 1979. The Company, however, had to agree (January 1980) to the postponement of the erection of the sabiz plant to 15th April 1981 and that of the sulphurex plant to 15th September 1980 due to delay in completion of civil works.

According to the relevant agreement, the plant and machinery were to arrive at the factory site in January 1979 for commencement of erection. The plant and machinery started arriving from February 1980 and the Bombay firm was paid Rs. 59.60 lakhs towards supply of machinery, *etc*. Tenders for civil works were invited (July 1979) and the work was awarded to a Calicut firm (September 1979) at a cost of Rs. 13.28 lakhs. The work was to be completed in all respects by September 1980, whereas only 20 *per cent* of the work had been completed so far (March 1981) and the remaining works were stated to be in progress.

Summing up

(i) The Company was set up in January 1973 to act as a holding company of an identified group of companies in the State to increase the profitability of such companies. The Company had a paid-up capital of Rs. 642.11 lakhs at the end of 1979-80 fully subscribed by Government.

(ii) The total investment of the Company as on 31st March 1980 in 7 subsidiaries amounted to Rs. 930.48 lakhs in the shares (Rs. 234.06 lakhs), loans (Rs. 666.32 lakhs) and other advances (Rs. 30.10 lakhs).

(iii) Out of 7 subsidiaries, 3 *viz.*, Kerala Electrical and Allied Engineering Company Limited, Trivandrum Rubber Works Limited and The Kerala Ceramics Limited had incurred losses continuously. The total of the cumulative losses at the end of 1979-80 was Rs. 1,002.85 lakhs (5 companies) which accounted for 160.2 *per cent* of their total paid-up capital (Rs. 625.95 lakhs).

(iv) The Company had decided to forgo the recovery of Rs. 93.97 lakhs due from 4 subsidiary companies towards interest charges up to 1978-79.

(v) The Company had undertaken 6 projects involving an estimated cost of Rs. 591.40 lakhs. No time-bound programme had been drawn up for implementation of projects relating to manufacture of scooter tyres and expansion of foundry unit.

(vi) The actual sales in respect of 6 sales depots were less than the targets during the 3 years up to 1979-80.

(vii) The Company's exports declined from Rs. 63.98 lakhs in 1977-78 to Rs. 52.67 lakhs in 1978-79 and to Rs. 46.06 lakhs in 1979-80.

(viii) Against the exports of Rs. 217.97 lakhs, the holding Company had claimed cash assistance for Rs. 88.20 lakhs and replenishment licences for Rs. 88.95 lakhs. The details of cash assistance and replenishment licences to be obtained for balance amount by the subsidiary companies could not be furnished by the Management.

(ix) A clerical error in the preparation of an invoice sent out to a foreign buyer resulted in short-realisation of Rs. 0.63 lakh. No action was taken on the erring individuals.

(x) The utilisation of installed capacity was poor in all the subsidiary companies.

(xi) A firm of consultants was appointed (March 1975) for comprehensive services in connection with implementation of the detergent project. As the supply, erection, *etc.* of plant and machinery and equipment was given on a turn-key basis to another firm subsequently, the consultancy agreement with the first firm had to be terminated to avoid duplication of work. At the time of termination of the contract, the consultancy firm had been paid Rs. 2.10 lakhs (Rs. 0.70 lakh for detailed project and expenses and Rs. 1.40 lakhs towards instalments against installed cost) and though the Company proposed to recover Rs. 0.48 lakh from them, the proposal was subsequently dropped. The terms settled for the consultancy fee earlier on the presumption that working drawings and supervision would be required had resulted in an avoidable payment (Rs. 1.40 lakhs) to the consultants whose services were actually not found necessary after the project report stage.

(xii) Due to delay in the completion of the factory building the plant which should have been commissioned in October 1977 was commissioned only in May 1979 involving a delay of 19 months.

(xiii) Due to delay in the drawal of the loan amount in full for the implementation of the project the subsidiary company had to pay Rs. 1.50 lakhs towards commitment charges during the period January 1978 to March 1981. Due to delay in execution of documents, the subsidiary company had to avail of the bridge loans at higher rates of interest involving an additional payment of Rs. 0.89 lakh from March 1978 to September 1980.

(xiv) Against the standard weight of 135 grams per cake, the actual weight ranged up to 140.3 grams per cake. The total excess weight added to the cakes during the period July 1979–March 1980 was 36 tonnes involving a loss of Rs. 4.61 lakhs.

(xv) There was excess consumption of principal raw materials during 1979-80 involving an extra expenditure of Rs. 4.77 lakhs.

SECTION V

KERALA STATE DRUGS AND PHARMACEUTICALS LIMITED

5.01. Introduction

With a view to supplying standard drugs in adequate quantities to the Government hospitals, the Kerala State Drugs and Pharmaceuticals Limited was incorporated in December 1971 with the main object of manufacturing and undertaking trading of drugs, pharmaceuticals, radiopharmaceuticals, nutriments, cosmetics and hospital equipment, *etc*. In November 1973 it became a subsidiary of the Kerala State Industrial Enterprises Limited (a fully owned Government Company).

5.02. Organisational set-up

According to the Articles of Association of the Company the Board of Directors are to be appointed/nominated by the holding Company and one of the directors may be appointed by the holding Company as the Managing Director who is the Chief Executive of the Company.

The holding Company had rendered management services in the field of sale, selection of personnel, etc., against payment of management service charges amounting to Rs. 1.90 lakhs for the period from 1973-74 to 1978-79. No management charges were levied by the holding Company for 1979-80.

5.03. Capital structure

5.03.1. *Share capital*

The authorised capital of the Company was Rs. 100 lakhs at the time of formation (December 1971) which was raised to Rs. 300 lakhs (divided into 3,00,000 shares of Rs. 100 each) during 1978-79. The paid-up capital of the Company as on 31st March 1980 was Rs. 130 lakhs of which Rs. 30 lakhs (23.3 *per cent)* were held by the State Government and the balance of Rs. 100 lakhs by the Kerala State Industrial Enterprises Limited.

5.03.2. *Borrowings*

For financing the project for establishing a drug formulation unit, the Company obtained (August 1974) a secured term loan of Rs. 30 lakhs from the Kerala State Industrial Development Corporation Limited (KSIDC—another Government Company) guaranteed by Government. A medium term secured loan of Rs. 12.85 lakhs was also obtained (April 1977) from the State Bank of Travancore for the modernisation and expansion scheme (February 1976).

Besides the above, the Company also obtained during 1979-80, two bridge loans amounting to Rs. 65 lakhs—Rs. 25 lakhs from the Industrial Finance Corporation of India (IFCI), secured by unconditional irrevocable guarantee of State Bank of Travancore and Rs. 40 lakhs from Industrial Development Bank of India (IDBI) secured by unconditional irrevocable guarantee of holding Company—for implementation of the Vitamin 'A' project.

The amounts outstanding (Principal) as on 31st March 1980 were as under:—

	Amount (Rupees in lakhs)
Loan from KSIDC	15.00
Loan from the State Bank of Travancore	5.25
Bridge loan from IFCI	25.00
Bridge loan from IDBI	40.00

The working capital requirements of the Company were met by short-term loans from the holding Company and cash credit from the State Bank of Travancore. The amounts outstanding as on 31st March 1980 were as follows:—

		Amount *(Rupees in lakhs)*
(i)	Short-term loan from holding company	20.00
(ii)	Cash credit and overdraft against supply bills	15.81

The Company had also received Rs. 11.35 lakhs (Rs. 7.07 lakhs in September 1975; Rs. 0.67 lakh in March 1978 and Rs. 3.61 lakhs in April 1979) up to March 1980, as the Central Government subsidy, for industries set up in industrially backward districts.

The Company had been availing cash credit facilities from the State Bank of Travancore, Alleppey since 1975-76 for meeting working capital requirements. It was noticed in audit (July 1980) that the Company had on three occasions transferred amounts aggregating Rs. 17 lakhs (Rs. 2 lakhs in October 1978, Rs. 10 lakhs in April 1980 and Rs. 5 lakhs in June 1980) from cash credit accounts bearing higher rate of interest (varying from 14.5 to 17 *per cent*) to short-term deposits fetching lower rate of interest (varying from 3 to 4 *per cent*). These short-term deposits, on maturity were transferred back to cash credit accounts. The investment of funds on short-term deposits resulted in a loss of Rs. 0.26 lakh as the Company had to pay interest at higher rates on funds availed from the cash credit account. The Management stated (August 1980) that at times it became necessary to resort to such practices, to maintain good relations with bankers.

5.04. Financial Position

The summarised financial position under the broad headings of the Company for the 3 years up to 1979-80 is indicated below:—

	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
Liabilities			
(a) Paid-up capital	45.00	85.00	130.00
(b) Reserves and surplus	19.24	22.66	29.41
(c) Borrowings	106.99	81.74	121.07
(d) Trade dues and other current liabilities (including provision)	60.57	81.31	56.83
Total	231.80	270.71	337.31
Assets			
(a) Gross block	79.70	93.94	96.80
(b) *Less*: Depreciation	19.29	25.23	30.84
(c) Net fixed assets	60.41	68.71	65.96
(d) Preliminary expenses and project development expenses	7.16	16.30	84.02
(e) Investments	0.25	0.25	0.25
(f) Current assets, loans and advances	163.98	185.45	187.08
Total	231.80	270.71	337.31
Capital employed	163.82	172.85	196.21
Net worth	64.24	107.66	159.41

Notes:—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. Increase in development expenses during 1979-80 was due to increased capital outlay on Vitamin 'A' project.

5.05. Working results

The table below indicates the working results of the Company for the 3 years up to 1979-80:—

	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
1. Value of production			
(a) Sales	170.01	273.62	310.61
(b) Closing stock of finished goods and works-in- process	21.89	19.73	14.95
(c) Total	191.90	293.35	325.56
(d) *Less*: Opening stock of finished goods and works-in-process and trade stock	30.27	21.89	19.73
(e) Value of production	161.63	271.46	305.83
2. Consumption of raw materials, stores and spares	124.16	146.66	177.58
3. Value added	37.47	124.80	128.25
4. Expenses (*less* miscellaneous income)	13.76	121.38	125.12
5. Profit before taxation	23.71	3.42	3.13
6. Provision for income tax	18.00	..	..
7. Profit after taxation	5.71	3.42	3.13

	1977-78	1978-79	1979-80
8. Percentage of			
(a) Value added to value of production	23.2	46.0	42.0
(b) Expenses to value added	36.7	97.3	97.6
(c) Value of raw materials, stores and spares to value of production	76.8	54.0	58.1

The profit of Rs. 23·71 lakhs during 1977-78 had been arrived at, after taking into account Rs. 41.86 lakhs under 'other income' towards differential price claims due on drugs supplied (in 1974-75 and 1975-76) to the Health Services Department which were finally rejected by Government in February 1980.

Government empowered the Director of Health Services to purchase medicines from the Company without inviting tenders for a period of five years from the date of commencement of commercial production (September 1974) of the Company. This was extended (January 1980) for a period of two more years from 1979. The price of medicines was settled between the Company and the Director of Health Services after negotiations. A test check by Audit in May 1981 revealed that the prices settled for the purchase of medicines from the Company by the Health Services Department were higher in several cases for the same drugs when compared with the prices quoted by a Government of India undertaking (Indian Drugs and Pharmaceuticals Limited). The extra expenditure incurred by the State Government as a result of the price differential worked out to Rs. 1.89 lakhs in 1978-79 and Rs.6.72 lakhs in 1979-80. The Company was able to show better working results during these two years mainly because of the higher prices allowed for supplies made to Health Services Department.

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5.06. Implementation of the project for drug formulation unit

The project report (October 1970) prepared by the expert committee appointed by Government (July 1970), envisaged the establishment of a factory at Trivandrum for the manufacture of formulatory products to meet the requirements of Government hospitals. The State Government subsequently decided (November 1971) to locate the factory at Alleppey. The work on the project was commenced in February 1972. As against the original estimate (October 1970) of Rs. 30 lakhs (revised to Rs. 50 lakhs, Rs. 57 lakhs and Rs. 105.50 lakhs in September 1973, October 1973 and February 1976) the actual expenditure up to March 1979 was Rs. 94.11 lakhs.

The estimates were revised for the third time (February 1976) to incorporate certain modifications to building, to set right imbalances in activities of various machines, to provide additional equipments with a view to reduce cost of production, improve quality, etc. and also to provide for increase in margin money necessitated as a result of increased production.

The Company commenced partial production of drugs in September 1974 and implementation of the project continued upto September 1975 when it was decided to treat the project as completed. But some residuary works such as, setting right imbalances in machinery were continued and the entire work on the project was completed at the end of March 1979 at a total cost of Rs. 94.11 lakhs.

The holding Company while reviewing the revised project estimates in February 1976 observed that the Company should conduct a work study and formulate method improvements which would result in higher output. It also suggested that the Company should draw up a complete project of balancing the capacities of various operations and implement it in 2 or 3 phases to achieve the twin objectives of keeping the additional investment to the minimum and prevent under utilisation of capacity.

No action on the above suggestions had been taken so far (November 1981).

5.07. Production performance

5.07.1. *Production of drugs without industrial licence*

The installed capacity for various items far exceeded the licensed capacity as detailed below:—

Items of manufacture	*Licensed capacity*	*Installed capacity*
	(Quantity in lakhs)	
Tablets (numbers)	630	2514
Capsules (numbers)	110	149
Liquids (litres)	0.7	2.25
Parenteral (numbers)	5	79.50
Granules (kilograms)	..	0.20

The industrial licence for substantial increase in capacities, applied for by the Company in August 1979, was turned down by the Government of India (December 1979) on the ground that the Company did not fulfil the ratio parameters prescribed in the drug policy of the Government of India (1978) according to which formulation licences were to be granted up to 10 times the value of bulk drug production, provided that the formulation turnover is based on 2:1 consumption of indigenous bulk drugs to imported/canalised bulk drugs. As the Company had not commenced production of bulk drugs, it could not maintain the ratio of bulk drug production to purchase of formulary preparations. Nevertheless, the Company continued to manufacture and supply all items required by the Health Department, though certain items were not covered by the industrial licence. The Company again took up the matter (March 1980) with the Government of India and the industrial licence was issued (March 1981) covering all items of manufacture. In the absence of an industrial licence covering all items of manufacture, the Company was deprived of direct import and allocation of canalised items of raw materials required for production. Consequently these had to be purchased from open market at higher rates. The losses on such purchases are mentioned in paragraph 5.12.1.

5.07.2. The table below compares the actual production of various items of drugs with the installed capacity and budgeted production for the 3 years up to 31st March 1980:—

Category of drugs	*Year*	*Installed capacity (on single shift basis for 300 days) (in lakhs)*	*Number of shifts operated*	*Achievable capacity based on number of shifts operated*	*Budgeted production (in lakhs)*	*Actual production*	*Percentage of actual production to budgeted production*	*Percentage of actual production to achievable capacity*
Tablets (numbers)	1977-78	2,514	512	4,290.56	2,065.00	1,650.52	79.9	38.5
	1978-79	2,514	592	4 960.96	2,319.00	2,483.34	107.1	50.1
	1979-80	2,514	586	4,910.68	3,095.00	3,074.21	99.3	62.6
Capsules (numbers)	1977-78	149	333	165.39	80.00	63.03	78.8	38.1
	1978-79	149	380	188.73	106.61	85.39	80.1	45.2
	1979-80	149	321	159.43	110.76	77.83	70.3	48.8
Liquids (litres)	1977-78	2.25	274	2.06	1.42	0.79	55.6	38.3
	1978-79	2.25	264	1.98	1.05	1.02	97.1	51.5
	1979-80	2.25	222	1.67	2.02	0.73	36.1	43.7
Parenteral:								
(a) Bottles (numbers)	1977-78	4.50	310	4.65	4.75	2.13	44.8	45.8
	1978-79	4.50	228	3.42	4.49	3.54	78.8	103.5
	1979-80	4.50	247	3.71	6.08	5.66	93.1	152.6
(b) Vials (numbers)	1977-78	15.00	310	15.50	11.30	4.68	41.4	30.2
	1978-79	15.00	228	11.40	9.70	5.55	57.2	48.7
	1979-80	15.00	247	12.35	7.62	4.04	53.0	32.7
(c) Ampoules (numbers)	1977-78	60.00	310	62.00	31.88	14.94	46.9	24.1
	1978-79	60.00	228	45.60	26.10	15.99	61.3	35.1
	1979-80	60.00	247	49.40	29.74	27.45	92.3	55.6
			(*in kilograms*)					
Granules	1977-78	20,000	..	20,000	10,000	12,643	126.4	63.2
	1978-79	20,000	..	20,000	2,300	4,700	204.3	23.5
	1979-80	20,000	..	20,000	4,511	4,259	94.4	21.3

There had been considerable shortfall in production in respect of tablets, capsules, liquids and parenteral (vials and ampoules) in all the years with reference to achievable capacity. Though production was budgeted below the installed capacity in all the years (except in tablets section and parenteral-bottles) the actual production (except in tablet section during 1978-79 and 1979-80 and granules during 1979-80) against the budgeted target was low. The Management stated (July 1980) that with almost 95 *per cent* of the Company's production oriented to supplies for the State Government, the utilisation of capacity depended on the orders received from the State Government and availability of raw materials canalised by the Government of India. The particulars regarding the orders received from the Director of Health Services and the supplies made against such orders up to 1977-78 were not furnished to Audit (July 1981). However, the details for 1978-79 and 1979-80 are given in the table below:—

Products	*Quantity ordered*	*Quantity supplied*	*Percentage of quantity not supplied*
1978-79	(*in*	*lakhs*)	
Tablets (numbers)	2,777.00	2,692.32	3.0
Capsules (numbers)	100.25	89.10	11.1
Liquids (litres)	1.03	1.02	1.0
Injectables (numbers)	29.90	22.35	25.3
1979-80			
Tablets (numbers)	3,178.72	3,146.74	1.0
Capsules (numbers)	90.77	79.09	12.9
Liquids (litres)	0.77	0.75	2.6
Injectables (numbers)	39.76	34.84	12.4

The orders left unexecuted were allowed to lapse and it may be seen that the percentage of non-execution in the case of injectables was quite high.

The Management stated (August 1980) that the main reason for the inability to execute the orders in full was the non-availability of canalised raw materials in time. But as has been mentioned earlier the Company was manufacturing certain items not covered by industrial licence with the result that it was not entitled to canalised raw materials.

The Company placed (April 1978) an order with a firm in Cochin for the supply of 25 tonnes of Dextrose Anhydrous (Parenteral grade). According to the delivery schedule prescribed, the Cochin firm was to supply the material at the rate of 2 tonnes per month starting from May 1978. Though according to the purchase order, payment was to be made direct to the supplier, there was delay (about 2 months) on the part of the Company in honouring the bills (Rs. 0.22 lakh) of the suppliers for the month of July 1978. The suppliers stopped further supplies (10 tonnes) scheduled for the period from August 1978 to December 1978. The non-receipt of necessary raw material resulted in the lapse of orders from the Health Department for 48,300 Dextrose saline bottles (Value: Rs. 3.35 lakhs) and 114,750 Dextrose 25 *per cent* Ampoules (Value: Rs. 1.56 lakhs) during 1978-79. The loss suffered by the Company due to lapse of the orders for the two items worked out to Rs. 1.57 lakhs. According to the Management (August 1980) the Company could not honour the bills due to financial difficulties at that time.

5.07.3. *Production of open market specialities*

The Company introduced two speciality items of tablets *viz.*, Suprimol and Glysilox, for open market sales and the production of these tablets was commenced in July and October 1978 respectively. The table below gives the details of opening stock, production, sales and closing stock (with value) of the two tablets for the period up to July 1980:—

	Opening stock	*Production*	*Total*	*Sales*	*Closing stock*	*Value of closing stock (Rupees in lakhs)*
		(Number in lakhs)				
Suprimol						
1978-79 (July 1978 to March 1979)	..	2.37	2.37	0.55	1.82	1.35
1979-80	1.82	16.00	17.82	8.59	9.23	7.11
1980-81 (up to July 1980)	9.23	13.00	22.23	0.87	21.36	16.38
Glysilox						
1978-79 (October 1978 to March 1979)	..	2.50	2.50	1.90	0.60	0.07
1979-80	0.60	17.00	17.60	5.81	11.79	1.41
1980-81 (up to July 1980)	11.79	24.50	36.29	0.70	35.59	4.23

Considering the level of sales, the production of Suprimol and Glysilox tablets was much in excess of requirements which resulted in the locking up of funds.

The Management stated (August 1980) that the tablets were produced to build up buffer stock as per the practice observed by all pharmaceutical firms while launching a new product and sufficient sales in open market did not pick up due to inadequate sampling in the initial stages of marketing. The Management further added that they were able to persuade (February-March 1980) the Director of Health Services to purchase 5 lakh Suprimol tablets.

5.07.4. The Company appointed five medical representatives in March 1978, to canvas business, mainly, for the two specialities mentioned above in the open market. The specialities were, however, introduced in the market in January 1979 even though production had commenced in July/October 1978. No sales targets were fixed for each representative till October 1979. In November 1979, the Company increased the number of representatives to 15 and fixed the sales target for each representative for the five months from November 1979 to March 1980 at Rs. 71,500 at the rate of Rs. 14,300 for each month. During 1980-81 there were 12 representatives and the sales targets of each representative ranged from Rs. 7425 to Rs. 11751 per month. The percentage of actual sales to monthly targets varied from 37.5 to 59.7 during the five months up to March 1980.

The Management stated (August 1980) that the introduction of specialities in the open market was delayed till January 1979 due to technical problems and till then the field staff were directed to promote the *generic* products in the open market; it was further added that promotional target for each representative could not be fixed till October 1979 as the availability of products in sufficient numbers for open trade could not be ensured. As regards targets fixed from November 1979, it was stated that it was not found possible to fulfil them as an adequate number of sample packs were not produced for purposes of sales promotion.

5.08. Sales Performance

Bulk of the products manufactured by the Company and sold to the Health Department of the State Government were on the basis of orders received from the Director of Health Services.

The table below compares the actual sales of various products with budgeted sales for the three years up to 1979-80:—

Products	1977-78		*Percentage*	1978-79		*Percentage*	1979-80		*Percentage*
	Budget (*in lakhs*)	*Actuals*		*Budget* (*in lakhs*)	*Actuals*		*Budget* (*in lakhs*)	*Actuals*	
Tablets (numbers)	2,065.00	1,591.00	77.0	2,319.00	3,092.45	133.4	3,095.00	3,183.50	102.9
Capsules (numbers)	80.00	61.91	77.4	106.61	93.71	87.9	110.76	79.64	71.9
Liquids (litres)	1.42	0.74	52.1	1.05	1.02	97.1	2.02	0.76	37.6
Parenteral:									
(a) Bottles (numbers)	4.75	2.69	56.6	4.49	3.27	72.8	6.08	5.74	94.4
(b) Vials (numbers)	11.30	7.45	65.9	9.70	5.08	52.4	7.62	4.66	61.2
(c) Ampoules (numbers)	31.88	20.59	64.6	26.10	16.73	64.1	29.62	27.10	91.5

The actual sales (except in the case of tablets) during 1978-79 and 1979-80 were far below the budgeted sales on account of shortfall in production. The Management stated (April 1981) that the annual budget was prepared in anticipation of orders to be received from the Director of Health Services whereas the production and sale of drugs was based on actual orders received from the Health Services Department.

5.09. Vitamin 'A' Project

The Company obtained (August 1976) a letter of intent from the Government of India for the manufacture of 30 Million Mega Units (MMU) per annum of Vitamin 'A' from lemon grass oil. An agreement was entered into (April 1977) with a Bombay firm (a subsidiary of a Swiss firm) to provide technical know-how for the manufacture. Another Bombay firm was appointed (March 1977) for preparing the project report, providing detailed design and procurement of machinery. The work on the project was still in progress (April 1981) whereas it should have been completed by April 1980 according to the project report. The Management stated (September 1980) that the project was expected to be completed in December 1981.

The delay in the commencement of the project was attributed (March 1981) by the Management to the delay in obtaining full technical information from the Bombay firm and consequent delay by the Company's consultants in completing the design and engineering work. The delay in implementing the project was attributed by the Management (February 1981) to the following factors:—

(i) requirement of piling for the main process plant building (not envisaged originally);

(ii) delivery of some process equipments delayed due to power cuts imposed in Gujarat, Maharashtra, Karnataka and Tamil Nadu; and

(iii) delay in obtaining electrical equipment from the only suppliers of switch gears.

Against an estimated cost of Rs. 500 lakhs (September 1977) for the project, the Company had incurred an expenditure of Rs. 75.95 lakhs up to the end of 1979-80.

The following points were noticed in audit:—

(i) According to the Company (March 1980) it might have to incur an expenditure of Rs. 9.52 lakhs due to changes in specifications and design, and an extra expenditure of Rs. 10 lakhs due to price variation clauses included in contracts/orders. The estimates (September 1977) had not been revised so far (March 1981).

(ii) The work of construction of the workshop and mechanical store was awarded (January 1979) to a contractor at an estimated cost of Rs. 4.19 lakhs. The buildings were to be constructed at a site where a 66 KV high tension line passed. However, the work was awarded to the contractor without obtaining permission from the Kerala State Electricity Board and the Board objected (April 1979) to the construction of the building. The contractor was thereupon instructed (May 1979) to stop the work. The site was subsequently abandoned (May 1979) and arrangements were made for the construction of the workshop and mechanical stores at a new location. The Company had to incur an infructuous expenditure of Rs. 0.31 lakh towards payment to the contractor for the work carried out by him at the abandoned site from January to May 1979.

5.10. Cost Accounts

There was no regular system of cost analysis and reporting in the Company. A firm of Cost Accountants appointed by the Company in April 1976 and again in March 1977 to ascertain the cost of production of various drugs manufactured during 1975-76 and 1976-77 reported that the operation of the Parenteral section during 1976-77 resulted in heavy losses mainly due to excessive rejections. It also reported, *inter alia*, that in many cases the total cost (including selling and distribution expenses) and in some cases even the prime cost of the items manufactured were very much higher than the selling prices fixed for the products.

The Company had since appointed (October 1977) a qualified Cost Accountant to reorganise the department as also to evaluate the performance of the production departments. The Management stated (August 1980) that although a Cost Accountant was appointed, there was no proper system by which product-wise cost could be accurately ascertained and that the Company had been currently engaged in the process of evolving a standard costing system which would show the product-wise cost and variances. It was further stated by the Management (April 1981) that the major difficulty in preparing standard cost was the lack of production norms for each operation and that once the norms were finalised and implemented it would be a major improvement in the operating procedures of the Company.

5.11. Overtime Wages

The overtime wages paid to the workers in the production/ maintenance departments of the Company during the three years up to 1979-80 was Rs. 1.22 lakhs in 1977-78, Rs. 3.61 lakhs in 1978-79 and Rs. 4.38 lakhs in 1979-80 and worked out to 15.4 *per cent*, 37.4 *per cent* and 41.1 *per cent* of the salaries paid during the respective years.

While heavy amounts were paid as overtime wages, the production achievements were below the targets as per details given in para 5.07.2. The work load and staff strength had not been fixed in all the departments. The Management attributed (April 1981) the following reasons for the payment of overtime wages:—

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—inflexible attitude of labour; when there was no production in one section due to non-availability of raw materials or any other reasons, the workmen in that section were unwilling to take up work in another section;

—the Company had no work norms and the workmen had developed over a period of several years an attitude of setting up their own work norms which were far below the average work to be performed, with the result that the total production requirements could not be completed in the normal shift and hence substantial overtime had to be resorted to complete the work.

It was further stated by the Management that the work norms would be finalised and implemented after negotiations with the trade unions.

5.12. Material management and Inventory control

5.12.1. *Purchase policy*

The raw materials required for the production of pharmaceutical products were purchased from the canalising agencies and also from open market. Some of the basic drugs (imported and indigenous) which constitute raw materials for drug formulations are distributed by the Government of India through the Indian Drugs and Pharmaceuticals Limited (IDPL) and State Chemicals and Pharmaceuticals Corporation of India Limited (SCPC) under a direct allotment scheme. But in the absence of an industrial licence covering all items of manufacture, the Company was deprived of direct import and allocation of canalised items of raw materials required for production; consequently these had to be obtained from open market at higher rates, resulting in higher costs of production (vide paragraph 5.07.1), involving extra expenditure of Rs. 13.60 lakhs on the purchase of drugs during 1978-79 and 1979-80. This includes Rs. 1.12 lakhs representing the extra cost of 1140 kgs. of Chloramphenicol which was allotted by SCPC in 1978-79 but was not lifted by the Company. The Management stated (April 1981) that records were not available with them to explain why this material was not lifted by the Company. Similarly, the loss on account of local purchase of Aspirin due to non-importation in 1978-79 amounted to Rs. 1.60 lakhs. The Management stated (August 1980) that the cost of production of some of the products would have been definitely lower had the Company imported certain materials.

A review of the purchase of raw materials from open market sources revealed that materials like sulphadiazine, isoniazid (INH) phenobarbitone *etc.*, were procured through two middlemen of Bombay. The materials were, however, actually supplied direct to the Company by export houses (recognised by Government of India) under their own invoice at a lower rate than those quoted by the middlemen, the difference between the two rates having been paid to the middlemen as service charges and commission. Between February 1978 and January 1979 the Company purchased the three items of raw materials at a total cost of Rs. 5.31 lakhs and paid service charges and commission amounting to Rs. 1.82 lakhs to two middlemen at Bombay as per details given in the table below:—

Month of purchase	*Item purchased*	*Amount paid to export house*	*Amount paid to commission agent*	*Percentage of commission paid*
			(*Rupees in lakhs*)	
February 1978	Phenobarbitone (250 kg.)	0.44	0.20	45.5
May 1978	Phenobarbitone (250 kg.)	0.44	0.20	45.5
September 1978	INH Isoniazid (1000 kg.)	1.07	0.38	35.5
December 1978	Sulphadiazine (500 kg.)	0.53	0.63	118.9
January 1979	Sulphadiazine (1400 kg.)	2.83	0.41	14.5
	Total	5.31	1.82	..

The Company had not taken any steps to procure the materials directly from the export houses instead of procuring through middlemen.

5.12.2. *Inventory control*

(i) The comparative position of inventory and its distribution at the close of 3 years up to 1979-80 was as follows:—

			1977-78	1978-79	1979-80
				(*Rupees in lakhs*)	
A.	1.	Raw materials and packing materials	40.75	71.19	53.66
	2.	Stores and spares	2.72	3.45	3.38
	3.	Construction material	0.21	0.08	0.24
	4.	Stationery	0.68	0.53	0.47
	5.	Goods in process	2.38	0.48	0.95
	6.	Finished goods	19.52	19.25	14.00
		Total	66.26	94.98	72.70
B.	1.	Consumption of raw materials and packing materials	121.50	143.03	173.21
	2.	Consumption of stores and spares and lubricants	2.66	3.63	4.38
C.	1.	Year end inventories in terms of months' requirement			
		(a) Raw materials and packing materials	4.02	5.97	3.71
		(b) Stores and spares	12.25	11.39	9.10
	2.	Year end inventories of finished goods in terms of months' production	1.45	0.85	0.55

(ii) A review in audit (July 1980) revealed that the following items of tablets which became unfit for use on the dates noted against each were retained in stock.

	Tablet	*Number* (*in lakhs*)	*Amount* (*Rupees in lakh*)
(i)	Ferrous Sulphate (from November 1976)	15.50	0.13
(ii)	Piperazine Phosphate (from April 1975)	3.90	0.09
(iii)	Paracetamol (from August 1978)	5.40	0.20
	Total		0.42

According to the Management (August 1980) these products have to be written off as attempts made to recover the same by re-process methods were not successful. It was further stated (April 1981) that records were not available to show why these tablets were kept in stock so long.

It was also noticed in audit (July 1980) that 1,750 out of 5,500 bottles of Dextran injection (sale price: Rs. 28 per bottle) produced in 1978-79 remained in Parenteral department and could not be sold due to the presence of 'particulate matter' in the injections. According to the Management (August 1980) the injections required reprocessing and filling in USP-Type I bottles, and this could be done only on receipt of USP-Type I bottles. The bottles were received in October 1980 and the re-processing of defective injections was completed only in July 1981. The extra expenditure on re-processing had not been assessed by the Company (July 1981).

(iii) *Consumption of glass containers*

Various types of glass containers ranging from 540 ml. transfusion bottles to 1 ml. ampoules were in use in the Parenteral and Liquids production departments for filling the various drugs. The Company was the only pharmaceutical company in the country using USP-Type I and II narrow-mouth bottles. A review of the consumption of different type of glass containers revealed that the actual consumption of glass containers far exceeded the standard fixed by the Company. Such excess consumption for the three years up to 1979-80 was of the value of Rs. 6.54 lakhs (Rs. 4.01 lakhs in 1977-78, Rs. 1.30 lakhs in 1978-79 and Rs. 1.23 lakhs in 1979-80). This was also in excess of the norms adopted for price fixation under the Drugs (Price Control) Order, 1970 and ranged between 18.4 and 102.0 *per cent* in 1977-78, 1.6 and 31.0 *per cent* in 1978-79 and 3.0 and 15.9 *per cent* in 1979-80.

The Management attributed (August 1980) the loss to—

—the use of narrow-mouth bottles (540 ml. bottles which accounts for high percentage of breakage) and second-hand bottles;

—unsatisfactory quality of the available supply of ampoules.

The Management further added that due to heavy breakages in the narrow-mouth bottles, the Company had switched over (June 1980) to the use of standard mouth bottles and tightened quality control checks on specification of ampoules. The reasons for not using standard bottles earlier were neither on record nor explained to audit.

(iv) *Consumption of triple aluminium seals*

Triple aluminium seals were used as packing materials for sealing 540 ml. bottles in the Parenteral department of the Company. A review of the consumption of this packing material for the three years up to 1979-80 revealed that the excess consumption of seals over and above the permissible limit of 6 *per cent* varied from 10.2 to 33.8 *per cent*. The loss on account of excess consumption over the norm for the three years up to 1979-80 amounted to Rs. 0.77 lakh (Rs. 0.29 lakh in 1977-78, Rs. 0.14 lakh in 1978-79 and Rs. 0.34 lakh in 1979-80).

According to the Management (August 1980) the excess consumption was due partly to breakage of narrow-mouth bottles at the time of sealing. The Management further stated that strict measures were being taken to minimise excess consumption.

5.13. **Other points of interest**

5.13.1. *Purchase of bottles*

Based on the lowest offer, the Company placed an order (June 1979) on firm 'A' of Bombay for the supply of 2 lakh bottles (narrow-mouth—540 ml.) at Rs. 1,137.24 per 1000 bottles. The Company also requested (June 1979) firm 'B' (who had also responded to tender invitation) to bring down its offer (Rs. 1,240 per 1000 bottles) on par with the lowest offer, by mentioning it as Rs. 1,263.60 per 1000 bottles instead of Rs. 1,137.24 per 1000 bottles. When the firm 'B' intimated to the Company (June 1979) that they would accept the rate of Rs. 1,262.56, an order for the supply of 2 lakh bottles was placed with them. The firm 'B' supplied the bottles between January-April 1980. Thus on account of communication of an incorrect rate, the Company incurred an extra expenditure of Rs. 0.25 lakh on purchase of 2 lakh bottles. The Management stated (August 1980) that the mistake in communication occurred due to oversight.

5.13.2. *Purchase of hand-made ampoules (25 ml.)*

The Company procured 539,305 (value: Rs. 2.32 lakhs) hand-made ampoules for machine filling during 1975-76. Out of 3.18 lakh ampoules issued to production during 1975-76, 1.27 lakh ampoules (value: Rs. 0.55 lakh) were lost due to breakages in the process of machine filling. Due to heavy breakages in machine filling the Company was left with 1.31 lakh ampoules (value: Rs. 0.56 lakh) up to February 1979. In March 1979 the Company sold 1.08 lakh ampoules (value: Rs. 0.46 lakh) in auction for Rs. 0.10 lakh thereby incurring a loss of Rs. 0.36 lakh. The Company had not disposed of (March 1981) the remaining 0.23 lakh ampoules (value: Rs. 0.10 lakh).

The Management stated (August 1980) that it was found only after extensive trials that hand-made ampoules were unsuitable for machine filling and that after assessing the heavy loss the Company had switched over to machine made ampoules.

5.13.3. *Export of Ferrous Sulphate to Sri Lanka*

The Company secured orders (between June-August 1976) from the State Pharmaceutical Corporation of Sri Lanka for the supply of 120 lakh ferrous sulphate tablets at the negotiated rate of Rs. 3.35 per 1000 tablets. The entire supplies were effected in November 1976. The Company realised Rs. 0.46 lakh on this export deal after taking into account the export subsidy, draw back *etc.* It was noticed in audit that the Company had sold the same tablets to the State Government during 1976-77 at Rs. 10.60 per 1000 tablets. The cost of the production during 1976-77 as worked out by the Company was Rs. 11.62 per 1000 tablets. Thus on the maiden export venture, the Company sustained a loss of Rs. 0.93 lakh. The Management stated

(June 1977) that the export rate was worked out on the basis of the material cost alone to make it more competitive and any loss on such a venture could be considered as an export promotion expenditure. The Management further added (May 1978) that they had to enter the field of export and this export was of a propaganda type, which led to further export orders from Sri Lanka.

It was noticed in audit (July 1980) that later the Company exported (February —March 1978) 40,000 bottles of Normal saline (value : Rs. 2.20 lakhs) to Sri Lanka and incurred a loss of Rs. 1.90 lakhs computed with reference to cost of production. The Company did not make any export sales thereafter.

5.13.4. *Label overprinting machine*

The Company purchased (November 1977) a label overprinting machine at a cost of Rs. 0.35 lakh, in addition to the one it was already operating (value: Rs. 0.29 lakh). The second machine was installed (June 1978) and put into operation only in March 1980. The machine had not been in regular use thereafter. The Management stated (April 1981) that the machine was still not being operated because of the refusal of workmen to operate until work norms were implemented.

5.13.5. *Idle public address system*

In October 1975, the Company installed a public address system in its building at a cost of Rs. 0.28 lakh on the ground that such a system would, *inter-alia*, help to increase productivity. The system was commissioned in December 1975 but the operation was stopped in December 1976. The Management stated (August 1980) that the operation could not be continued as the operator had asked for special allowances which could not be granted. It was further stated (April 1981) by the Management that they expected to utilise the system after implementation of work norms.

5.13.6. *Supply of defective tablets*

In April 1978, the Director General of Supplies and Disposals (DGS&D), New Delhi placed order in response to the Company's offer for the supply of 458.37 lakh vitamin B-Complex tablets (Prophylactic) at the rate of Rs. 28 per 1000 tablets (value: Rs. 12.83 lakhs). The supplies were to commence in June 1978 and be completed by the end of March 1979, in four equal instalments to four consignees (Government Medical Stores Depots at Madras, Bombay, Karnal and Calcutta). The Company supplied 213.24 lakh tablets in October 1978 and January 1979 to the four consignees. The balance quantity of tablets were not supplied (March 1981). Nevertheless the Company held in stock (March 1981) about 12.83 lakh tablets (value: Rs. 0.36 lakh) produced for supply to DGS&D even after their date of expiry in September 1980.

In the meantime, the Company received complaints from 13 parties (Government hospitals, Medical Stores Depots) between September 1979 and July 1980 to the effect that 74.37 lakh tablets supplied, were broken and reduced to powder. The Company agreed from time to time to replace the defective tablets free of cost (estimated cost of production: Rs. 30 per 1000 tablets). In March 1981, the Company replaced 1 lakh tablets to a Government hospital; the remaining defective tablets were not replaced so far (April 1981). Based on the cost of production, the loss due to the production of 87.20 lakh sub standard tablets (74.37 lakh tablets awaiting replacement/replaced and 12.83 lakh tablets in stock) amounted to Rs. 2.59 lakhs.

According to the Management (September 1980) the cost of tablets based on the then existing standard formulation was found to be higher than the quoted rate and hence certain items of excipient (lactose) and binding materials were deleted or reduced from the formulation with a view to bring down the cost.

5.13.7. *Purchase of Paracetamol*

(a) The Company invited tenders (May 1979) and accepted (May 1979) the lowest offer of a Bangalore firm for supply of 2000 kgs. of Paracetamol at Rs. 58 per kg. (*f.o.r.* Bangalore excluding CST). Orders were however placed (21st June 1979) on the Bangalore firm for immediate supply of only 500 kgs. of the material. The firm completed the supply and intimated

(17th July 1979) that their quotation (May 1979) was no more valid for the balance quantity of 1500 kgs. In the meantime, the Company placed order (6th July 1979) for immediate supply of 1500 kgs. on a local firm (which had also responded to the tender in May 1979 and was entitled to price preference) at the rate of Rs. 66.33 per kg. inclusive of sales tax and delivery at Company's premises. On the local firm expressing its inability to effect immediate supply, an official of the Company visited (18th July 1979) the factory of the firm and found that their capacity to complete the supply within the scheduled time was limited and that the quality of their supplies also could not be ensured. The Company, therefore, placed orders (between October 1979 and January 1980) on the Bangalore firm for the supply of 5000 kgs. of the material at Rs. 78 per kg.

The failure of the Company to ascertain before placing orders on the local firm, its capacity to complete the supply (1500 kgs.) resulted in an avoidable extra expenditure of Rs. 0.30 lakh. The Management stated (August 1980) that the orders were placed on the local firm with a view to encourage a local manufacturer.

(b) The Company purchased (October 1978) 1640 kgs. of Paracetamol (value : Rs. 1.02 lakhs) from a Bombay firm. In December 1978, the Company found that 885 kgs. of material became coloured and hence could not be used for production. A part of the defective material in stock (385 kgs.) was reprocessed and utilised. The Management intimated (August 1980) that 500 Kgs. of the material was returned to the suppliers and steps were being taken to recover the cost of the material from the suppliers. However, it was found in audit (February 1981) that neither the material was returned to the suppliers, nor any claim raised against them for the supply of defective materials (500 kgs.: Rs. 0.31 lakh) and towards reprocessing charges (385 kgs. :Rs.0.04 lakh). The Management explained (February 1981) that due to oversight the material was not returned and the claim was not raised on the suppliers. The Company continued business with the suppliers, in spite of the supply of defective material, until they were blacklisted (April 1980).

Summing up

(i) The work on the project for the establishment of a drug formulation unit commenced in February 1972 with an estimated outlay of Rs. 30 lakhs (revised to Rs. 105.50 lakhs in February 1976); the project was completed by the end of March 1979 at a total cost of Rs. 94.11 lakhs.

The suggestions (February 1976) of the holding company to draw-up a complete project to balance capacities of various operations and conduct work study to achieve higher out put remained to be implemented.

(ii) The Company earned profits (before tax) of Rs. 23.71 lakhs, Rs. 3.42 lakhs and Rs. 3.13 lakhs during the 3 years up to 1979-80 respectively.

(iii) The percentage of utilisation to achievable capacity varied from 21.3 to 152.6 during the 3 years up to 1979-80. The supplies to State Government constituted 95 *per cent* of the Company's production. Some of the orders were allowed to lapse due to non-availability of canalised items of drugs in time.

(iv) The actual sales were less than the budgeted sales.

(v) The Company had undertaken a project for manufacture of vitamin 'A' at an estimated cost of Rs. 500 lakhs. The work on the project which was to be completed by April 1980 commenced only in April 1979 and was still in progress and the expenditure incurred up to March 1980 was Rs. 75.95 lakhs.

(vi) The Company made arrangements for the construction of certain buildings at a site through which a 66 KV line passed, without the approval of the Kerala State Electricity Board, resulting in abandonment of the site and consequent infructuous expenditure of Rs. 0.31 lakh.

(vii) There was no regular system of cost analysis and reporting to the Management in the Company.

(viii) The overall percentage of overtime wages paid to total wages paid increased from 15.4 in 1977-78 to 37.4 in 1978-79 and to 41.1 in 1979-80.

(ix) Some of the drugs canalised through SCPC were purchased locally at rates higher than the rates charged by SCPC involving an extra expenditure of Rs. 13.60 lakhs during 1978-79 and 1979-80.

(x) The commission paid to middlemen on the purchase of raw material revealed that the company paid commission at rates ranging from 14.5 to 118.8 *per cent.*

(xi) The consumption of different type of glass containers far exceeded the standard fixed by the Company. The excess consumption over the norms for three years up to 1979-80 was Rs. 6.54 lakhs.

(xii) The excess consumption of triple aluminium seals over and above the permissible limit (6 *per cent*) fixed worked out to Rs. 0.77 lakh for the three years up to 1979-80.

(xiii) On account of communication of an incorrect rate, the Company incurred an extra expenditure of Rs. 0.25 lakh on purchase of 2 lakh narrow-mouth bottles.

(xiv) The Company had undertaken export of ferrous sulphate tablets to Sri Lanka during 1976 and normal saline bottles in February-March 1978 and incurred a loss of Rs. 2.83 lakhs.

(xv) The Company could not utilise a label overprinting machine costing Rs. 0.35 lakh and a public address system costing Rs. 0.28 lakh due to personnel problems.

(xvi) 74.37 lakhs Vitamin B-Complex (out of 213.24 lakh tablets) supplied to Government Medical Stores Department at Madras, Bombay, Karnal and Calcutta were found broken and reduced to powder. The loss to the Company on account of the defective tablets awaiting replacement and stock held after date of expiry (12.83 lakh tablets) amounted to Rs. 2.59 lakhs.

Government to whom the above points were reported (January 1981) generally endorsed the views of the Management (April 1981).

SECTION VI

THE KERALA STATE COIR CORPORATION LIMITED

6.01. Introductory

The Kerala State Coir Corporation Limited was incorporated on 19th July 1969 for developing and stabilising the coir industry in the State and for working as an export house for coir and coir products.

6.02. Activities

The main activities of the Company are:

—purchase of coir goods from small scale manufacturers;

—distribution of raw materials to small scale manufacturers;

—grant of financial assistance to small scale manufacturers;

—carrying out finishing works in respect of manufactured articles in the Company's factory; and

—export of coir goods.

The Company became an export house in September 1978, but the extension of registration as an export house was not granted by the Government of India after June 1979, due to the failure of the Company to fulfil certain conditions relating to registration of export houses. Some aspects of the working of the Company were dealt with in Section VII of the Audit Report (Commercial) for the year 1972-73. These were examined in the Thirtythird Report of the Committee on Public Undertakings (December 1976).

6.03. Organisational set up

As per the Articles of Association of the Company, the maximum number of directors shall be 11 and are to be appointed by Government. As on 31st March 1980 the Board consisted of 11 directors of whom 3 were Government officials. The Managing Director appointed by Government is the chief executive of the Company. The Board of Directors of the

Company constituted (August 1970) three sub committees namely Business sub committee, Appointment sub committee and Maintenance sub committee and all the decisions of the sub committees are ratified by the Board. The State Government issued instructions (January 1980) to discontinue the functioning of the sub committees on a permanent basis as (i) creation of intermediary authorities exercising specific powers was not consistent with the responsibilities vested in the chief executive and his answerability and (ii) it would lead to avoidable expenditure and delay. The Board of Directors requested the Government to reconsider their decision (May 1980). The Management stated (May 1981) that while sub committees constituted on a permanent basis were discontinued, some sub committees had been functioning now on a temporary basis.

6.04. Capital structure

6.04.1. *Share capital*

The authorised and paid-up capital of the Company as on 31st March 1980 were Rs. 100 lakhs and Rs. 99.31 lakhs respectively. The entire paid-up capital was contributed by the State Government. Based on the instructions of Government (April 1980) the Company proposed to reduce the paid-up capital by Rs. 32 lakhs. This amount was proposed to be invested in the share capital of a new Company, Foam Mattings (India) Limited. The proposed reduction had been approved by the members of the Company in the extraordinary general meeting held in June 1980. Further action was awaited (July 1981).

6.04.2. *Borrowings*

The Company's borrowings as on 31st March 1980 were Rs. 77.43 lakhs advanced by the State Government. The interest due and payable to Government at the end of 1979-80 amounted to Rs. 2.08 lakhs.

Mention was made in para 75 of the Audit Report (Civil) for the year 1975-76 about the default in repayment of interest free loan of Rs. 10 lakhs paid to the Company in May 1972 under the Distress Relief Scheme for purchase of coir yarn. The decision of Government (August 1979) to levy interest (at 10 *per cent* per annum) on the un-paid balance (Rs. 8.50 lakhs) with effect from May 1973 had not been enforced so far (July 1981).

Another interest free loan of Rs. 25 lakhs was sanctioned by Government (June 1975) to the Company to enable purchase of coir products to provide relief to coir workers. According to the terms and conditions (July 1975) the entire loan was to be repaid within one year from the date of payment and the Company should maintain separate accounts for the sale of items procured under the scheme, a separate bank account being opened for the purpose. These conditions had not been fulfilled by the Company. The stock sold up to July 1978 was of the value of Rs. 8.12 lakhs out of the purchases (Rs.21.33 lakhs) made under the Distress Relief Scheme but the amount was not remitted to Government concurrently. The Management stated (May 1981) that the Company did not remit the sale proceeds then and there as funds available with the Company had to be utilised for the implementation of the foam mattings project. Government decided (February 1979) to levy interest at 10 *per cent* including penal interest (at 2.5 *per cent*) from July 1975 onwards.

The Company had also not finalised the accounts relating to the scheme with a view to ascertain separately the extent of profit/loss of the scheme (July 1981).

6.05. Financial position*

The table below summarises the financial position of the Company, under broad headings for the 3 years up to 1979-80:—

	1977-78	1978-79	1979-80
Liabilities		*(Rupees in lakhs)*	
(a) Paid-up capital	90.00	99.31	99.31
(b) Reserves and Surplus	1.11	1.11	2.85
(c) Borrowings	46.61	75.66	117.41
(d) Trade dues and other liabilities (including provisions)	16.67	8.72	18.22
Total	154.39	184.80	237.79

*The financial position is based on provisional accounts prepared by the Company.

	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
Assets			
(a) Gross block	24.95	24.67	28.29
(b) *Less*: Depreciation	6.53	7.03	7.97
(c) Net fixed assets	18.42	17.64	20.32
(d) Current assets, loans and advances	134.35	158.04	217.17
(e) Miscellaneous expenditure	1.62	9.12	0.30
Total	154.39	184.80	237.79
Capital employed	136.10	166.96	219.27
Net worth	(+) 89.49	(+) 91.30	(+) 101.86

Note:—1. Capital employed represents net fixed assets *plus* working capital.

2. Net worth represents paid-up capital *plus* reserves and surplus *minus* intangible assets.

6.06. Working results

Based on the figures appearing in the provisional accounts the working results of the Company for the 4 years up to 1979-80 were as under:—

	1976-77	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)		
A. *Income*				
Sales	142.59	110.34	83.52	193.60
Other income	6.85	5.28	2.97	15.65
Closing stock	55.45	32.50	37.56	86.77
Total	204.89	148.12	124.05	296.02
Less: Opening Stock	64.63	55.45	32.50	37.56
Balance	140.26	92.67	91.55	258.46

	1976-77	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)		
B. Expenditure				
Purchases	91.86	55.11	63.13	204.95
Salary, wages and allowances	11.01	11.80	12.93	13.91
Interest	2.68	1.20	1.79	3.54
Selling expenses	2.92	3.03	5.97	3.01
Other expenses	30.21	24.06	15.23	23.00
Total	138.68	95.20	99.05	248.41
Profit (+)/Loss (—)	(+) 1.58	(—) 2.53	(—) 7.50	(+) 10.05

The losses during certain years were attributed to lower export sales. There was no practice in the Company of preparing budget estimates and targets for the various activities.

6.07. Purchase and processing

6.07.1. *Husk retting*

As per the instructions issued (May 1973) by the State Government, the Company commenced direct purchase and retting of husks from 1973-74. During the period up to 1976-77, 26 husk retting centres were opened at different locations. The scheme was implemented through agents such as primary coir societies and private individuals appointed by the Company. It was decided (December 1977) to discontinue retting centres in localities which were rented to primary societies. It was also decided that no centre would be opened in areas where societies were functioning in the same field. The retting operations had steadily declined since then and had come to an end by September 1980.

The table below gives the details of husks procured under the scheme during the period from 1973-74 to 1979-80:—

Year	*Number of centres operated*	*Husks procured (Number in lakhs)*
1973-74	2	8.48
1974-75	15	33.12
1975-76	26	134.00
1976-77	22	53.43
1977-78	14	11.90
1978-79	9	4.66
1979-80 (up to September 1980)	2	0.14

Accounts of husks retted, quantity issued for defibering, quantity of yarn obtained, *etc.*, were not maintained in any of the centres.

Husk retting operations at Beypore centre commenced in 1975 and 14.40 lakh retted husks (value: Rs. 1.01 lakhs) remained in stock at the end of March 1980. The Management declared (May 1980) the stock to be rotten and of bad quality. It was thereupon decided (May 1981) to dispose of the retted husks at a cost of Rs. 0.43 lakh. The retted husks had not been disposed of so far (July 1981).

An agent was appointed by the Company for retting of husk, distribution of the retted husk to the persons nominated by the Company and collection of yarn from the persons to whom the retted husks were distributed. The agent was paid a commission of 0.5 *per cent* of the purchase price of husk for retting and 2.5 *per cent* of the purchase price of yarn for services connected with the collection and storage of yarn.

The number of retted husks in stock at Purathur centre as on 31st March 1979 were declared by the agent as 2.54 lakhs (value: Rs. 0.16 lakh). Though there was no sale from the centre since then, a physical verification of stock conducted (January 1980) by an official of the Company revealed that there was no stock. The Board decided (May 1980) to resort to legal proceedings againt the agent. The proceedings had not been initiated so far (July 1981). Similarly, there was no physical stock of retted husks in Badagara centre as on 31st March 1978 against a book balance of 31.10 lakhs (value: Rs. 2.05 lakhs). The Management stated (May 1981) that a suit had been filed (1977) against the agent.

6.07.2. *Performance of defibering machine*

The Company placed (December 1974) an order with a firm at Madras for the purchase of a defibering plant at a negotiated price of Rs. 0.95 lakh. The plant with a capacity to defiber 10,000 husks in 16 hours per day was received in January 1975 and erected in May 1975. The table below compares the quantity of husks defibered during the three years up to 1979-80:—

Year	*Working days (number)*	*Husks that could be defibered as per specifications*	*Husks defibered*	*Percentage of utilisation*
		(*Number in lakhs*)		
1977-78	301	30.10	11.88	39.5
1978-79	304	30.40	18.24	60.0
1979-80	302	30.20	17.38	57.6

The Company had not obtained any performance guarantee. According to the Board of Directors (May 1980) the plant suffered from "inherent mechanical deficiency" and was perpetually under repair.

The Company decided (May 1980) to dispose of the machine on the ground that the chances of working it profitably were remote. The machine had not been disposed of (July 1981).

6.08. Sales performance

6.08.1. *Working of show rooms*

With a view to augment the sales of coir products within the country, the Company established show rooms at New Delhi (January 1976), Calcutta (September 1976) and Ahmedabad

(November 1977). The break-even turnover per annum was estimated (May 1978) at Rs. 10.74 lakhs, Rs. 7.15 lakhs and Rs. 6.72 lakhs for New Delhi, Calcutta and Ahmedabad show rooms respectively. The table below gives the details of sales and working results of these three show rooms during the 3 years up to 1979-80:—

Year	New Delhi		Calcutta		Ahmedabad	
	Sales	Profit (+)/ Loss (—)	Sales	Profit (+)/ Loss (—)	Sales	Profit (+)/ Loss (—)
	(Rupees in lakhs)					
1977-78	6.42	(+) 0.50	0.90	(—) 0.57	0.57	(—) 0.41
1978-79	5.95	(—) 0.54	1.48	(—) 0.45	1.69	(—) 0.29
1979-80	8.33	(+) 0.57	2.47	(—) 0.25	3.07	(—) 0.72

Note:—The figures are based on tentative accounts.

According to the Management (May 1981), it would take at least five years for developing the sales in the show rooms and projecting its image in the market as a reliable source of supply of quality goods.

The Company took (September 1976) a building at Ahmedabad on a rent of Rs. 1,659 per month for establishing a show room. The interior decoration was completed (December 1976) at a cost of Rs. 0.57 lakh. As the staff required for the show room were appointed late (September 1977), there was delay in the opening of the show room which started functioning from November 1977. This resulted in an infructuous expenditure of Rs. 0.20 lakh towards rent for a period of 12 months.

The two directors who visited the Ahmedabad show room in April 1979 observed that—

—orders were cancelled by customers due to delay in execution;

—goods were stocked in heaps without any systematic arrangements; and

—there were complaints from customers regarding the quality of the goods sold.

It was further observed that the low sales at Ahmedabad were due to the show room being located well away from the heart of the city. The Board decided (February 1980) to shift the show room to a better place. The decision was yet to be implemented (May 1981).

6.08.2. *Export sales*

(a) The Company exports coir yarn, coir mats and coir mattings. The table below gives the particulars of exports for the 4 years up to 1979-80:—

Year	*Coir yarn*		*Coir mats*		*Coir mattings*		*Total*	
	Quantity (tonnes)	*Value (Rupees in lakhs)*	*Quantity (tonnes)*	*Value (Rupees in lakhs)*	*Quantity (tonnes)*	*Value (Rupees in lakhs)*	*Quantity (tonnes)*	*Value (Rupees in lakhs)*
1976-77	33.39	1.69	331.79	27.20	1,229.62	79.83	1,594.80	108.72
1977-78	15.70	0.81	321.05	23.32	939.90	53.05	1,276.65	77.18
1978-79	33.16	1.54	252.58	20.75	288.29	25.91	573.73	48.20
1979-80	259.11	15.06	276.86	23.79	725.41	75.83	1,261.38	114.68

The aggregate value of exports to Denmark and USSR constituted 62,70,50 and 63 *per cent* respectively of the total exports during these years. The Company's attempts to develop new markets had not apparently borne fruit.

The reasons for the fall in exports in 1977-78 and 1978-79 had not been investigated.

(b) Against orders received from a Danish firm for supply of coir mats and mattings during the period from April 1976 to July

1977, the Company shipped (August 1977) goods of the value of Rs. 7.37 lakhs. The documents were accepted by the buyer and payment was received in full in December 1977. The buyers informed (December 1977) the Company that goods supplied were of inferior quality and demanded £10,000 (Rs. 1.52 lakhs) towards compensation for the loss. In the meantime, the Company shipped (November 1977) another consignment for Rs. 9.44 lakhs. The buyer refused (December 1977) to accept the documents in respect of the mattings (value: Rs. 8.09 lakhs) anticipating that the quality of this consignment would also be inferior and demanded prior inspection of goods. The Chairman and the Business Manager were then directed by the concerned sub committee of the Board to proceed to Denmark for personal discussions with the buyer. As the discussions failed, they reported (20th January 1978) that the buyer was prepared to clear the documents only if a discount of £26,000 (Rs. 3.97 lakhs) was allowed as compensation for the inferior quality of material shipped in August 1977 and November 1977. The Board of Directors, therefore, decided (30th January 1978) to direct the Chairman and the Business Manager to arrange for spot inspection of the consignment. As the Chairman and the Business Manager had left (1st January 1978) before receipt of directions from the Company, the joint inspection agreed to by the buyer could not be arranged. An inspection agency was, therefore, appointed (February 1978) to inspect the consignment at Copenhagen. It was subsequently decided (April 1978) by the Managing Director that the consignment need not be inspected at the wharf and the inspection could be carried out after the consignment was cleared by the buyer. The buyer cleared (June 1978) the consignment and made available only 10 sq.m. of the mattings for inspection by the agency. After inspection of the 10 sq.m. of the mattings the agency reported (July 1979) that there were latex spots on the front side, the appearance of the texture gave reason for underweight and the specification had not been adhered to. The buyer retained Rs. 4.42 lakhs towards loss, interest and warehouse charges and remitted the balance amount of Rs. 3.67 lakhs to the Company.

According to the Managing Director of the Company (October 1978), it was found not feasible to conduct inspection of the consignment at the wharf on account of the big sized rolls. The buyer made available only 10 out of 50,000 sq.m. of the material for inspection at his premises. But if a small sample was to be inspected, it was not clear why the same could not have been done at the wharf before the consignment was cleared by the buyer. The Company failed to refute the claim for reduction made by the buyer as the entire goods had not been put to inspection nor was there any evidence to show that the sample test could not be relied upon. In March 1980, the buyer agreed to make a payment of £8,000 (Rs. 1.36 lakhs) in eight instalments as a gesture of goodwill. No amount had been received by the Company so far (July 1981). According to the Management (July 1981) it was decided not to take legal proceedings as exports to the party accounted for about 25 *per cent* of the Company's total exports.

(c) Against an order (June 1976) from an American firm for supply during August 1976 of 854 bundles of coir mats (value: Rs. 2.30 lakhs) the Company despatched 535 and 73 bundles in September and November 1976 respectively. The remaining 246 bundles were kept stored in the godown at Cochin from September 1976 to July 1978 and were eventually sold locally in July 1978 as the foreign buyer failed to give clearance for shipment of this quantity the supply of which was far behind the agreed schedule. The local sale of the material fetched Rs. 0.43 lakh whereas the export sales would have yielded Rs. 0.79 lakh. The procurement price of the material was Rs. 0.57 lakh.

(d) The Company received (March 1974) telegraphic orders from a Danish firm for immediate supply of 50 rolls of panama mattings for Rs. 0.82 lakh. Though the Company had kept ready the mattings for inspection by the Export Inspection Agency and booked space for the cargo in a ship which was on port on 21st May 1974, the materials could not be shipped due to non-receipt of confirmation order from the buyer. The confirmation order was received by the end of May 1974, but the mattings could be despatched only in October 1974 due to non-availability of ship. The buyer took delivery of the material in December 1974. The bill for Rs, 0.82 lakh drawn on the buyer at 90 days' delivery on acceptance was dishonoured when presented for payment in January 1975 due to belated despatch of goods. The Company preferred a claim (April 1975) with the Export Credit and Guarantee Corporation Limited (ECGC) with whom a credit limit up to Rs. 0.50 lakh against the buyer had been obtained in June 1974. This claim was rejected (December 1977) on the ground that the bill drawn in November 1974 on 90 days' delivery on acceptance and due in January 1975 was extended by the Company up to February 1975 without ECGC's prior approval. In the meantime, the Company could collect (May 1976) Rs. 0.38 lakh from the buyer and the balance of Rs. 0·44 lakh remained unrecovered (July 1981).

(*e*) *Export on behalf of private firms*

The Company offered (January 1977) to supply tea leaf bags made out of coir to a private firm at Rs. 9.90 per bag *f. o. b.* Bombay for export sales. Based on this offer, an agreement was concluded (January 1978) with the private firm for supplying 10,000 bags. As per the terms of the agreement, the export order secured by the firm was to be executed by the Company in as much as the firm was not eligible to export the goods on its own. The Company was allowed under the agreement to obtain a price of Rs. 9.90 per bag whereas the entire sale proceeds *less* the Company's sale price and freight charge, *etc.* were to be retained by the firm . The goods were shipped by the Company to Tanzania in February 1978. Out of the sale proceeds of Rs. 2.05 lakhs obtained, the share of the firm after meeting the Company's sale price and freight *etc.* amounted to Rs. 0.74 lakh.

In July 1978, the same firm asked for a quotation for the supply of 15,000/20,000 bags. Though it was known that the margin secured by the firm in the previous transaction was as high as about 36 *per cent*, the Company offered to supply the bags at the rate of Rs. 9.50 per bag *f.o.b.* Cochin (corresponding *f.o.b.* Bombay price: Rs. 9.95 per bag) which was only 5 paise per bag higher than the rate against which the firm was earlier found to have secured a very high margin.

The Company despatched 15,000 bags to Tanzania in September 1978. Against the total sale proceeds of Rs. 3.31 lakhs, an amount of Rs. 1.06 lakhs *i. e.* a margin of 32 *per cent* accrued to the firm in terms of the agreement. There was no reason on record to show why the Company did not in the normal course of business, quote higher rates, atleast in the subsequent tender and obtain for iteself a larger share of margin which accrued to the intermediary firm.

6.09. Credit control

6.09.1. *Advances to small scale dealers*

The Company follows a policy of supplying raw materials on credit and allowing cash advances to small scale manufacturers for the supply of mats according to specification and directions issued by the Company. An agreement in the prescribed form is entered into with the dealer with two sureties to make good any amounts due to the Company and pay 15 *per cent* interest on all amounts overdue for more than a month. The value of raw materials issued and advances made in cash to the dealers are adjusted against the value of finished goods as and when finished goods are supplied by them.

The table below gives details of advances pending recovery as at the end of each of the 5 years up to 1979-80:—

As on 31st March	*Number of cases*	*Advances outstanding for*		*Total*
		less than six months	*more than six months*	
			(Rupees in lakhs)	
1976	405	3.17	4.00	7.17
1977	389	2.99	6.37	9.36
1978	401	8.67	1.03	9.70
1979	446	NA†	NA†	11.85
1980	439	8.05	11.74	19.79

† NA denotes not available

Confirmation of balances was awaited in several cases. Due to failure on the part of the Company to take timely action for recovery of dues, within a period of three years several debts had become time-barred as detailed below:—

Year	*Number of cases*	*Amount which had become time-barred*
		(Rupees in lakhs)
1975-76	89	0.39
1976-77	160	0.64
1977-78	155	0.74
1978-79	NA†	NA†
1979-80	152	0.72

There was no system of periodical review of the balances and for taking appropriate action for the recovery of the amounts. The Management stated (May 1981) that a system of periodical review had since been introduced.

6.09.2. The Company received (December 1973) six cheques aggregating Rs. 0.26 lakh from two firms at Alleppey to whom the Company had sold materials on credit. The cheques were not presented for encashment within the validity period.

The Company initiated (September and October 1974) legal action against the firms for realisation of the dues and obtained court decrees (March 1975) for recovery of the amounts. Further developments were awaited (November 1981). The Board had decided (August 1977) that action should be taken against the officials responsible. But it was stated by the Management (May 1981) that no further action could be taken against the officials, as according to the findings of the enquiry officer, the officials were not responsible for non-encashment of cheques.

† N A denotes not available

6.09.3. *Financial aid to a private manufacturer*

The Company concluded (April 1976) an agreement with a firm in Ernakulam whereby it was agreed to finance the firm for supply of 4,400 numbers of equipment camouflage nets to the Defence Department as per their order placed through DGS & D in January/February 1976 at a total cost of Rs. 1.25 lakhs. According to the terms of the agreement, the Company was to advance an amount not exceeding Rs. 0.60 lakh to the firm against commission of 5 *per cent* of the value of the order as financing charges and 10 *per cent* interest on amounts advanced. According to the agreement, the firm was to provide by way of security an equitable mortgage of property and to furnish a power of attorney enabling the Company to get direct payment from the DGS & D for supplies made by the firm. The property accepted in equitable mortgage was, however, having a prior charge in favour of a Bank.

The supply should have been completed by June 1976; the period was extended by DGS & D up to March 1977. During the period from February 1976 to March 1977 the Company had advanced Rs. 0.96 lakh of which Rs. 0.45 lakh was received from the DGS & D up to July 1977 and no remittance was received thereafter. The DGS & D cancelled the order due to the failure of the firm to effect supplies in time. The Company filed (December 1978) a suit in the Court for realising Rs. 0.58 lakh (including court fee: Rs. 0.07 lakh). Further developments were awaited (November 1981).

6.09.4. *Grant of advance*

According to the procedure laid down (December 1974) by the Business sub committee, cash advance amounting to 75 *per cent* of the total value of goods received was to be made to private manufacturers who supplied goods to the Company, the balance payment being made after final inspection. In the case of supplies received from one firm of Varkala, cash advance ranging up to 90 *per cent* of the value of materials supplied (Rs. 4.42 lakhs) was paid during the period from May 1976 to January 1977.

Several other concessions such as payment of lump sum advance, permission to take back goods supplied without refund of advance drawn, *etc.* were also allowed to the firm resulting in accumulation of amounts due to the Company. Special reasons, if any, for the grant of such concessions were not on record. The Company filed (January 1979) a civil suit against the firm for the recovery of Rs. 1.22 lakhs. A compromise was made through Court in which, the supplier agreed to clear the dues by 30th March 1980. The Management stated (May 1981) that as the firm failed to clear the dues, the matter had been referred to the legal advisor for filing an execution petition.

6.09.5. *Assistance to private firms for export*

A private firm at Cochin sought (May 1972) the Company's assistance in the matter of export of coir goods to the value of about Rs. 2 lakhs for which it had secured orders from the foreign buyers. An agreement was entered into between the firm and the Company (June 1972) under which the Company was to finance purchase of goods meant for export and effect export through their shipping agents in the name of the private firm holding all the time a lien over the goods till export and the custody of documents of title to the goods after export, for realisation of amounts advanced. The Company was also entitled to 5 *per cent* commission over the *f. o. b.* value of all exports.

A further agreement was entered into (October 1974) with the firm for a period of 3 years under which the Company was to advance necessary funds on production of trust receipts from their shipping and forwarding agents. Interest at the rate of 8.5 *per cent* on advances outstanding for more than two months was to be recovered over and above 5 *per cent* commission on *f. o. b.* value of exports. During the period up to October 1977, the Company had advanced Rs. 53.23 lakhs and recovered Rs. 52.08 lakhs leaving a balance of Rs. 1.15 lakhs, overdue for payment.

During the period up to October 1977, the commission received amounted to only Rs. 1.85 lakhs which worked out to only 3.5 *per cent* on the amounts advanced.

It was observed in audit that in relaxation of the terms agreed to, the Company made advance payments without insisting on the production of trust receipts and had advanced money to the firm for purposes other than export. Prompt action was also not taken for the recovery of interest and commission due from the firm. The Company filed a suit in November 1979 for recovery of the outstanding dues of Rs. 1.15 lakhs and interest thereon. The party had remitted Rs. 0.37 lakh after filing of the suit. The details of commission and interest due from the firm had not been worked out and further developments were awaited (November 1981).

The Business sub committee required (June 1977) the Managing Director to investigate the circumstances under which commission and other charges due to the Company were not recovered. The investigation had not been completed so far (July 1981).

6.09.6. In December 1974, the Company entered into an agreement with a firm at Alleppey whereby it was agreed that the Company would make available goods and meet freight and shipping charges against orders for coir products secured by the firm from overseas. The Company was entitled to a commission of 5 *per cent* on the *f.o.b.* value of the goods *plus* interest at 15 *per cent* or actual bank charges and interest whichever was higher. Against the order for 334 bundles of coir mats, the Company shipped 200 bundles of coir mats in July 1974 valued at £2,120.93 (Rs. 0.40 lakh). The bills were not honoured by the buyer when presented for payment. The papers relating to the execution of the export order were not made available to Audit. As at the beginning of June 1975, the firm owed Rs. 0.92 lakh to the Company towards expenditure incurred on the execution of the export order. The suit filed by the Company (October 1976) for the recovery of the amount was decreed in September 1977 in favour of the Company. But an execution petition for the recovery of the amount was filed by the Company only in March 1979. Further developments were awaited (November 1981).

The Company had meanwhile received Rs. 0.36 lakh during May/November 1978 from the ECGC in settlement of the claim. An amount of Rs. 0.56 lakh was due from the firm apart from interest and legal expenses amounting to Rs. 0.36 lakh (May 1981).

6.10. Inventory control

The table below gives the details of purchases, sales, *etc.* for the 4 years up to 1979-80:—

Year	*Opening stock*	*Purchases during the year*	*Sales during the year*	*Closing stock*
		(Rupees	*in lakhs)*	
1976-77	64.63	91.86	142.59	55.45
1977-78	55.45	55.11	110.34	32.50
1978-79	32.50	63.13	83.52	37.56
1979-80	37.56	204.95	193.60	86.77

The table below gives the inventory and its distribution at the end of 4 years up to 1979-80:—

	1976-77	1977-78	1978-79	1979-80
		(Rupees	*in lakhs)*	
Mats	20.26	11.05	7.45	21.00
Mattings	3.48	3.84	3.20	25.97
Carpets	0.58	0.59	..	..
Yarn	3.72	1.71	0.41	12.26
Other items	0.09	1.18	1.28	0.99
Stores, spares and packing materials	4.37	1.80	2.40	1.37
Stock at centres	9.86	6.05	4.90	2.61
Stock at show rooms	1.85	2.02	3.57	5.45
Stock with forwarding agents	9.67	3.20	13.18	15.69
Consignment stock	1.57	1.06	1.17	1.43
	55.45	32.50	37.56	86.77
Capital stores	0.01	0.31	0.32	0.28
Total	55.46	32.81	37.88	87.05

Note:—1. Figures are based on tentative accounts.

2. The details of various items included in stock at show rooms, centres, with forwarding agents and consignment stock were not available.

For the year 1975-76 and 1976-77 no stock ledgers were maintained and the value of closing stock for the accounts was worked out on the basis of verification conducted at the end of the year.

The stock ledgers started being maintained from 1st April 1977. No physical verification of stores and finished goods was, however, conducted as at the end of 1977-78, and the ledger balances were adopted for the purpose of accounts. It was stated by the Management (June 1979) that physical verification could not be done as they were busy with exports.

Though an inventory of stores and finished goods was prepared as at the end of March 1979, it was not reconciled with the book balances. The report on physical verification, if any, conducted as at the end of March 1980 was not available in audit (October 1980).

The physical verification statements did not specify whether the entire goods were of saleable quality though certain items of stores including yarn were lying unutilised for more than two years.

The Company had not maintained any records relating to inter-branch movement of goods. The closing stock of goods lying at various show rooms incorporated in the accounts were based on statements furnished by the concerned branch managers. No physical verification of finished goods had been conducted at the show rooms.

A test check of the stock ledgers of raw materials for 1979-80 revealed the following defects:—

(i) the Company had not maintained the stock of yarn according to runnage, though the price of yarn depends on runnage and variety; and

(ii) there was no evidence that the several items of mats and mattings sent out for processing and the goods sent for foreign trade fairs and exhibitions but unsold had been received back.

The movement of stores items and raw materials in and out of the factory is regulated by passes. A test check of the passes revealed that—

(i) no stock account for in/out passes were maintained;

(ii) the passes were not issued serially in chronological order;

(iii) more than three series were maintained simultaneously by different sections;

(iv) the passes were signed by different persons without proper delegation and their designations were also not indicated;

(v) passes were issued even in respect of goods and materials not actually taken in/out of the factory; and

(vi) in-passes were not linked with the invoices of suppliers nor out-passes with sales invoices.

6.11. Implementation of new schemes

6.11.1. The table below indicates the details of projects which were pending for implementation by Company as on 31st March 1981:—

	Name of project	*Date of preparation of project report*	*Estimated capital outlay (Rupees in lakhs)*	*Scheduled date of completion*	*Total expenditure incurred up to March 1981 (Rupees in lakhs)*	*Stage of implementation*
1.	Modern Dye House at Alleppey	December 1978	20.00	December 1979	13.47	Civil works other than factory building pending completion.
2.	Matting looms (14 numbers)*	February 1981	31.00	Immediate	0.10	Project report approved by Government in June 1981.
3.	Husk retting and defibering centres (3 numbers) in the northern districts	July 1979	5.41	..	..	Apart from taking (December 1979) of two acres of land on lease for one of the centres no action has been taken for implementation of the project.
4.	Curled coir unit at Beypore**	November 1980	9.50	..	0.84	Advance for machinery paid. Machinery awaited (July 1981).

* Project originally conceived in July 1979 was for 50 numbers with an estimated outlay of Rs. 42.56 lakhs.

** The estimated outlay of the project originally conceived in July 1979 was reduced to Rs. 9.50 lakhs from Rs. 11.50 lakhs in November 1980

6.11.2. The Company approved (December 1975) a project to establish a modern dye house at Alleppey and approached (May 1978) the Kerala Industrial and Technical Consultancy Organisation Limited (KITCO) for rendering "turnkey" consultancy service at 7.5 *per cent* of the project cost. According to the report submitted (December 1978) by KITCO, the capital outlay would be Rs. 20 lakhs against a dyeing capacity of 1,200 tonnes *per annum* (on two shift basis). The project was to be financed out of a term loan of Rs. 12 lakhs from The Kerala Financial Corporation, Rs. 2.40 lakhs from The Central Government as subsidy and the remaining amount by way of share capital contribution of the State Government and from internal sources.

The Company purchased (May 1979) 1.94 acres of land from a co-operative society at a cost of Rs. 1.77 lakhs. Tenders for the civil works estimated to cost Rs. 3.18 lakhs were invited in February 1979 and two tenders were received. The tender committee consisting of the representatives of the Company and consultants recommended (March 1979) the acceptance of the tender of an Alleppey firm for Rs. 3.91 lakhs.The Business sub committee, however, decided (May 1979) to retender. The Managing Director decided in the following month (June 1979) to entrust the work to a State Government Company (Kerala State Small Industries Development and Employment Corporation Limited) on actual cost *plus* 16 *per cent* centage and 5 *per cent* contingency charges basis. The cost of civil works was estimated (November 1979) by the Kerala State Small Industries Development and Employment Corporation Limited at Rs. 7.19 lakhs against Rs. 3.91 lakhs in the earlier tender.

As per the original schedule, the project was to be commissioned in December 1979. The civil work which should have been completed by March 1980 had not been completed so far (July 1981). Machinery to the value of Rs. 3.51 lakhs which arrived at site during the period from February to September 1980 was awaiting erection (May 1981). No definite date of completion had been fixed for the project which was expected to be commissioned in December 1979.

6.12. Delay in recovery of advances to employees

The Company had been granting advances to workers on various grounds such as education of dependants, festivals, medical treatment, *etc*.. No rules had however, been framed governing the grant of these advances. Even at the time of granting these advances, the mode and period of recovery were not stipulated with the result that recoveries were not effected regularly. The table below gives details of progress of recovery of the advances made during the 5 years up to 1979-80:—

Year	*Opening balance*	*Fresh advances*	*Recoveries*	*Closing balance*
		(*in rupees*)		
1975-76	62,563	59,639	55,526	66,676
1976-77	66,676	49,562	42,113	74,125
1977-78	74,125	30,790	28,407	76,508
1978-79	76,508	46,460	27,894	95,074
1979-80	95,074	49,697	38,765	1,06,006

Fresh advances were being allowed irrespective of the earlier balances remaining unrecovered. Yearwise details of outstanding balances were not available. Amounts recoverable ranged up to Rs. 5,653 in individual cases and related to periods dating from the inception of the Company.

6.13. Internal Audit

In March 1975, the Board decided to entrust the work of internal audit of the accounts for the year 1975-76 to a firm of Chartered Accountants on contract basis, as it was felt that this arrangement would be cheaper and more efficient. A Chartered Accountant was accordingly appointed (March 1975) for a remuneration of Rs. 6,000 (which was increased to Rs. 7,000 in June 1977).

The same firm was appointed as internal auditors for the subsequent years also (including 1979-80) on the same terms and conditions. While extending the term for a further period of two years, *viz*. 1978-79 and 1979-80, the Board of Directors stipulated (June 1979) that it should submit periodical report to the Board regarding the state of affairs of the accounts to enable the Management to take effective remedial measures wherever necessary.

The internal audit reports for the two years ended 31st March 1977 were presented to the Board at their meeting held in October 1977 and May 1978 respectively and the Board decided that the accounts and report be studied by the Business sub committee and submitted to the Board with their recommendation. The sub committee, however, had not examined and deliberated on the documents so far (July 1981).

The internal audit report for the year 1977-78 was submitted to the Company in October 1978, and came up for consideration by the Business sub committee at its meetings held in May and July 1979. The report had not been discussed by the Board so far (July 1981).

The internal audit report for the year 1978-79 submitted in March 1980 and the report for the year 1979-80 submitted in May 1981 had not been considered by the Board so far (July 1981).

The internal audit reports indicate an unsatisfactory state of affairs in respect of maintenance of accounts. Defects include incomplete postings in cash book and ledger and improper maintenance of stock ledgers at show rooms, non-maintenance of quantitative records of goods transacted through consignees, default in respect of compliance with statutory obligation towards remittance of Provident Fund contribution and employees contribution to Employees State Insurance, non-reconciliation of stock accounts, loss of cheques, *etc.*

The Board was yet to take remedial action to rectify the various defects enumerated in the reports of the Internal Auditors for the four years ended 31st March 1979.

The Internal Auditor had not prepared monthly trial balance or periodical profit and loss accounts contemplated in the scope of his work.

6.14. Other topics of interest

6.14.1. *Regulation of tour expenses*

According to Article 18 (i) of the Articles of Association of the Company, the directors shall be paid such allowances as the Governor may from time to time decide. No such rules were framed by Government and the Company framed (May 1974) travelling allowance rules for directors without the concurrence of the State Government. The State Government issued (June 1976) certain guidelines regulating the travelling allowance payable to Managing Director and full time directors. The Company, however, expressed its inability (August 1976) to follow the guidelines issued by Government. Government, however, directed (June 1977) the Company to adhere strictly to the guidelines. The travelling allowance rules had not been revised based on the guidelines issued by Government (July 1981). The table below gives the comparative details of the travelling allowance rules framed by the Company and the guidelines issued by Government:—

Daily allowance	*As per the travelling allowance rules followed by the Company*	*As per guidelines issued by Government*
For stay within the State	Rs. 37.50	Rs. 30.00
For stay outside the State	At actuals	Rs. 70.00 plus actual room rent with a ceiling of Rs. 175 per day in Bombay, Delhi and Calcutta and Rs. 45 plus actual room rent with a ceiling of Rs. 75 in other places.

A test check of the travelling allowance bills of the directors disclosed that the directors were paid during 1977-78 an amount of Rs. 0.18 lakh in excess of what would have been admissible, had the guidelines issued by Government been followed.

Summing up

(i) The Company was incorporated in July 1969 for developing and establishing coir industry in the State and for working as an export house for coir products. The paid-up capital of the Company as on 31st March 1980 was Rs. 99.31 lakhs. The accounts for the years from 1976-77 were in arrears.

(ii) An interest free loan of Rs. 25 lakhs was sanctioned by Government (June 1975) to enable the Company to purchase coir products to provide relief to coir workers. Loan was repayable within a year but the same had not been repaid. Government decided to levy interest at 10 *per cent* including penal interest (2.5 *per cent*) from July 1975. Company had not maintained separate accounts for the sale of items as required under the terms of the loan.

(iii) As per provisional accounts, the Company incurred loss of Rs. 2.53 lakhs and Rs. 7.50 lakhs in 1977-78 and 1978-79 respectively but had earned a profit of Rs.10.05 lakhs in 1979-80.

(iv) The retting of husks declined from 134 lakhs in 1975-76 to 0.14 lakh in 1979-80 and the retting of husks was given up in September 1980.

(v) There was no physical stock of retted husks in Badagara centre as on 31st March 1978 though the book balance as on that date was 31.10 lakh husks (value: Rs. 2.05 lakhs). A suit for the recovery of amount had been filed against the agent.

(vi) The Company had decided to dispose of the defibering plant obtained in January 1975 for Rs. 0.95 lakh as the same was not working profitably.

(vii) The sales at the three show rooms at New Delhi, Calcutta and Ahmedabad during the three years up to 1979-80 were much below the break-even turn over, resulting in loss (except a small profit in 1977-78 and 1979-80 in New Delhi show room).

(viii) The export sales declined from Rs. 108.72 lakhs in 1976-77 to Rs. 77.18 lakhs in 1977-78 and further declined to Rs. 48.20 lakhs in 1978-79 and then picked up to Rs. 114.68 lakhs in 1979-80. The reasons for decline in sales during 1977-78 and 1978-79 had not been investigated.

(ix) A Danish buyer complained (December 1977) about the quality of goods exported by the Company. He was allowed to clear the goods and was allowed a reduction of Rs. 4.42 lakhs in the sale value after arranging an inspection of 10 out of 50,000 sq.m. of mattings. The buyer agreed to make payment of Rs. 1.36 lakhs in eight instalments as a gesture of goodwill but no payment had been received.

(x) The Company exported goods valuing Rs. 0.82 lakh and a bill for the amount was drawn on the buyer at 90 days' delivery on acceptance. The export was insured with ECGC for a credit limit of Rs. 0.50 lakh. Though the bill was dishonoured by the buyer, the Company failed to realise the amount from ECGC on account of failure to seek prior approval of that Company for the extension of the bill of exchange up to February 1975.

(xi) The Company enabled an intermediary firm to earn large profits on export of the tea leaf bags. Out of the total sale price of Rs. 5.36 lakhs realised from the foreign buyer, the profits earned by the firm amounted to Rs. 1.80 lakhs.

(xii) The Company followed a policy of supplying raw materials on credit and allowing cash advances to small scale manufacturers. The advances outstanding had increased from Rs. 7.17 lakhs as on 31st March 1976 to Rs. 19.79 lakhs as on 31st March 1980.

(xiii) The inventory of stores and finished stocks had increased from Rs. 32.81 lakhs as on 31st March 1978 to Rs. 87.05 lakhs as on 31st March 1980. No physcial verification of stores and finished goods as at the end of 1977-78 had been conducted. Though an inventory of stores and finished goods was prepared at the end of March 1979 it had not been reconciled with book balance.

(xiv) None of the 4 projects where the project reports had been prepared in December 1978/ February 1981 (Rs. 65.91 lakhs) had been implemented.

SECTION VII

FOAM MATTINGS (INDIA) LIMITED

Project for the manufacture of foam backed coir mattings

7.01. Introduction

The project for manufacturing latex foam backed coir mattings was initiated in 1975 by the Kerala State Coir Corporation Limited (KSCC) in association with a firm of Denmark as that firm had offered to buy 75 *per cent* of the mattings produced. The machinery was to be supplied by another firm of Denmark. A detailed project report (October 1976) with an estimated cost of Rs. 178 lakhs revised later to Rs. 244 lakhs (November 1979) was prepared by the Kerala Industrial and Technical Consultancy Organisation Limited. The Foam Mattings (India) Limited was incorporated as a fully owned Government Company on 18th December 1978 for taking over the execution of the project.

Loans of Rs. 108 lakhs were sanctioned by the financial institutions in November 1977 (Industrial Development Bank of India: Rs. 54 lakhs) April 1978 (Industrial Credit and Investment Corporation of India: Rs. 27 lakhs) and February 1980 (Industrial Finance Corporation of India: Rs. 27 lakhs) for the execution of the project.

Failure to draw the loans after fulfilling the terms and conditions prescribed by the financial institutions involved the payment of commitment charges at 0.5 *per cent* per annum on the amount remaining undrawn after the expiry of six months from the date of sanction of the loan. None of the loans could be availed of within the permissible period due to delay in fulfilment on the part of the Company of certain conditions like-

(i) mortgage of assets on first charge,

(ii) State Government's guarantee for the loans, and

(iii) firm agreement for the sale of the product.

The Company had to pay commitment charges of Rs. 1.10 lakhs up to March 1981.

As against the resources amounting to Rs. 154.35 lakhs mobilised, the Company had incurred an expenditure of Rs. 134 lakhs (approximate) on the project (September 1980).

7.02. Execution of the Project

No attempts were made by KSCC for obtaining competitive quotations for supply of machinery for the project. Against the single offer obtained (March 1975) from a Danish firm the KSCC placed orders (April 1976) for the supply of machinery at Rs. 49.32 lakhs.

The supply order stipulated the period of delivery as December 1976, but the despatch was postponed to July 1977 at the instance of KSCC. The delay was attributed by the Management (February 1977) to delay in opening the letter of credit in accordance with the terms and conditions of the Danish credit. The machinery was despatched in August 1977 and arrived at Cochin Port in November 1977. It was transported to Alleppey and stored in a bonded warehouse up to November 1978 due to delay in completion of civil works. The storage charges during this period amounted to Rs. 0.16 lakh.

The erection of the machinery relating to the foam backing plant was commenced in November 1978 and completed in February 1979. As per the terms of the supply order, the manufacturer was to provide the services of two engineers at a total remuneration of Rs. 1 lakh for erection of the plant for a period of six weeks. One of the engineers was to stay in India for a further period of eight days for training the workmen. Due to delay in commencing erection, the manufacturer demanded 30 *per cent* increase in the erection charges. The claim (Rs. 0.31 lakh) was approved by the KSCC (May 1978) to avoid further delay in the erection of machinery.

The suppliers provided the services of only one engineer though the full payment (including addition of 30 *per cent*) as stipulated in the supply order had been made already. The engineer arrived at Alleppey on 8th November 1978 and left on 5th March 1979 after completing the erection work but without conducting successful trial runs. During the above period he had visited Denmark for about two months. The Company had paid his air fares for the visit to and fro amounting to Rs. 0.30 lakh besides living expenses amounting to Rs. 0.14 lakh which were outside the terms of the contract.

As the supplier did not provide further services for commissioning (not provided in the order) the Company obtained the services of another engineer for a period of 27 days during October-November 1979 for the commissioning and training of workmen at a cost of Rs. 0.69 lakh.

The recipe for foam latex furnished by the manufacturer was found unsuitable under local conditions. A suitable recipe for commercial production could not be worked out till November 1979 *i.e.,* about nine months after commencement of trial runs. The Company incurred a total expenditure of Rs. 11.16 lakhs on conducting the trials during the period February 1979 to September 1980.

The delay in erection of machinery had rendered the performance guarantee clause inoperative, as the period of guarantee *viz.* 12 months from the first starting up or 14 months from the date of despatch of main parts from the factory whichever was earlier had lapsed in October 1978.

The consultants while preparing the project report did not ascertain from the manufacturer the type of fuel to be used for the boiler. While furnace oil was assumed to be the fuel, during trial runs it was observed that only light diesel oil conformed to the specifications indicated by the supplier for fuel requirements. As light diesel oil was costlier than furnace oil, the Company approached the manufacturer (June 1979) for suggesting suitable modifications for using furnace oil as fuel. The manufacturer's offer(July 1979) to supply certain components at an extra cost of Rs. 1.10 lakhs to be fitted to the burner so as to burn furnace oil was put in abeyance by the Company. In the meantime the use of light diesel oil in place of [furnace oil had resulted in an additional expenditure of Rs. 0.27 lakh (March 1981).

In May 1978, the manufacturer forwarded a list of materials to be processed and kept ready at the time of erection which included light diesel oil. In spite of specific direction from the manufacturer to buy light diesel oil (May 1978), the Company purchased 10,000 litres of furnace oil in February 1979 at a cost of Rs. 0.10 lakh. The oil had been lying in stock (May 1981). It was stated by the Management (September 1980) that the furnace oil was purchased inadvertently due to frequent change of personnel during the course of erection of the machinery.

7.03. Selling arrangements

Though the project was completely export-oriented, neither the KSCC nor the consultants considered it necessary to conduct a detailed market study of the sales prospects for the product, on the ground that the Danish firm had agreed to buy 75 *per cent* of the production at prices to be mutually agreed upon and to sell the rest on commission basis. The project was implemented solely on the understanding reached with the foreign buyer, but no firm commitment was obtained nor any agreement entered into with the firm to protect the Company's interest. Though the Board of Directors of KSCC had decided (March 1975) that the Danish firm should give a guarantee for the purchase of entire products produced by the unit for a period of 3-5 years, no such guarantee was obtained. The visit of the officials of KSCC to the continent on eight occasions (May 1976 to April 1980) failed to produce any result in finding market for the product of the new plant. Commercial production was started only in October 1980. During the period from October 1980 to March 1981 the Company produced 428 rolls and sold 578 rolls including 150 produced during trial runs. There was a stock of 152 rolls at the end of March 1981. The Management stated (February 1981) that the overseas firm which backed out of its assurance to take 75 *per cent* of the Company's product had expressed their willingness to revive the good relations with the Company and they expected further orders in the near future.

Section VIII

OVERSEAS DEVELOPMENT AND EMPLOYMENT PROMOTION CONSULTANTS LIMITED

8.01. Introduction

The Overseas Development and Employment Promotion Consultants Limited was incorporated on 22nd October 1977 as a fully owned Government Company. The main objectives of the Company are:

—to promote employment in foreign countries;

—to promote, establish, undertake and operate joint industrial ventures abroad in collaboration with promoters in such countries thereby increasing employment potential of Indians in foreign countries;

—to raise financial resources for industrial, constructional and commercial projects in India; and

—to promote exports of traditional and non-traditional items like handicrafts, handlooms, etc.

The authorised capital of the Company is Rs. 1 crore divided into 10,000 equity shares of Rs. 1,000 each. The entire paid-up capital of Rs. 23.29 lakhs as on 31st March 1980 was subscribed by the State Government. The Board of Directors of the Company are appointed by Government and the Chairman and Managing Director is the chief executive of the Company.

The Company has two regional offices one at Bombay and the other at New Delhi.

8.02. Performance

8.02.1. The Company's main activities are confined to providing help to skilled, semi-skilled and unskilled workers to get employment in foreign countries in terms of the certificate of registration granted to the Company provisionally by the Government of India in December 1977. In April 1978, the

Company decided to organise a data bank to register the name of the doctors, engineers, chartered accountants, other professionals, executives and skilled/unskilled workers on collection of fees ranging from Rs. 5 to Rs. 100 per person.

A man-power survey conducted (February and October 1978) by the Chairman and Managing Director of the Company indicated that Gulf countries would require about 18 lakh expatriate labour by 1980. The table below gives details of persons registered in the data bank and the personnel sent abroad through the Company for employment, for the 2 years up to 1979-80:—

	1978-79	1979-80	*Cumulative since inception*
		(*Numbers*)	
Registration in data bank	5,241	2,882	8,123
Personnel sent abroad for employment			
Doctors	..	16	16
Nurses	124	22	146
Drivers	61	1	62
Helpers	154	271*	425
Others	136	155	291
	475	465	940

The following reasons were attributed for the unsatisfactory performance of the Company in the Directors' Reports to share holders for the years 1977-78 and 1978-79:—

(i) Cumbersome emigration formalities.

(ii) Competition from Sri Lanka, Thailand, Bangladesh and Pakistan for supply of man-power.

(iii) Comparatively high cost of Indian labour.

* 149 helpers were repatriated by the foreign employer in September 1979.

(iv) Stiff competition from about 700 private recruiting agencies and their high pressure tactics.

8.02.2. A Municipality in a foreign country appointed (December 1978) the Company as an agent for recruiting 50 drivers and 150 unskilled labourers on the following terms:—

(i) The recruitment should be completed within three weeks (from 7th December 1978).

(ii) Recruitment should be made at Bombay and the selected personnel would be handed over to the delegates of the Municipality at Bombay.

(iii) Vehicles required for testing the drivers would be provided by the Company.

(iv) Agency fee (one month's salary of the selected personnel) should be collected directly from them.

As the interview by the foreign employer was to be held at Bombay, where the Company had no office at that time, the Company made the recruitment a joint venture with the Directorate of Employment, Government of Maharashtra and that Directorate was also allowed to sponsor 20 drivers and 40 semi-skilled workers for the interview. The Company also utilised the premises of a firm of consultants in Bombay at a consolidated rent of Rs. 3,000 in connection with the selection of the personnel. The firm was also allowed to sponsor its own candidates.

The Company had on its registers 154 tested and screened drivers and 700 unskilled labourers of whom 135 drivers and 500 unskilled labourers held passports. But the Company directed only 50 drivers and 157 unskilled workers to be present at Bombay for the interview. 10 drivers and 40 unskilled labourers sponsored by the Company were selected, while 40 drivers and 109 workers were selected from amongst the candidates recommended by the Government of Maharashtra and private consultants. The number of candidates sponsored by the Company was only slightly more than the number required by the foreign employer. While the Company met the entire expenses (Rs. 0.47 lakh) in organising the process of selection the number of persons sponsored by the Company and selected eventually bore a very small proportion to the total number of persons selected as indicated in the following table:—

	Helpers	*Drivers*
Sponsored by the Company	40	10
Sponsored by others	109	40
Total	149	50

The State Government stated (December 1980) that—

(i) there was an informal understanding between the foreign employer and the Company that all the candidates sponsored by the Company and physically present for the interview would be selected;

(ii) only the minimum number of candidates were directed to go to Bombay considering the hardship and expense involved in undertaking a journey to Bombay at their own cost;

(iii) large scale absenteeism was not expected and in the absence of sufficient number of candidates, those sponsored by others were also considered.

The Company did not have information as to how many persons sponsored by it actually appeared for the interview.

8.03. Financial position

The table below summarises the financial position of the Company for the 3 years up to 1979-80:—

	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
Liabilities			
(a) Paid-up Capital	7.00	17.00	23.29
(b) Current liabilities and provisions	0.67	1.20	1.57
Total	7.67	18.20	24.86

		1977-78	1978-79	1979-80
			(*Rupees in lakhs*)	
	Assets			
(a)	Gross block	0.21	1.02	2.38
(b)	*Less:* Depreciation	0.02	0.17	0.49
(c)	Net fixed assets	0.19	0.85	1.89
(d)	Current assets, loans and advances	6.06	9.77	8.06
(e)	Miscellaneous expenditure	0.19	0.19	0.19
(f)	Accumulated loss	1.23	7.39	14.72
	Total	7.67	18.20	24.86
	Capital employed	5.58	9.42	8.38
	Net worth	5.58	9.42	8.38

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

8.04. Working results

The working of the Company for the 3 years up to 1979-80 are given in the table below:—

	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
Income			
Data reservation fee	..	1.37	0.94
Service charges from employees	..	0.33	1.08
Miscellaneous revenue	0.01	0.42	0.82
Total	0.01	2.12	2.84
Expenses			
Salary, allowances and travelling allowance of Chairman and Managing Director	0.59	1.45	1.36
Staff expenses	0.29	2.71	4.09
Recruitment and recruitment promotion expenses	0.05	1.39	0.80
Office expenses and miscellaneous expenses	0.31	2.73	3.92
Total	1.24	8.28	10.17
Net loss	1.23	6.16	7.33

Note: The cost per recruit was Rs. 1,743 and Rs. 2,187 respectively for the years 1978-79 and 1979-80.

Against the paid-up capital of Rs. 23.29 lakhs the accumulated loss up to 1979-80 was Rs. 14.72 lakhs (63.2 *per cent* of the paid-up capital). The Company, decided (December 1977) to recover part of the operational cost from the foreign employers as service charges as the collection of any fee from the recruits was prohibited by the Government of India. The rate of service charges recoverable had yet to be decided upon by mutual agreement/understanding between the foreign employers and the Company. During 1978-79 and 1979-80 the Company could charge Rs. 1.41 lakhs in respect of 236 persons sent for jobs abroad.

A foreign firm recruited 16 technicians through the Company for its industrial workshop in May 1978. As per the agreement entered into with the foreign firm, the Company was to receive an amount equal to one month's salary of the recruits (Rs. 0.41 lakh). The firm refused to pay any amount on the plea that the persons recruited were not suitable for their requirement. The Company decided (May 1980) not to go in for litigation against the party towards the dues and adjusted the sum of Rs. 0.20 lakh furnished by the foreign firm as guarantee as required by the immigration authorities.

A foreign firm recruited 149 deck-hands through the Company in June 1979 for employment for a period of 10 months. As per the agreement with the foreign firm the Company was to receive Rs. 0.84 lakh as service charges. In September 1979, the foreign firm informed the Company that it was compelled to suspend fishing operations and had accordingly repatriated (September 1979) all the recruited persons to India. The Company received only a sum of Rs. 0.64 lakh as service charges, the balance was not recovered. The Management stated (December 1980) that the firm had since been wound up.

As the main activity in which the Company was engaged was not remunerative, the Board of Directors resolved (September 1979) to request the State Government to sanction an adhoc grant at the rate of Rs. 1,000 for every person recruited and sent abroad through the Company. The Board also authorised (September 1979) the Chairman and Managing Director of the Company to devise ways and means for diversifying the activities of the Company in collaboration with other organisations like the Kerala State Housing Board, Kerala State Construction Corporation Limited and other Government and quasi-Government agencies.

The Management stated (December 1980) that several diversification schemes such as entering the field of export, a housing scheme for overseas Keralites and agency arrangements for looking after the welfare of overseas Keralites were under consideration. The schemes had not, however, been approved by the Board of Directors and the State Government so far (February 1981).

SECTION IX

KERALA AGRO-MACHINERY CORPORATION LIMITED

9.01. Idle Machinery

The Kerala Agro-Machinery Corporation Limited was incorporated in March 1973 as a subsidiary of the Kerala Agro-Industries Corporation Limited, for the purpose of taking over of the undertaking and the facilities owned by the latter for the manufacture or assembly of power tillers. The holding company entered into a collaboration agreement (February 1972) with a foreign firm for the manufacture of tillers and diesel engines. The preparation of the project report was entrusted to a consultancy firm in November 1972 on a remuneration of Rs. 0.65 lakh and the project report was received in December 1973. Before the receipt and examination of the project report the Company placed orders (April 1973) with the foreign collaborators for the supply of 5 machines costing Rs. 21.50 lakhs, required for finishing operations in a gear making unit. According to the management (December 1980) the representative of the foreign firm who visited India and surveyed (1969) the facilities and capacity for gear production had indicated that as there was no reliable party in the country for the supply of high quality gears and as the available indigenous capacity was not sufficient for manufacture of gears, it was advisable to instal new machinery for manufacturing gears. The project report(December 1973), however, did not at all envisage a gear making unit. The Company entrusted (September 1974) the work of preparing detailed project report for a gear making unit to another consultancy firm on a fee of Rs. 0.50 lakh. This project report (May 1975) envisaged an investment of Rs. 152 lakhs for establishing the unit.

The machines ordered in April 1973 were received in October 1974 (cost: Rs. 21.50 lakhs). The Board of Directors decided (13th March 1976) to constitute a sub committee of the Board to examine the circumstances which led to the delay in setting up the gear making unit. The sub committee was constituted in April 1977 with instructions to submit a report to the Board by the end of May 1977. No report was submitted by the sub committee. Attempts of the Company between November 1976 and January 1977 to transfer the machines to a private industrial unit at Chalakudy with a view to get the gears manufactured by them, also failed. As the financing arrangements for the main project *viz.* manufacture of tillers and diesel engines could not be finalised and as the Company expected that gears would be available indigenously, the gear making project was abandoned.

The Company decided (August 1979) to dispose of the three machines (cost: Rs. 8.72 lakhs) which were lying unused either by sale or by lease. The three machines (cost: Rs. 8.72 lakhs) were given on loan (January 1981) to a private firm in Faridabad. The other two machines (cost: Rs. 12.78 lakhs) were utilised in the factory for the manufacture of power tillers.

The import of machines for the gear making project before the preparation of the project report and finalisation of the financing arrangements and the retention of the imported machinery costing Rs. 8.72 lakhs for over a period of six years resulted in locking up of funds (from October 1974 to December 1980) with consequent loss of interest amounting to Rs. 8.27 lakhs (at the rate of 15 *per cent* charged by the holding company and financial institutions).

9.02. Extra Expenditure

The Company obtained a loan of Rs. 133 lakhs from the Industrial Development Bank of India (Rs. 100 lakhs) and Industrial Finance Corporation of India (Rs. 33 lakhs) during October 1976/March 1977, for the manufacture of power tillers. As per the terms of the loans, the Company was to execute a mortgage deed in favour of the financial institutions creating a first charge on all immovable and movable properties in the possession of the Company. The immovable properties in the possession of the Company were the properties belonging to Government, the title of which had not been passed on to the Company on its formation in March 1973. The Company formally approached the State Government for the transfer of the properties and sanction for pledging the properties to the financial institutions, in April 1977 and in August 1978 respectively. Government sanction for the transfer of title of the properties and for pledging the properties to the financial institutions were received in January 1978 and December 1978 respectively. The mortgage deed in favour of Industrial Finance Corporation of India was registered in June 1979. The deed in favour of Industrial Development Bank of India was executed in December 1980. The Management intimated (February 1981) that the delay was on account of frequent changes in the post of Managing Director and prolonged strike in the factory from February to June 1980.

Extra interest of 1 *per cent* over the normal rates had to be paid by the Company on the interim loan not covered by the mortgage deed creating first charge on immovable property as required by the terms of the loans sanctioned by them. The procedural delay on the part of the Government/Company in the execution of the deeds resulted in an extra expenditure of Rs. 2.89 lakhs for the period from October 1977 to December 1980, of which Rs. 2 lakhs pertained to the period after January 1979 when Government sanction for the mortgage of the properties was received.

SECTION X

THE KERALA STATE FINANCIAL ENTERPRISES LIMITED

10.01. Infructuous expenditure

The Company was incorporated in November 1969 as a fully owned Government Company mainly for conducting the business of *Chitties* and *Kuries* and financing hire purchases. As per the prescribed terms and conditions, the successful bidders in the periodical auction of *Chitties* will be given the prize amount on their furnishing adequate security (personal or landed property) and the periodical contributions are to be made by them till the duration of the *chitty*. Under Section 71 of the Kerala Revenue Recovery Act, 1968, Government by a notification (June 1970) extended to the Company the provisions of the Act for recovery of the dues from any person defaulting in payments under the Act. In order to speed up recovery proceedings, the Company requested (January 1975) Government to appoint special staff with all revenue recovery powers for attending exclusively to the recovery of dues. Acceding to the request of the Company, Government sanctioned (September 1977) one post of Tahsildar and one post of Deputy Tahsildar on the condition that the Company should reimburse to Government, the entire expenditure towards their pay and allowances, *etc*. The Deputy Tahsildar and Tahsildar who reported for duty in December 1977 and January 1978 respectively were, however, not vested by Government with powers to effect direct recovery from the parties concerned in accordance with the provisions of the Kerala Revenue Recovery Act. The Company informed (October 1978) Government that the Tahsildar and Deputy Tahsildar could not initiate any revenue recovery steps and they had not rendered any service to the Company. The Government, thereupon abolished the posts and created instead (November 1978) posts of a Deputy Collector and a Deputy Tahsildar. The Deputy Collector appointed as a "Collector" under the Kerala Revenue Recovery Act obtained the revenue recovery certificates direct from the Collector on the basis of requisitions received from the Company.

The creation of the posts of Tahsildar and Deputy Tahsildar and the appointment of officials without powers for revenue recovery resulted in an infructuous expenditure by the Company of Rs. 0.26 lakh, towards salary, travelling allowance, *etc.*, of the officials for the period from December 1977 to November 1978.

10.02. Payment of irregular dividend to substituted subscribers

According to the procedure followed by the Company, any subscriber to a *chitty*, who defaults payment of four consecutive instalments could be removed and a new subscriber substituted in his place. The substituted subscriber starts subscribing from the instalment defaulted by the removed subscriber. As per the instructions issued (March 1971 and August 1972) by the head office of the Company, the substituted subscribers were to be allowed dividend (*Veethapalisa*) in respect of defaulted instalments but not in respect of instalments remitted by subscribers removed on account of defaults. It came to the notice of the Company (November 1976) that in some of the branches, the substituted subscribers were allowed dividend also in respect of instalments remitted by the removed subscribers. The Board of Directors constituted (April 1977) a committee consisting of the Vice-Chairman and two of the Directors to study the case and give their recommendation. As recommended by the committee the Board decided to get the matter investigated by a competent investigating agency. The Company, therefore, requested (March 1978) the State Government to investigate the case and the State Government after investigation, suggested (February 1980) departmental disciplinary action against all the officers and staff who "flouted" the directions of the head office.

According to the assessment made (April 1977) by the Company, the amount of dividend wrongly distributed among the substituted subscribers between June 1971 and April 1977 in 12 branches amounted to Rs. 2.36 lakhs. The State Government stated (March 1981) that disciplinary action was being pursued against the delinquent officers.

Report re 29th Rep of CPU (84-86) presented on 24/3/86

SECTION XI

THE TRAVANCORE SUGARS AND CHEMICALS LIMITED

11. Purchase of defective gunny bags

The Company invited (June 1979) tenders from eight dealers for the supply of 70,000 gunny bags for packing sugar during 1979-80 season. The lowest offer of a Calcutta firm to supply gunny bags at Rs. 715 per hundred bags *f.o.r.* Tiruvalla was accepted and orders were placed (July 1979) for the supply of the entire quantity of 70,000 bags. The Company had no previous dealings with the Calcutta firm. The capability or trustworthiness of the supplier was not ascertained. The first consignment of 16,000 bags was despatched by the supplier on 28th August 1979 and the documents were cleared by the Company through bank by making 100 *per cent* payment amounting to Rs. 1.19 lakhs. During inspection of the consignment (22nd September 1979) the Company found that the bags had been used several times and were old, torn, sewn here and there and that many of them were undersized and under-weighed and giving smell of chilly, coriander, fertilizers, chemicals, etc. The Company, therefore, rejected the entire consignment and called upon the supplier to replace the defective bags. After discussion with the supplier, four cheques totalling Rs. 1.15 lakhs were obtained from the supplier in partial repayment of the amount paid by the Company for the defective bags. But as the cheques were dishonoured, the Company lodged (December 1979) a complaint with the police, and the supplier was charge sheeted (June 1980) before the Sub Divisional Magistrate, Chengannur.

To meet the requirements, the Company had to purchase (October 1979) 64,000 bags at Rs. 805 per hundred bags from another firm at Calcutta. This resulted in an extra expenditure of Rs. 0.60 lakh.

The Company filed (November 1980) a civil suit against the supplier for the recovery of Rs. 2.04 lakhs (amount paid for gunny bags: Rs. 1.19 lakhs, extra expenditure on purchase of gunny bags from other sources: Rs. 0.60 lakh, interest charges: Rs. 0.17 lakh, survey charges: Rs. 0.01 lakh, travelling expenses: Rs. 0.07 lakh). The suit was pending (February 1981).

The Board of Directors of the Company observed (October 1979) with displeasure that the order for 70,000 gunny bags was placed in an irresponsible manner. The General Manager was requested to enquire into the circumstances in which the order was given to the party with a view to fix responsibility on the persons concerned and report his findings to the Board. After consideration of his report the Board decided (April 1980) to wait for the result of the criminal case.

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SECTION XII

THE KERALA FISHERIES CORPORATION LIMITED

12.01. Introductory

The Kerala Fisheries Corporation Limited incorporated in April 1966 is mainly engaged in—

—deep-sea trawler fishing, processing and export of shrimps;

—internal marketing of fish and production of fish meal and nylon nets.

The working of the Company for the period up to 1976-77 had earlier been reviewed in Section II of the Audit Report (Commercial) for the year 1976-77.

12.02. Purchase of Mexican trawlers

The Company obtained (September 1974) an import licence for the import of five Italian trawlers, the construction of which was to be arranged by the Government of India with an Italian firm. In April 1975 the Company was informed that the contract with the Italian Shipyard was not likely to materialise. At the suggestion of the Government of India the Company decided (June 1975) to import two Mexican trawlers and got (September 1975) the import licence suitably amended. An agreement for supply of trawlers at a cost of US $ 608,860 (Rs. 54,90,171) was concluded between the foreign firm and the Company (4th September 1975). By an addendum of 10th September 1975 to the above agreement the contract price was raised to US $ 623,138 (Rs. 56,20,705), which was again enhanced (March 1976) to US $ 680,598.62 (Rs. 58,05,506), due to the inclusion of certain additional and optional items in the trawlers. According to the terms of the contract, 20 *per cent* of the contract price (US $ 124,627.60 *ie.*, Rs. 11,24,141) was payable within 30 days of signing the contract. The amount was paid on 29th September 1975. The balance 80 *per cent* of the contract price was payable in 13 equal half-yearly instalments (commencing from one year after the delivery of the trawlers) together with interest at 7 *per cent* per annum on declining balances against letter of guarantee to be opened by the Company by 31st October 1975. In the event of failure to open the letter of guarantee by 31st October 1975, the Company was required to pay 1 *per cent* per month, up to 31st December 1975 and 2 *per cent* per month thereafter on the 80 *per cent* of the contract price. But the letter of guarantee was opened only on 3rd March 1976 resulting in an extra expenditure (April 1976) of US $ 29,910.62 (Rs. 2,53,044).

Explaining the delay in opening the letter of guarantee, the Management (April 1981) stated that none of the Indian bankers came forward to execute a guarantee deed for 80 *per cent* of the cost of the trawlers for a period of more than 5 years and ultimately the Government of India issued (March 1976) a master guarantee to the State Bank of India towards deferred payment of 80 *per cent* of the cost of two trawlers to be supplied to the Company. Based on this, the State Bank of India issued (March 1976) a letter of guarantee to the Bankers of the Mexican firm.

12.03. Until July 1976, only the keel of one of the trawlers was laid and construction on the second trawler had not even commenced. However, the Chairman and Managing Director and one director of the Company visited Mexico in June-July 1976 to see the progress of the construction of fishing vessels at the shipyard; the expenses incurred in connection with the visit amounted to Rs. 0.83 lakh. On 4th August 1976 the Company appointed a technical firm of Bombay to supervise the construction of trawlers at the yard in Mexico on a remuneration of US $ 5,600 (Rs. 47,377).

According to the terms of the agreement (4th September 1975) the trawlers were to be delivered to the buyer within 270 days from the date on which the contract became operative. By an addendum (10th September 1975), the delivery time was raised to 730 days reckoned from the date of fulfilling two conditions, viz. the initial payment of 20 *per cent* of the contracted price and furnishing of the bank guarantee for payment of balance 80 *per cent* of the cost of trawlers, to the satisfaction of the suppliers' bankers. Actual delivery was obtained on 5th December 1977 at Mexico by one of the directors and the Chief Engineer of the Company (expenditure on the visit amounted to Rs. 0.66 lakh). The contract price of the trawlers was increased to Rs. 56,20,705 in terms of the addendum. The reasons for the revision of the earlier terms of agreement were not on record. According to the Management (April 1981) the Company had no choice in these matters as the contract between the builder and buyer was based on arrangements between the Government of India and the builder.

12.04. Transportation of trawlers

The Company engaged (February 1977) the Shipping Corporation of India Limited, for ferrying the trawlers from the Mexican port to a port in U S A and from there to be shipped as deck cargo to a port in India at an estimated cost of Rs. 12 lakhs. No written agreement laying down the terms and conditions of transportation of trawlers was entered into.

The trawlers were shipped on 7th January 1978, at Los Angeles port on 'S.S. Vishvanayak' and the ship reached Madras port on 18th February 1978. During the voyage the ship had to go back to Los Angeles, to strengthen the cradles provided in the ship for the trawlers. The total amount claimed by the Shipping Corporation of India Limited for the work was Rs. 31.95 lakhs. Against this, the Company paid between November 1977 and March 1978 Rs. 17.95 lakhs, the balance claim of Rs. 14 lakhs towards expenses incurred for returning the ship to Los Angeles for strengthening the cradles was agreed (April 1978) to be settled by arbitration/mediation. No arbitrator had, however, been appointed so far (November 1981).

According to the Management (March 1978) the bill of lading relating to the trawlers which arrived in the port of Madras on 18th February 1978 was handed over to the Company by the Shipping Corporation of India Limited only on 19th April 1978 and the trawlers were cleared on 24th May 1978.

The Company filed a suit (14th April 1979) in the Madras High Court for realising Rs. 8.61 lakhs from the Shipping Corporation of India Limited towards demurrage paid and interest thereon (Rs. 6.17 lakhs), berth hire and watching charges (Rs. 0.18 lakh) and loss of catches due to loss of 47 fishing days (Rs. 2.26 lakhs). The suit was pending (June 1981).

12.05. Performance of imported trawlers

The unsatisfactory performance of the two Mexican trawlers (Kerish VII and Kerish VIII) imported in June 1975 was mentioned in paragraph 2.05.3 of the Audit Report (Commercial) for the year 1976-77. The Board of Directors decided (October 1976) to move the trawlers from Cochin to other fishing regions in an effort to see whether their working results could be improved. Accordingly Kerish VII and VIII were shifted to Visakapatnam coast in March 1977. The two imported trawlers—*viz.* Kerish IX and X, taken delivery of at the Madras port on 24th May 1978, were put into operation in the same coast from 12th September 1978. The delay in putting the new trawlers into operation was attributed (April 1981) by the Management to the delay in obtaining clearance for the trawlers from the Mercantile Marine Department and also to the time taken to equip the trawlers for fishing in East coast.

The operational particulars of the trawlers for the 3 years up to 1979-80 are summarised in the table below:—

	1977-78		1978-79				1979-80			
	Kerish VII	*Kerish VIII*	*Kerish VII*	*Kerish VIII*	*Kerish IX*	*Kerish X*	*Kerish VII*	*Kerish VIII*	*Kerish IX*	*Kerish X*
A. *Operations*										
1. Fishing operations (days)	203	197	152	147	137	105	161	159	163	178
2. Provision for annual maintenance (days)	30	30	30	30	17	17	30	30	30	30
3. Idle days	132	138	183	188	46	78	175	177	173	158
Total	365	365	365	365	200	200	366	366	366	366
Number of voyages	17	15	11	12	12	10	13	14	11	11
Average duration of voyage (days)	12	13	14	12	11	11	12	11	15	16
B. *Shrimp caught*										
Total Shrimp caught (Kgs.)	17,802	20,582	22,850	21,464	20,045	17,812	19,403	15,468	20,295	24,211
Shrimp caught per day of operation (Kgs.)	88	104	150	146	146	170	121	97	125	136
Shrimp caught per voyage (Kgs.)	1,047	1,372	2,077	1789	1,670	1,781	1,493	1,105	1,845	2,201

The shrimp caught per day of operation showed a declining trend in 1979-80 over that of 1978-79. This was attributed (April 1981) by the Management to poor catches all along the East coast.

The built in capacity of the trawlers was adequate to conduct voyages of not less than twenty days' duration, against which the voyage period fixed was only 12 days for Kerish VII and VIII and 15 days for Kerish IX and X. The average duration of actual voyage was less at 11 days in respect of Kerish IX and X during 1978-79 and Kerish VIII in 1979-80. The extent of loss sustained by the Company due to shorter voyage periods vis-a-vis the built in capacity, had not been assessed by the Company.

A committee consisting of the Chief Engineer, Cost Accounts Officer and the Marketing Manager of the Company reported to the Board (July 1980) that the main factors considered for determining the voyage period were fuel capacity, fish holding capacity and refrigeration facilities and that Kerish IX and X though superior in respect of the above factors were being under utilised by fixing the voyage period only for 15 days. The committee had, therefore, recommended enhancement of the voyage period to 20 days in respect of Kerish IX and X only with a view to obtaining better catches and reduction in the number of voyages in a year which would result in savings on account of berth hire charges *etc.* The Management had accordingly raised (April 1981) the voyage period of Kerish IX and X to 20 days with effect from 1st April 1981.

According to annual assessments made by the Company the operation of trawlers during the three years up to 1979-80 was as detailed below:—

	Gain (+)/Loss (—)		
	1977-78	1978-79 (*Rupees in lakhs*)	1979-80
Kerish VII	(—)4.27	(—)0.16	(+)1.67
Kerish VIII	(—)3.30	(—)1.40	(+)1.29
Kerish IX	..	(+)1.22	(—)4.05
Kerish X	..	(—)1.09	(—)0.68
Total	(—)7.57	(—)1.43	(—)1.77

The Management attributed (April 1981) the loss, to the absence of substantial increase in catches in all the three years and in particular to poor catches all along the East Coast during 1979-80.

The statutory auditors in their reports (dated 24th May 1979 and 4th December 1980) to the shareholders had observed as follows:—

> "The Company is not generally calling for quotations for the purchase of raw materials, stores and stationery, entrustment of repair work of trawlers and vehicles and for purchase of stores and expenses incurred on trawling operations at Visakapatnam. This is an unhealthy practice".

The shrimp caught by each trawler from Visakapatnam coast (effective from April 1977) during the three years up to 1979-80 was less than the catches obtained at Cochin coast during 1976-77, as indicated in the table below:—

	Catches obtained at Cochin during 1976-77	*Catches obtained at Visakapatnam* 1977-78	1978-79	1979-80
			(*in kilograms*)	
Kerish VII	24,759	17,802	22,850	19,403
Kerish VIII	37,718	20,582	21,464	15,468
Kerish IX	..	..	20,045	20,295
Kerish X	..	..	17,812	24,211
Total	62,477	38,384	82,171	79,377

Kerish VII and VIII were shifted from the Western coast to Eastern coast in March 1977 to see whether their working results could be improved. The performance of these two trawlers at the Eastern coast, had appreciably deteriorated after they were shifted from Western coast. Despite this, Kerish IX and X were also put into operation in the Eastern coast from September 1978.

The Company introduced (March 1977) an incentive scheme to the trawler crew and shore staff stationed at Visakapatnam, in addition to the outstation allowance and free mess already provided. For payment of incentives, the base level for each voyage of the trawlers was fixed at Rs. 50,000 which was further raised (April 1979) to Rs. 75,000 in respect of Kerish IX and X; the incentive was determined by calculating 20 *per cent* of the balance amount arrived at after deducting the base level amount from the total sales realisation. The scheme did not indicate how the base level per voyage was fixed nor did it provide for the minimum quantity of catches. The incentive paid to the trawler crew and shore staff amounted to Rs. 8.58 lakhs (1977-78: Rs. 0.76 lakh; 1978-79: Rs. 4.49 lakhs and 1979-80: Rs. 3.33 lakhs) during the three years up to 1979-80. The grant of incentives did not however help to improve the performance of the trawlers; the catches from Kerish VII and VIII were in fact less during all the three years than those obtained at Cochin earlier.

The committee consisting of the officials of the Company who investigated the working of the trawlers at Visakapatnam reported (July 1980) to the Board of Directors, that the base levels for the payment of incentive were not fixed after scrutiny of the operational expenditure of these trawlers. The committee noticed that the average cost of voyage during 1979-80 amounted to Rs. 0.65 lakh for Kerish VII and VIII and to Rs.1.13 lakhs for Kerish IX and X as against the existing base levels of Rs. 0.50 lakh and Rs. 0.75 lakh respectively. In order to ensure that the incentive scheme was more profit oriented, the committee suggested enhancement of base levels to Rs. 0.85 lakh for Kerish VII and VIII and to Rs. 1.50 lakhs for Kerish IX and X. Accordingly the Management enhanced the base levels to Rs. 0.85 lakh in respect of Kerish VII and VIII and to Rs.1.35 lakhs only for Kerish IX and X with effect from 1st April 1981.

The approved duties and responsibilities of deck-hands in the trawlers include cleaning, sorting of fish and prawns, beheading prawns on board, freezing and storing of fish and prawns in the fish hold. It was noticed in audit (August 1980) that the deck-hands on the trawlers deployed in the Visakapatnam coast were paid beheading charges at the rate of 15 paise per kilogram of prawns, apart from the salary. Such payments resulted in an unintended benefit to the deck-hands, which amounted to Rs. 0.20 lakh during the years 1978-79 and 1979-80. The considerations on which instructions were issued for making such payments were not on record.

12.06. Avoidable loss due to non-collection of excise duty

According to the notification issued in July 1977 by the Government of India, the sale of nylon products was subject to levy of excise duty at 2 *per cent* ad valorem with effect from 18th June 1977. Excise duty amounting to Rs. 0.18 lakh on the nylon nets cleared from the nylon net factory up to 15th December 1977, was omitted to be collected from the purchasers as the Company failed to take note of the imposition of excise duty.

The matter was reported to Government in June 1981; reply was awaited (November 1981).

CHAPTER II

STATUTORY CORPORATIONS

SECTION XIII

13.01. Introduction

There were four statutory corporations as on 31st March 1980 *viz*. Kerala State Electricity Board, Kerala State Road Transport Corporation, The Kerala Financial Corporation and Kerala State Warehousing Corporation.

The accounts of the following Corporations are in arrears:

Name of the Corporation	*Extent of arrears*
Kerala State Road Transport Corporation	1978-79 and 1979-80
Kerala State Electricity Board	1979-80

The position of arrears in the finalisation of accounts of Kerala State Electricity Board and Kerala State Road Transport Corporation was last brought to the notice of Government in January 1981 and August 1981 respectively.

A synoptic statement showing the summarised financial results of the Corporations based on the latest available accounts is given in Annexure C.

13.02. Kerala State Electricity Board

13.02.1. The Kerala State Electricity Board was formed on 1st April, 1957 under Section 5 (i) of the Electricity (Supply) Act, 1948.

13.02.2. *Capital*

The Capital requirements of the Board are provided in the form of loans from the Government, the banks and other financial institutions, as also public loans.

The aggregate of long-term loans (including loans from Government) obtained by the Board was Rs. 31,099.66 lakhs at the end of 1978-79 and represented an increase of Rs. 1,974.35 lakhs i.e. 6.78 *per cent* on the long-term loans of Rs. 29,125.31 lakhs as at the end of the previous year. Details of loans obtained from different sources and outstanding at the close of the 2 years up to 31st March 1979 were as follows:—

Source	*Amount outstanding as on 31st March* 1978	*Amount outstanding as on 31st March* 1979	*Percentage increase*
	(*Rupees in lakhs*)		
State Government	17,366.44	17,558.12	1.10
Deferred Credit	..	..	..
Other sources	11,758.87	13,541.54	15.16
Total	29,125.31	31,099.66	6.78

13.02.3. *Guarantees*

Government had guaranteed the repayment of loans raised by the Board to the extent of Rs. 11,938.40 lakhs, and the payment of interest thereon. The amount of principal guaranteed and outstanding as on 31st March 1979 was Rs. 10,091.59 lakhs.

13.02.4. *Financial position*

The financial position of the Board at the close of the 3 years up to 1978-79 is given in the following table:—

Liabilities	1976-77	1977-78	1978-79
		(*Rupees in lakhs*)	
(a) Loans from Government	17,194.78	17,366.44	17,558.12
(b) Others—long-term loans including bonds	10,082.36	11,758.87	13,541.54
(c) Reserves and surplus (excluding depreciation reserve)	2,390.78	3,171.27	3,522.33
(d) Current liabilities	3,146.20	4,207.61	6,645.58
Total	32,814.12	36,504.19	41,267.57

Assets		1976-77	1977-78 (Rupees in lakhs)	1978-79
(a)	Gross fixed assets	28,784.06	31,265.57	33,494.57
	Less: Depreciation	4,977.37	5,847.51	6,657.17
(b)	Net fixed assets	23,806.69	25,418.06	26,837.40
(c)	Capital woks-in-progress	2,024.73	2,530.08	2,861.75
(d)	Current assets	6,982.70	8,556.05	11,568.42
	Total	32,814.12	36,504.19	41,267.57
	Capital employed	27,115.88	29,148.78	31,196.88
	Capital invested	28,182.10	30,274.44	32,248.13

Note:—Capital employed represents net fixed assets (excluding Capital works-in-progress) *plus* working capital.

Capital invested represents long-term loans *plus* free reserves.

13.02.5. *Working results*

The working results of the Board for the 3 years up to 1978-79 are summarised below:—

		1976-77	1977-78 (Rupees in lakhs)	1978-79
(a)	Revenue receipts	4,016.66	5,708.93	8,421.74
(b)	Subsidy from State Government	326.00	500.00	537.00
	Total	4,342.66	6,208.93	8,958.74
(c)	Revenue expenditure	2,852.74	4,169.33	4,797.15
(d)	Gross surplus for the year*	1,489.92	2,039.60	4,161.59
(e)	*Appropriations*			
	(i) General reserve, etc.	141.97	154.13	..
	(ii) Interest on Government loans	702.69	1,123.69	3,283.41
	(iii) Interest on other loans and bonds	645.26	761.78	878.18
	Total	1,489.92	2,039.60	4,161.59

* includes net amount of prior period expenditure and receipts which are not classified separately in the accounts of the Board.

		1976-77	1977-78	1978-79
			(Rupees in lakhs)	
(f)	Total return on capital employed	1,489.92	2,039.60	4,161.59
(g)	Total return on capital invested	1,489.92	2,039.60	4,161.59
			(Per cent)	
(h)	Rate of return on—			
	(i) Capital employed	5.49	7.00	13.34
	(ii) Capital invested	5.29	6.74	12.90

As on 31st March 1979, the Board had cumulative contingent liability of Rs. 2,122.93 lakhs as detailed below:—

	Cumulative as on 31st March 1979 *(Rupees in lakhs)*
Interest on Government loans	2,055.35
Others	67.58
Total	2,122.93

13.02.6. *Operational performance*

(i) The following table indicates the operational performance of the Board for the 3 years up to 1978-79:—

Particulars	1976-77	1977-78	1978-79
1. Installed capacity			
(i) Thermal	..	..	..
(ii) Hydro (MW)	1,011.5	1,011.5	1,011.5
Total	1,011.5	1,011.5	1,011.5

	Particulars	1976-77	1977-78	1978-79
2.	Normal maximum demand (MW)	650.4	802.2	852.4
3.	Power generated (MKWH)			
	(i) Thermal	..	..	..
	(ii) Hydro	3,150.9	4,458.6	5,190.4
	Less: Auxiliary consumption (MKWH)	22.0	28.2	37.7
4.	Net power generated (MKWH)	3,128.9	4,430.4	5,152.7
5.	Power purchased (MKWH)	13.2	1.7	13.6
6.	Total power available for sale (MKWH)	3,142.1	4,432.1	5,166.3
7.	Power sold (MKWH)	2,692.5	3,936.7	4,516.5
8.	Transmission and distribution loss (MKWH)	449.6	495.4	649.8
9.	Load factor	55.5	63.6	69.7
10.	Percentage of transmission and distribution loss (expressed as percentage of energy available for sale)	14.3	11.2	12.6
11.	Number of units generated per KW of installed capacity	3,115	4,408	5,131

(ii) The following table gives other details about the working of the Board as at the end of the 3 years up to 1978-79:—

	Particulars	1976-77	1977-78	1978-79
1.	Villages/towns electrified (in numbers)	1,212	1,224	1,248
2.	Pump set/wells energised (in numbers)	53,148	58,922	66,240
3.	Number of sub-stations (EHT)	74	75	80
4.	Transmission/distribution lines (circuit KM)			
	(i) High/Medium voltage	15,633.2	16,469.4	17,097.6
	(ii) Low voltage	35,169.8	37,190.6	39,795.9
	Total	50,803.0	53,660.0	56,893.5
5.	Connected load (MW)	1,530.55	1,691.36	1,737.68
6.	Number of consumers	9,90,552	10,72,015	11,71,728
7.	Number of employees	22,494	22,894	24,286

(iii) The following table gives the details of power sold and the revenue, expenses and profit/loss per KWH sold during the 3 years up to 1978-79.

	1976-77	1977-78	1978-79
1. Units sold (MKWH)			
(a) Agriculture	102.6	78.5	85.9
(b) Industrial	1,549.4	1,720.9	1,740.4
(c) Commercial	120.5	130.5	143.9
(d) Domestic	222.9	250.0	282.4
(e) Others	697.1	1,756.8	2,263.9
Total	2,692.5	3,936.7	4,516.5
2. Revenue per KWH (paise)	13.12	13.15	14.90
3. Expenditure* per KWH (paise)	10.59	10.59	10.62
4. Profit per KWH (paise)	2.53	2.56	4.28

13.03. Kerala State Road Transport Corporation

13.03.1. *Capital*

The capital contribution of the Kerala State Road Transport Corporation (under Section 23 (i) of the Road Transport Corporations Act, 1950) was Rs. 2,504.71 lakhs† (State Government: Rs. 1,738.04 lakhs, Central Government: Rs. 766.67 lakhs) as on 31st March 1979, as against capital contribution of Rs. 2,100.91 lakhs (State Government: Rs. 1,496.04 lakhs, Central Government: Rs. 604.87 lakhs) as on 31st March 1978. Interest is payable on the capital contribution at 6.25 *per cent* per annum.

13.03.2. *Guarantees*

The table on the next page indicates the details of guarantee given by Government for repayment of loans (debentures) raised by the Corporation and payment of interest thereon.

*Inclusive of total depreciation for the year but excluding interest on loans

†Provisional

Particulars	*Year(s) of guarantee*	*Amount guaranteed*	*Amount outstanding as on 31st March 1979*	
			Principal	*Interest*
		(Rupees in lakhs)		
Debenture loan				
KSRTC Loan	1981	137.50	137.50	..
KSRTC Loan	1985	110.00	110.00	..
Total		247.50	247.50	..

13.03.3. *Financial position*

The table below summarises the financial position of the Corporation under broad headings for the 3 years up to 31st March 1979:—

	1976-77	1977-78	1978-79*
Liabilities		*(Rupees in lakhs)*	
1. Capital contribution	1,916.91	2,100.91	2,504.71
2. Reserves and funds	1,609.32	1,650.19	1,952.41
3. Borrowings (long-term loans)	247.50	247.50	426.83
4. Trade dues and current liabilities including provisions	544.19	811.34	1,304.46
Total	4,317.92	4,809.94	6,188.41
Assets			
1. Gross block	2,706.38	3,029.04	3,579.51
Less: Depreciation	1,547.53	1,787.96	2,045.99
2. Net fixed assets	1,158.85	1,241.08	1,533.52
3. Capital work-in-progress	50.59	66.57	38.09
4. Investments	429.75	490.06	673.87
5. Current assets, loans and advances	690.25	923.70	1,027.55
6. Miscellaneous expenditure (Deferred revenue expenditure)	0.48	0.71	0.24
7. Accumulated losses	1,988.00	2,087.82	2,915.14
Total	4,317.92	4,809.94	6,188.41
Capital employed	1,304.91	1,353.44	1,526.61
Capital invested	2,164.41	2,348.41	2,931.54

Note:—1. Capital employed represents net fixed assets *plus* working capital.
2. Capital invested represents capital contribution *plus* long-term loans.
* provisional pending certification of accounts.

13.03.4. *Working results*

The following table gives details of the working results of the Corporation for the 3 years up to 31st March 1979:—

		Particulars	1976-77	1977-78	1978-79*
				(*Rupees in lakhs*)	
1.	(a)	Operating:			
		Revenue	4,035.87	4,312.98	4,700.21
		Expenditure	4,032.49	4,432.69	5,385.38
		Surplus (+)/Deficit (—)	(+)3.38	(—)119.71	(—)685.17
	(b)	Non-operating:			
		Revenue	32.74	38.85	59.84
		Expenditure	178.18	177.24	201.99
		Surplus(+)/Deficit(—)	(—)145.44	(—)138.39	(—)142.15
	(c)	Total			
		Revenue	4,068.61	4,351.83	4,760.05
		Expenditure	4,210.67	4,609.93	5,587.37
	(d)	Net profit (+)/Loss (—)	(—)142.06	(—)258.10	(—)827.32
2.		Interest on capital and loans	109.81	122.91	141.51
3.		Total return on			
	(a)	capital employed	(—)32.25	(—)135.19	(—)685.81
	(b)	capital invested	(—)32.25	(—)135.19	(—)685.81

13.03.5. *Operational performance*

The table below indicates the operational performance of the Corporation for the 3 years up to 31st March 1979:—

		1976-77	1977-78	1978-79
1.	Average number of vehicles held	2,284	2,481	2,582
2.	Average number of vehicles on road	1,971	2,084	2,166
3.	Percentage of utilisation	86.3	84.0	83.9
4.	Kilometres covered (in lakhs)			
	(a) Gross	2,044	2,077	2,154
	(b) Effective	2,028	2,060	2,128
	(c) Dead	16	17	26

* Provisional pending certification of accounts

		1976-77	1977-78	1978-79
5.	Percentage of dead kilometres to gross kilometres	0.8	0.8	1.2
6.	Average kilometres covered per bus per day	281.9	270.8	269.1
7.	Average revenue per kilometre (paise)	198	208	218
8.	Average expenditure per kilometre (paise)	197	214	250
9.	Profit (+)/Loss(—) per kilometre (paise)	(+)1	(—)6	(—)32
10.	Route kilometres	1,29,682	1,45,434	1,53,741
11.	Number of operating depots	26	30	34
12.	Average number of break-downs per lakh kilometres	17	18	28
13.	Average number of accidents per lakh kilometres	2.2	2.4	2.7
14.	Passenger kilometres scheduled (in lakhs)	2,224	2,394	2,547
15.	Passenger kilometres operated (in lakhs)	2,028	2,060	2,128
16.	Occupancy ratio	76.6	80.1	83.9

13.04. The Kerala Financial Corporation

13.04.1. *Paid-up capital*

The paid-up capital of The Kerala Financial Corporation as on 31st March 1980 was Rs. 316 lakhs including share capital advance of Rs. 25.00 lakhs received from the State Government in March 1980 (State Government: Rs. 180.92 lakhs; Industrial Development Bank of India: Rs. 110.50 lakhs; Others: Rs. 24.58 lakhs) against the paid-up capital of Rs.288 lakhs (State Government: Rs. 155.92 lakhs; Industrial Development Bank of India: Rs. 107.50 lakhs; Others: Rs. 24.58 lakhs) as on 31st March 1979.

13.04.2. *Guarantees*

The State Government has guaranteed the repayment of share capital of Rs. 285 lakhs (excluding special share capital of Rs. 31 lakhs) under Section 6 of the State Financial Corporations Act, 1951 and payment of minimum dividend thereon at the rate of 3.5 *per cent.* Subvention paid by Government (up to 1969-70) towards the guaranteed dividend amounted to Rs. 17.45 lakhs of which Rs. 0.20 lakh were repaid (1973-74) leaving Rs. 17.25 lakhs outstanding for repayment as on 31st March 1980. The table below indicates the details of other loans/payments guaranteed by the Government along with interest thereon:—

Particulars	*Year of guarantee*	*Amount guaranteed*	*Amount outstanding as on 31st March 1980*		
			Principal	*Interest*	*Total*
			(Rupees in lakhs)		
1. Bonds	1968-69 to 1979-80	2,282.50	2,282.50	..	2,282.50
2. Fixed Deposits	1974-75, 1977-78 and 1978-79	240.00	69.56	..	69.56
Total		2,522.50	2,352.06	..	2,352.06

13.04.3. *Financial position*

The table below summarises the financial position of the Corporation under the broad headings for the three years up to 1979-80:—

	1977-78	1978-79	1979-80
		(Rupees in lakhs)	
Capital and Liabilities			
(a) Paid-up capital	255.00	288.00	316.00
(b) Reserve fund and other reserves and surplus	242.14	326.76	388.00

	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
(c) Borrowings			
(i) Bonds and debentures	1,640.00	1,925.00	2,282.50
(ii) Deposits	59.03	74.52	69.56
(iii) Others	1,018.23	1,287.10	1,623.36
(d) Subvention paid by the State Government on account of dividend	17.25	17.25	17.25
(e) Other liabilities and provisions	151.34	166.95	175.71
Total	3,382.99	4,085.58	4,872.38
Assets			
(a) Cash and Bank balances	104.71	183.35	262.66
(b) Investments	26.03	26.03	26.03
(c) Loans and advances	2,963.55	3,583.52	4,256.79
(d) Debentures, shares etc. acquired under underwriting agreements	24.32	24.32	21.32
(e) Net fixed assets	5.01	7.91	15.75
(f) Dividend deficit account	17.25	17.25	17.25
(g) Other assets	242.12	243.20	272.58
Total	3,382.99	4,085.58	4,872.38
Capital employed	2,915.89	3,550.22	4,285.87
Capital invested	3,207.37	3,893.07	4,678.67

Note: 1. Capital employed represents the mean of the aggregates of opening and closing balances of paid-up capital, bonds and debentures, borrowings, deposits and free reserves.

2. Captial invested represents paid-up capital *plus* long-term loans *plus* free reserves.

13.04.4. *Working results*

The following table gives details of working results of the Corporation for the 3 years up to 1979-80:—

Particulars	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
1. INCOME			
(a) Interest on loans and advances *	257.67	304.66	299.05
(b) Other income	14.65	7.78	11.09
Total	272.32	312.44	310.14
2. EXPENSES			
(a) Interest on long-term loans	163.65	188.01	231.29
(b) Other expenses	46.15	62.40	77.09
Total	209.80	250.41	308.38
3. Profit before tax	62.52	62.03	1.76
4. Provision for tax	18.19	21.00	..
5. Other appropriations	37.30	32.73	1.00
6. Amount available for dividend	7.03	8.30	0.76
7. Dividend paid	7.03	8.30	NA†
8. Total return on			
(a) Capital employed	226.17	250.04	233.05
(b) Capital invested	226.17	250.04	233.05
9. Percentage of return on		(*per cent*)	
(a) Capital employed	7.76	7.04	5.44
(b) Capital invested	7.05	6.42	4.98

The Corporation stated (June 1980) that it was proposed to move Government for subvention to pay the guaranteed minimum dividend of 3.5 *per cent* (Rs. 9.10 lakhs).

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*Interest accrued but not taken into account Rs. 45.29 lakhs and Rs. 61.94 lakhs for 1978-79 and 1979-80 respectively.

† NA denotes not available.

13.04.5. *Disbursement and recovery of loans*

The performance of the Corporation in the disbursement/recovery of loans during the three years up to 1979-80 is indicated below:—

Particulars	1977-78		1978-79		1979-80		Cumulative since inception	
	No.	Amount (Rupees in lakhs)	No.	Amount (Rupees in lakhs)	No.	Amount (Rupees in lakhs)	No.	Amount (Rupees in lakhs)
1. Applications pending at the beginning of the year	868	865.20	640	498.76	576	580.72	..	..
2. Applications received	617	991.86	514	1,038.57	867	2,570.69	5,738	*12,112.85
3. Total	1,485	1,857.06	1154	1,537.33	1,443	3,151.41	5,738	*12,112.85
4. Applications sanctioned	621	850.04	410	547.97	704	997.33	4,067	7,024.92
5. Applications cancelled/withdrawn/rejected	224	508.26	168	408.64	219	428.84	1,151	*3,362.69
6. Applications pending at the close of the year	640	498.76	576	580.72	520	1,725.24	520	1,725.24
7. Loans disbursed	454	521.49	473	629.36	430	729.99	3,117	4,679.12
8. Loans outstanding at the close of the year	2,005	2,963.55	2,352	3,583.52	2,754	4,256.79	2,754	4,256.79
9. Amount over due for recovery								
(a) Principal	1,441	553.59	1,728	666.48	1,948	844.33	1,948	844.33
(b) Interest	1,441	318.73	1,728	444.11	1,948	557.22	1,948	557.22
(c) Percentage of defaults to total loan outstanding		29.43		30.99		32.93		32.93

* The figures as per Appendix V of the accounts for 1979-80 were Rs. 12,113.14 lakhs, Rs. 12,113.14 lakhs and Rs. 3,368.63 lakhs respectively. The difference is under reconciliation.

The following is the age-wise analysis of overdue amounts:—

Period	Amount overdue for recovery of		
	Principal	Interest	Total
		(Rupees in lakhs)	
Up to one year	160.82	91.89	252.71
One to two years	121.34	67.69	189.03
Over two years	562.17	397.64	959.81
Total	844.33	557.22	1,401.55

The above amount includes—

(a) Rs. 341.46 lakhs in respect of 147 cases in which suits have been filed for the recovery of dues;

(b) Rs. 43.01 lakhs due from three textile mills taken over by National Textile Corporation; and

(c) Rs. 82.40 lakhs due from Kerala State Textiles Corporation Limited.

13.05. Kerala State Warehousing Corporation

13.05.1. *Paid-up capital*

The paid-up capital of the Kerala State Warehousing Corporation was Rs. 156.80 lakhs (State Government: Rs. 78.40 lakhs, Central Warehousing Corporation: Rs. 78.40 lakhs) as on 31st March 1980 against a paid-up capital of Rs. 136.80 lakhs (State Government : Rs. 68.40 lakhs, Central Warehousing Corporation: Rs. 68.40 lakhs) as on 31st March 1979.

13.05.2. *Guarantees*

The Corporation has not availed of any guarantee from the State Government in respect of loans raised by it.

13.05.3. *Financial position*

The table below summarises the financial position of the Corporation under the broad headings for the 3 years up to 1979-80:—

	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
Liabilities			
(a) Paid-up capital	116.80	136.80	156.80
(b) Reserves and surplus	31.16	22.43	24.66
(c) Borrowings	25.78	30.60	33.94
(d) Trade dues and other current liabilities	33.56	33.95	35.32
Total	207.30	223.78	250.72
Assets			
(a) Gross block	155.41	164.67	177.52
(b) *Less*: Depreciation	20.30	25.47	30.87
(c) Net fixed assets	135.11	139.20	146.65
(d) Capital works-in-progress	1.73	12.99	16.54
(e) Current assets, loans and advances	70.46	71.59	87.53
Total	207.30	223.78	250.72
Capital employed	172.23	177.06	199.02
Capital invested	171.93	185.23	203.46

Note: 1. Capital employed represents net fixed assets *plus* working capital.
2. Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves.

13.05.4. *Working results*

The following table gives the details of working results of the Corporation for the three years up to 1979-80:—

Particulars	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
1. INCOME			
(i) Warehousing charges	44.22	40.10	51.50
(ii) Other income	16.01	8.85	14.78
Total	60.23	48.95	66.28

	1977-78	1978-79	1979-80
		(*Rupees in lakhs*)	
2. Expenses			
(i) Establishment charges	24.43	26.18	33.71
(ii) Interest	1.78	3.96	3.92
(iii) Other expenses	32.84	27.54	24.85
Total	59.05	57.68	62.48
3. Profit (+)/Loss (—) before tax	(+) 1.18	(—) 8.73	(+) 3.80
4. Provision for tax	..	..	..
5. Other appropriation	0.01	..	2.23
6. Amount available for dividend	1.17	..	1.57
7. Total return on			
(a) capital employed	(+)2.96	(—)4.77	(+)7.72
(b) capital invested	(+)2.69	(—)5.46	(+)6.73
8. Percentage of return on		(*per cent*)	
(a) capital employed	1.72	..	3.88
(b) capital invested	1.56	..	3.31

13.05.5. *Operational performance*

The following table gives details of storage capacity created, capacity utilised and other information about the performance of the Corporation for the 3 years up to 1979-80:—

Particulars	1977-78	1978-79	1979-80
(i) Number of stations covered	67	61	52
(ii)) Storage capacity created up to the end of the years (tonnes)			
(a) Owned	46,528	50,278	50,878
(b) Hired	75,459	66,536	64,555
Total	1,21,987	1,16,814	1,15,433

	1977-78	1978-79	1979-80
(iii) Average capacity (tonnes)	1,41,536	1,13,807	1,16,053
(iv) Average capacity utilised during the year (tonnes)	94,450	71,576	74,727
(v) Percentage of utilisation	66.73	62.89	64.39
(vi) Average revenue per tonne (Rupees per year)	42.55	43.01	57.11
(vii) Average expenses per tonne (Rupees per year)	41.72	50.68	53.84

SECTION XIV

KERALA STATE ELECTRICITY BOARD

IDUKKI HYDROELECTRIC PROJECT

14.01. Introduction

(i) The Idukki hydroelectric project, the work on which was commenced in 1961 is the biggest hydroelectric project undertaken in the State; it envisages creation of a reservoir of 74,400 m.cft. capacity by constructing a 555 feet high concrete arch dam across the Periyar river at Idukki gorge, a 454 feet high concrete gravity dam across the Cheruthoni river and a 328 feet high masonry (subsequently converted into concrete) dam across Kilivallythodu near Kulamavu. The impounded water is conducted to the power station through head race tunnels and pressure shafts. Power is generated in an underground power station with an ultimate installation of six generating units of 130 MW. A tail race system consisting of a tail race tunnel 4000 feet long and a channel with a total length of nearly 3,850 feet leads the tail waters to a neighbouring river.

(*ii*) *Progress of work*

The first stage of the project which included mainly the construction of the three dams for the creation of the reservoir, head race tunnel and pressure shafts, underground power house and installation of three generating units of 130 MW. each, was scheduled to be completed by the third year (1971-72) of the Fourth 5 Year Plan. The trial run of the generators started on 4th October 1975 but continuous power generation by the first generator commenced from April 1976, the second generator from May 1976 and the third generator from December 1976. The original estimate prepared in September 1962 (Rs. 49.23 crores) of the first stage was revised to Rs. 68.21 crores in June 1968 and to Rs. 115 crores in July 1976. The actual expenditure was Rs. 102.37 crores up to December 1979 (excluding suspense and establishment charges).

According to the Board (1976) the following major factors contributed to the increase in cost of the project:—

(a) increase in cost of materials, overheads and in quantities under various items due to design modifications;

(b) higher rates quoted by the contractors (mainly due to steep rise in prices over those envisaged in the revised estimate of 1968);

(c) payments under escalation clause, increase in minimum wages due to Minimum Wage Notification and High Power Committee award to compensate the contractors towards delay beyond their control;

(d) changes in the scope of the work of Kulamavu dam from masonry to concrete in 1975 to ensure expeditious completion of the work resulted in use of concrete (49 lakh cubic feet) in place of masonry;

(e) payment of retrenchment compensation to project workers; and

(f) increase in costs of maintenance, overheads, *etc.* due to prolonged period of construction.

The work on the second stage (estimated cost: Rs. 31.68 crores) which mainly included the installation of the three additional generating units had not been taken up so far (March 1981).

The third stage of the project was intended to augment the storage by the construction of dams across the rivers Kallar and Erattayar and diverting the water through tunnels into Idukki reservoir for generating additional power of 43 MW. The works on the third stage were to commence in 1973-74 and were to be completed by the end of 1976-77. The works actually commenced in February 1976 had not been completed so far (March 1981). Against the estimated cost of Rs. 4.10 crores the actual expenditure up to December 1980 was Rs. 7.23 crores. The progress of works of the contracts for major components of the project up to the end of December 1980 along with the targeted date of completion is given below:—

Name of the work	*Sub-item of work*	*Quantity of work to be done as per contract*	*Month of completion as per agreement*	*Quantity of work done up to end of December 1980 (percentage)*	*Stage of completion*	*Reason for delay*
1. Kallar dam	Excavation Masonry	2,450 cum. 3,600 cum.	May 1981	23	Excavation in progress. Masonry not taken up	Difficulties in land acquisition, procedural delay in settlement of contracts, labour unrest, *etc.*
2. Erattayar dam	Excavation	22,250 cum.	October 1979 extended to October 1981	20	do.	
3. Erattayar tunnel		3,803 m.	August 1979	100	Completed in March 1980	
4. Kallar tunnel (Balance work)		2,905 m. (2,425 m)	August 1981	30	In progress	
5. Leading channel	Stage I	150 m.	April 1977 extended to June 1977	100	Completed in June 1977	
	Stage II	300 m.	January 1979	34	In progress	

Certain points noticed in audit on the works executed for the project were included in the Reports of the Comptroller and Auditor General of India for the years 1969-70, 1971-72 and Audit Report for 1972-73 (Commercial) and 1973-74 (Commercial). The Committee on Public Undertakings examined them and the recommendations of the Committee thereon were included in its Eighth Report (1971-72), Twenty-fifth Report (1975-76) and Sixth Report (1977-79).

Some other points noticed in audit during December 1980 are detailed below:—

14. 01. 2. *Extra expenditure on concrete and allied works*

The agreement entered into (February 1972) by the Board with the contractor for concrete and allied works of the Idukki Power House provided that the contractor shall make maximum possible use of rubble obtained from excavations for the power house and appurtenant works. The rubble so collected was to be issued to the contractor free of charge. The contractor had to transport/take rubble from the place where it was stacked or unstacked and the rate quoted was deemed to include all overheads which he might have to incur. The contract also provided that in the event the contractor had to use his own rubble for any item of work, he could do so only after obtaining the express written sanction of the Chief Engineer and in that case the contractor would be paid at the departmental schedule of rates.

Though the contractor started work from January 1972 using rubble from the dump-yard he started representing (May 1972) that he was experiencing difficulties and incurring heavy loss in collecting rubble from the dump-yard and requested for alternate arrangements to be made. After inspection of the site (April 1973) it was decided to allow the contractor to bring and use his own rubble for which payment was to be made at the schedule rate of Rs. 19.25 per cum. from 1st April 1973. The rate was revised to Rs. 28.26 per cum. for the period from 1st August 1974 (formal sanction awaited). This had resulted in an exrta expenditure of Rs. 1.15 lakhs so far (April 1981).

According to the Board (November 1975), about 1.27 lakh cum. of muck was available at the time of commencement of the work. The Chief Technical Examiner of the State Government who conducted an examination in his report for 1973-75 had also stated that adequate usable rubble was available at the muck dump-yard. The contractor had collected about 4,520 cum. of rubble up to March 1973. On an enquiry made by Audit, the Chief Engineer (Civil), Idukki stated (October 1975) that though rubble was available at the dump-yard, its extraction from beneath was found to be difficult and costly. As the agreement (February 1972) made it obligatory on the part of the contractor to utilise the rubble obtained from the excavations, the decision of the Board (April 1973) to allow the contractor to use his own rubble on the ground that it would be 'difficult and costly' to collect the rubble from the dump-yard relieved the contractor of a contractual obligation with adverse financial consequences for the Board.

14.01.3. *Unauthorised financial aid and extra expenditure*

The contract for "construction of underground power house —concrete and allied works" was awarded (July 1971) to a contractor for Rs. 70.65 lakhs. One of the items of the works specified *inter-alia,* that the downstream wall beam, parapet, etc., would have an additional 4 inch thickness of concreting criss-crossed by 4 inch deep vertical and horizontal grooves at irregular intervals for architectural appearances (called 'fluting'). No separate rate was specified for the work and the rate for concreting was deemed to include all charges for the work.

The contractor represented (December 1972) that even though the item of work was included in the agreement, he was incurring heavy loss on account of the heavy magnitude of the work and requested that he may be compensated for the actual financial loss. It was decided by the Idukki Review Board at its meeting (January 1973) that the matter would be discussed with the technical consultants and in case it was decided that flutings could not be dispensed with due to architectural consideration, the quantum of extra payment to the contractor would be examined and settled quickly in terms of the provisions in the agreement. In the discussions between the technical consultants and the Board (January 1973), it was decided that the fluting provided on architectural advice could not be altered. The Minister for Transport and Electricity, Government of Kerala, pointed out (January 1973) that in case the probable extra expenditure was only of the order of Rs. 0.50 lakh, the Board should not grudge the expenditure.

The Chief Engineer decided (October 1974) to treat the work as an 'extra item' and an advance of Rs. 1.45 lakhs was, paid to the contractor during March-December 1974. However the recommendation of the Chief Engineer to treat the item of work as an 'extra item' was rejected by the Board (March 1980), which ordered payment of Rs. 0.50 lakh towards the item of work subject to the contractor agreeing to treat the payment as being in full and final settlement of his claims. The Chief Engineer while issuing orders to this effect (April 1980) stated that the advance already given against this claim would be recovered at the time of final settlement of accounts. The excess payment (Rs. 0.95 lakh) had not been recovered so far (March 1981).

As the agreement specifically provided for fluting to be done by the contractor, the payment of Rs. 0.50 lakh was also outside the scope of the agreement.

The matter was reported by Audit to Government/Board in January 1981. The Board stated (March 1981) as under:—

"It is a fact that the agreement specified provision of grooves in the concrete walls and the contractor is bound to do it. But it is also a fact that the provision of the grooves as specified by the consultants was an arduous job. This type of grooves provided for architectural purposes is a noval feature which has not been attempted anywhere in our Power Stations or other structures".

14.01.4. *Unauthorised aid to a contractor*

The Kerala State Electrcity Board concluded an agreement (February 1972) with a contractor for concrete and allied work of the Idukki Power House. Under this agreement the quantity in excess of 115 *per cent* of the quantity indicated in the tender would be paid for as extra item at rates to be worked out on the same basis as the estimate for the work.

In order to avoid labour unrest arising from a dispute between the contractor and his workers in respect of fringe benefits, the Chief Engineer recommended (March-December 1974) increase of the labour content of the rate by 27 *per cent* to cover fringe benefits for the extra items. Though the Board initially decided (August 1976) against the recommendation, they subsequently decided (January 1978) in its favour. The payment made accordingly which was outside the terms of the contract was Rs. 4.43 lakhs in respect of seven items of work.

The matter was reported by Audit to the Board/Government (January 1981). The Board stated in March 1981 as under:—

"Labour situation that prevailed in Idukki Project area during construction time is well known. There was lot of hold-ups to almost all works due to labour trouble. As a result of the conciliation arrived at from time to time, some fringe benefits had to be paid to the labour".

14.01.5. *Extra expenditure on construction of bye-pass channel*

The Board invited tenders (May 1975) for the work of construction of a bye-pass channel (estimated cost: Rs. 15.25 lakhs) in continuation of the tail race open cut channel for the diversion of the tail water discharge from Idukki Power House. Since the lowest tenderer backed out, the offer of the second lowest tenderer to carry out the work at 29 *per cent* above the estimated rates was accepted. The agreement executed in January 1976 envisaged construction of 2 feet-wide concrete cross bars at 50 feet intervals along the entire length (about 2,600 feet) instead of lining by cement concrete of the floor, and a rate of Rs. 220 per cubic metre with tender increase of 29 *per cent* was specified for the work.

The issue of floor lining was discussed at site in a conference held in November 1975 by the Chief Engineer with the field engineers and it was decided to provide concrete flooring over rubble packing in certain portions of the channel. It was finally decided to provide concrete flooring for the entire length of the channel instead of concrete cross bars provided for in the contract in order to "maintain the hydraulic properties and to retain the regosity co-efficient" as provided in the design.

The contractor to whom the work was awarded in September 1975 was instructed (January 1976) to line the floor with cement concrete instead of concrete cross bars. He commenced the work on 27th January 1976 and completed the entire work by March 1976. Though the contractor demanded a rate of Rs. 400 per cum. the rate to be paid for the above item of work was not settled beforehand, as the Chief Engineer had assumed (March 1976) that the item of work as per the revised proposal was identical to the item already provided in the contract and could be executed at the rate of Rs. 220 per cum. provided for constructing concrete cross bars plus tender excess of 29 *per cent.* Since the Board did not agree (February 1977) to pay the contractor at the rate of Rs. 400 per cum. the dispute was referred to arbitration in accordance with the provisions of the contract. The arbitrators in their award (September 1977) directed the Board to pay the contractor at Rs. 385 per cum. The Board accepted (November 1977) the award and settled the accounts with the contractor (December 1977) on the basis of the award. The failure of the Board to enter into a supplementary agreement with the contractor in respect of the rate for the work to be carried in accordance with the revised design or to make alternate arrangements for the execution of the work in the event of disagreement with the contrator resulted in an extra expenditure of Rs. 4.03 lakhs.

According to the Chief Engineer (March 1979) a supplementary agreement with the contractor could not be executed before the commencement of work on 27th January 1976 as a definite rate could not be communicated to him in the absence of the sanction of the Board approving the rate.

The delay in taking a decision on lining the floor of the channel necessitated the use of concrete pumps for speedy execution of the work. As against the required quantity of 824 tonnes of cement for the completion of work, the actual quantity of cement for working with concrete pumps was 1009 tonnes. The extra expenditure due to excess utilisation of cement amounted to Rs. 0.54 lakh.

14.01.6. *Deviation Tunnel from Kallar to Erattayar*

The contract for the execution of the work was awarded (February 1977) to a contractor at an estimated cost of Rs. 1.13 lakhs. The work included excavation of rock by drilling and blasting. Though the work could be executed at a cheaper cost by jack hammer drilling, the agreement with the contractor provided for hand drilling at the rate of Rs. 175.70 per 10 cum. The work commenced in March 1977 was completed in June 1977.

The Board had an air compressor at Moolamattam and there was a proposal to dismantle the compressor at Moolamattam and re-erect it at Kallar to supply compressed air to the jack hammer to be used for drilling in the tunnel works. The work relating to the dismantling and erection of the compressor at Kallar was awarded (January 1977) to another contractor. The erection and trial run of the compressor at Kallar were completed only on 21st March 1977 and thereafter the Board entered into (June 1977) a supplementary agreement with the contractor to carry out excavation by using jack hammer at a reduced rate of Rs. 116.73 per ten cum. The contractor was paid at the rate for hand drilling for 3,948 cum. of excavation and at the rate for jack hammer drilling for 1,833 cum. of excavation. The failure of the Board to get the compressor erected at Kallar, before the commencement of work resulted in an avoidable expenditure of Rs. 0.23 lakh.

14.01.7. *Extra expenditure on widening and deepening of tail race system*

Tenders for the work of widening and deepening the river Kudayathurpuzha down stream of Valiar confluence between chain 6816-8682 estimated to cost Rs. 2 lakhs were invited in October 1975. Of the five tenders received (November 1975) two were rejectd on technical grounds. Two others contained offers to execute the work at 5.1 *per cent* and 2.5 *per cent* below the estimated rates, but with special conditions to the effect that departmental loaders, dumpers and dozers should be made available free of charge. The remaining tender contained offer to execute the work at 69 *per cent* above the estimate rates without any special conditions. The last-named tender was accepted and the work awarded in February 1976. According to the Chief Engineer, (May 1976) the offer was accepted by the Superintending Engineer for the following reasons:—

(i) The Executive Engineer had stated that it was not possible to assess correctly the financial implications with regard to the supply of heavy earth-moving equipment which were required to be supplied free of cost to the first and second lowest tenderers.

(ii) The availability of the heavy earth moving equipment was doubtful as they were engaged in another work.

(iii) The first and the second lowest tenderers did not respond to attempts at negotiation and it was presumed by the Superintending Engineer that they were not prepared to withdraw the special conditions.

However, during January 1976 the Board found that heavy earth moving equipment could be used between chain 6816-7816 and the work carried out departmentally, thereby limiting the work to be executed by the contractor between chain 7816 and 8682. The estimate of the work was thereupon reduced to Rs. 1.42 lakhs. The Board also made available to the contractor necessary earth moving machinery on hire basis and the entire works were completed in Apirl 1976.

Had the availability of the heavy earth moving equipment been assessed correctly, the work could have been awarded and got done by the lowest tenderer at 5.1 *per cent* below the estimated cost. The avoidable extra expenditure to the Board on the basis of the bill presented by the contractor (August 1976) worked out to Rs. 0.66 lakh. Orders of the Board ratifying the award of the work and details of final payment to the contractor were awaited (January 1981). The records connected with the work were not produced to Audit as they were stated to be with the State Vigilance Department.

14.01.8. *Construction of a road at Ayyappancoil*

Tenders for the construction of the balance portion of the road between Thonithadi and Marikattukudy (7.3 kms.) were called for in May 1975, and the work was awarded to a contractor at 25 *per cent* above estimated rates (estimate: Rs. 9.50 lakhs). The work included the blasting and removing of sheet rock of an approximate quantity of 632 cum. and the rubble obtained was to be allowed to be used free of cost as soling stones and as 48 mm. metal for the execution of certain other items in the same road work. It was anticipated that the rubble obtained from blasting would be sufficient to meet only 10 *per cent* of the requirements of other works, and the contractor would bring his own rubble to meet the balance requirements of the work.

The road was to pass through a mountainous area and rock was expected to be met with, during construction. The contracts in respect of similar works provided for the recovery of Rs. 13.60 per cum. in respect of rubble used in works/surplus rubble not returned to the Board. However, no such provision was made in the agreement with the contractor though only 10 *per cent* of the blasted rock was expected to be used free of cost in other items of the work. During the execution of the work it was found that the actual quantity of rock blasting was 7,800 cum. against 632 cum. originally estimated. Hence the contractor was unduly benefited to the extent of about 5,114 cum. of rubble (Rs. 0.70 lakh) which at the time of tendering the work was expected to be procured by the contractor at his own expense.

The Executive Engineer in charge of the work reported (June 1976) that the rock content in the road alignment was high and this could not be used for road work but according to the Board (December 1978), the contractor did not also deliver the surplus rubble to the extent of 3,053 cum. (Rs. 0.42 lakh), there being no provision to that effect in the contract. The absence of necessary provisions in the contract to safeguard the interest of the Board thus resulted in a loss of Rs. 1.12 lakhs.

The Board, however, stated (November 1980) that the contractor could not salvage the full quantity of useful rubble from blasting. The remarks of the Board (November 1980) were endorsed (February 1981) by Government.

14.01.9. *Non-recovery of dues from a contractor*

The contract for the construction of a bye-pass channel from the tail race end point to the confluence of Valiyar and Nachar (Idukki hydroelectric project) was awarded to a contractor in November 1973 for Rs. 13.36 lakhs. The work was to be completed in June 1974. As the progress was not satisfactory, the Board terminated the contract in January 1975 when the contractor had executed work valued at Rs. 5.27 lakhs.

There were some disputes between the Board and the contractor regarding the recovery of hire charges for use of heavy earth-moving equipments supplied by the Board, compensation for use of explosives, *etc*. The disputes were referred to arbitration. The contractor filed his claim statement (Rs. 14.65 lakhs) in June 1975 and the Board filed the counter claim statement (Rs. 4.23 lakhs) in July 1975. Though the contractor owed Rs. 0.97 lakh to the Board on account of repair charges of tools and plant hired to him, retrenchment compensation and variable dearness allowance paid to the workers on behalf of the contractor, value of materials and hire charges of tools and plant supplied to him, *etc*. these claims were omitted to be included in the counter claim statement filed by the Board as the amount was determined much later in April 1977 as recoverable from the contractor.

As the arbitrators differed, the dispute went to an umpire (July 1976) who awarded (November 1976) that the Board should pay to the contractor Rs. 2.20 lakhs and this was decreed (February 1977) by the Sub court, Trivandrum in favour of the contractor. The Board paid (April 1977) Rs. 1.20 lakhs to the contractor withholding Rs. 1 lakh towards outstanding dues. The Board also filed (May 1977) a suit in the Sub court, Trivandrum for stay of the execution proceedings. The court directed (July 1977) the Board to pay the balance amount of Rs. 1 lakh to the contractor which was paid in October 1977. The suit was also dismissed (October 1979) on the ground that the claims of the Board against the contractor arose prior to the date of reference to arbitration and this should have been raised before the arbitrators. Based on the legal advice obtained (July 1980), the Board decided not to file an appeal.

The Board thus lost the opportunity of recovering its legitimate dues amounting to Rs. 0.97 lakh from the contractor due to failure to include the same in the counter claim statement filed before the arbitrators.

14.01.10. *Avoidable expenditure on payment of electricity charges*

The Kerala State Electricity Board constructed (December 1963) R.C.C. silos at the border town of Theni in Tamil Nadu for handling bulk cement for the Sabarigiri hydroelectric project and subsequently for the Idukki hydroelectric project. Power Supply was obtained from the Tamil Nadu Electricity Board and the agreement therefor provided for supply of load of 375 KVA for ten years commencing from 1st August 1964. After the expiry of 10 years, supply could be terminated under the agreement by giving one year's notice. Minimum charges were payable during the period of supply at Rs. 6,590 per month.

As the Board had made necessary arrangements at Angamaly (within Kerala State) for receiving bulk cement for Idukki and other projects, the Chief Engineer directed (October 1967) that the cement received at Theni should be utilised only for the construction of Idukki dam of the Idukki project, and the requirements of cement for the other dams in the Idukki project and allied project works being met from the cement received at Angamaly. The works on Idukki dam were completed in May 1974, the silos were closed down in December 1974 and power was not required for the silos thereafter. However inspite of the fall in the quantity of bulk cement received at Theni and the fact that the future receipt of bulk cement was to be at Angamaly for the requirements of other works, the Board failed to serve one year's notice on the Tamil Nadu Electricity Board to terminate power supply to the R.C.C. silos at Theni. The Board applied for disconnection of power supply only on 10th December 1975 and the supply was diconnected after one year on 9th December 1976. The Board had to incur an expenditure of Rs. 1.12 lakhs towards minimum electricity charges for the period from August 1975 to December 1976. The expenditure of Rs. 1.12 lakhs could have been avoided, had the Board reviewed the position regarding the bulk supply of cement at Theni and served due notice on the Tamil Nadu Electricity Board before expiry of the agreement (August 1974).

14.01.11. *Irregular payment of travelling allowance*

The section office formed for the execution of works relating to the Butterfly Valve Chamber of the Idukki hydroelectric project functioned at Kulamavu up to 30th July 1969 and thereafter at Moolamattam until it was finally shifted to the workspot at Nadukani in 1970. Nadukani was situated 3.50 kms. away from Kulamavu and 15.50 kms. away from Moolamattam. Moolamattam was treated as headquarters of the staff attached to the section office, Nadukani, mainly on the ground that they could be provided with residential accommodation only at Moolamattam eventhough they had to travel beyond 8 kms. daily to attend the office/project site. The staff attached to the section office who had to attend project site daily at Nadukani were treated as on tour and paid half-daily allowance as per the travelling allowance rules of the Board. Board also provided free transport facilities to the staff, the cost of which amounted to Rs. 5.07 lakhs for the period up to March 1976.

When this was brought to the notice of the Board by Audit (December 1975), the Board resolved (January 1978) to "approve payments already made and the concessions extended to the workers up to the end of March 1976". The extra expenditure due to irregular payment of travelling allowance up to March 1976 amounted to Rs. 1.71 lakhs.

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Other topics of interest

14.02. Delay in rectification of defects in meters and installations

(a) The readings in meters installed in the premises of H.T. consumers are required to be recorded by the concerned Assistant Engineer every month. The Assistant Executive Engineer is required to check the readings once a year as per the rules of the Board. In addition, the Transformer Meter Relay Division is expected to exercise a check on the performance of the meters installed in the premises of H. T. consumers. The Assistant Engineer, while taking monthly reading, has to see that the meters are working properly, by verifying the recorded consumption and load conditions.

No such inspection of the meter installed in an ice factory at Chawghat on 23rd July 1971, was conducted and the officials who took the meter readings did not notice the defects in the installation or in the meter. An inspection conducted by the Transformer Meter Relay Division of the Board in July 1976 revealed that the current coils of KWH and KVAH meters were connected in parallel, and therefore, the meter indicated only 50 *per cent* of actual consumption. The defects were rectified in July 1976 and the consumer was required to pay an additional amount of Rs. 1.62 lakhs for the period from July 1971 to July 1976, on the basis of average consumption and maximum demand during the three months succeeding the date of rectification of the defect. The consumer filed a suit (February 1977) in the Kerala High Court, challenging the basis of the revised assessment. The Board, subsequently agreed (February 1979) to reduce the claim to Rs. 0.99 lakh (current charges: Rs. 0.81 lakh and electricity duty: Rs. 0.18 lakh) by reckoning the additional amount due on the basis of the faulty meter readings. The Court directed (March 1979) that a proper investigation should be conducted by the Board under due notice to the petitioner. No such investigation had been conducted so far (July 1980).

(b) The Assistant Engineers of Distribution Divisions are required to check monthly 10 *per cent* of meter reading of low tension consumers, to verify load conditions and accuracy of tariff applied. The meter installed (February 1968) in the premises of a consumer was found recording only two-thirds of the energy actually consumed during an inspection conducted by Board officials in February 1971; but no action was taken to rectify the defects. The same defect was noticed during a subsequent inspection conducted by Board officials (Meter Inspection Unit) in November 1976. The defect was rectified in December 1976. As per an analysis of the meter readings made in October 1978, the consumption dropped from March 1970 onwards and increased from December 1976. The additional amount due from the consumer was assessed at Rs. 0.30 lakh (current charges: Rs. 0.27 lakh; electricity duty: Rs. 0.03 lakh) based on 50 *per cent* of the consumption recorded by the meter during the period from March 1970 to December 1976. The amount had not been recovered so far (February 1981). The Board stated (January 1981) that instructions had been issued to initiate disciplinary action against those responsible.

14. 03. Contract for retreading of tyres

The various types of tyres used in the vehicles of the Board were got retreaded from private agencies. The annual rate contracts concluded in March 1978 and April 1979 by the Stores Purchase Department of the Government, with five firms provided that the facility could also be availed of by the Board. Instead of operating the rate contracts concluded by Government, the Board invited quotations and entered (July 1978) into separate rate contracts with two firms for the retreading of tyres for a period of two years from 28th July 1978. The rates accepted for three sizes of tyres to be retreaded were higher than the rates concluded by Government and this involved an extra payment of Rs. 0.37 lakh (approximate) in respect of 2402 tyres (approximate) got retreaded between August 1978 and April 1980, as detailed below:—

Size of tyres	*Number of tyres retreaded for two years from July 1978 (approximate)*	*Increase in price per tyre over rates concluded by Government (Rupees)*	*Number of tyres retreaded between August 1978 and April 1980 (approximate)*	*Extra payment (Rupees)*
590.15	450	3	394	1182
600.16	1570	13	1374	17862
825.20	725	35	272	9520
		22 (from April 1979)	362	7964
			2402	36528

According to the Board (October 1980), it was decided to have independent rate contracts as they had bitter experience with the firms having rate contracts with the Government and that the reports from the field were to the effect that the work was not often satisfactory. Government endorsed (December 1980) the above views of the Board. It was, however, noticed in audit that—

—one of the two firms with whom Board concluded a rate contract in July 1978 had contracted with State Government (March 1978) to carry out the work at a lower rate; and

—the quality, performance, *etc.*, specified in the rate contracts concluded by the Board did not vary from those included in the rate contracts concluded by Government.

Idamalayar hydroelectric project

14.04. Purchase of a defective plant

In March 1976, the Chief Engineer (Civil) called for quotations for the supply of an asphalt hot mixing plant. While calling for further clarifications, *etc.*, from the four firms which had sent offers, they were asked to furnish a list of clients to whom equipment had already been supplied together with testimonials and also to intimate their acceptance of terms of payment which would be 90 *per cent* against documents and balance on acceptance of equipment.

In December 1976, purchase order was placed with a firm of Madras being the lowest tenderer for the supply of the plant at Rs. 1.24 lakhs. The firm had neither furnished details of clients to whom they had already supplied the equipment earlier nor given any performance certificate from satisfied customers to prove the quality of the machine offered. Payment of Rs. 1.12 lakhs (90 *per cent* of cost) was made against documents as per the provisions of the purchase order. The plant was received (at Angamaly) in March 1977. Trial runs conducted by the suppliers in June 1977 failed as the engine was defective. The suppliers carried out certain repairs in November 1978, but it was found that further repairs were necessary before attempting a second trial run. The repairs were arranged (July 1979) by the Board through a private agency at a cost of Rs. 0.02 lakh as per the suggestion of the suppliers, but the plant was not found to work satisfactorily even during the second trial run conducted in April 1980.

No action was taken by the Board against the suppliers for the supply of defective machinery or to invoke the bank guarantee of Rs. 6000 towards security furnished for satisfactory performance of the contract. The factory of the firm which had supplied the plant, was reported to have been closed down in February 1979. The road works in the Idamalayar project for which the plant was intended to be purchased had therefore to be completed without use of the plant.

According to the Board (October 1980), the unsatisfactory working of the machine was caused by the delay that had occurred in the first trial run after receipt of the equipment at site, the lack of co-operation from the suppliers in rendering prompt services in initial commissioning and during warranty period, the inability of the purchaser to arrange the repairs through another agency during the warranty period and the idling of the plant at the project site during this interval. The remarks of the Board were also endorsed by Government in December 1980.

According to the general procedure followed by the Board, a percentage of the cost of materials/equipment would be paid in advance against transport documents together with a guarantee for the amount from a scheduled bank. The payment of advance without obtaining a bank guarantee for the amount was a deviation from the general procedure and this resulted in the investment of Rs. 1.12 lakhs remaining idle for a period of about four years. Though the Board claimed (October 1980) that the defects in the plant were not major, the plant had not been commissioned and put into use so far (February 1981).

14.05. Avoidable expenditure on retrenchment compensation

The contract for the construction of a dam across the river Idamalayar and the connected works was awarded (June 1976) to a contractor at an estimated cost of Rs. 15.60 crores. The preliminary and enabling works were entrusted by the contractor to other piece-work contractors. When the work was in progress, an industrial dispute arose between the contractors and their workers on certain issues which included the question of retrenchment of workers employed by the piece-work contractors. The issues were discussed on conciliation meetings (February to July 1978) and in the settlements reached, the Board agreed to disburse retrenchment compensation to the workers employed by the piece-work contractors at the rate of 8.33 *per cent* of the total earnings for the period of their employment at the Idamalayar dam site. Accordingly the Board disbursed (April-November 1978) an amount of Rs. 4.41 lakhs to 1927 workers stated to be in the employment of the piece-work contractors. The payment was outside the contract in as much as the responsibility for payment of wages, retrenchment compensation, *etc.* to their workers or the workers of their sub-contractors or piece workers was that of the contractors under the terms and conditions of the agreement.

According to the Chief Engineer of the Board (July 1980), the liability for payment of retrenchment compensation was undertaken in the interest of work and to have a peaceful labour situation in the project area.

14.06. Purchase of transformers

The Chief Engineer (Electricity) invited (December 1977) tenders for the supply of 1120 transformers of different ratings. As per the tender notice, the rates quoted were to remain valid up to 15th June 1978. Tenders were opened in March 1978. The rates quoted by a private manufacturer in Hyderabad was the lowest for transformers of 250 and 100 KVA ratings. The Chief Engineer (Electricity) placed telegraphic orders (August 1978) on the firm after the validity of the tenders had expired (15th June 1978) for the supply of 70 transformers of 250 KVA and 40 transformers of 100 KVA offered by the firm at their quoted rates of Rs. 17,000 and Rs. 8,900 each respectively. The order was not accepted (August 1978) by the firm on the ground that it was not placed within the validity period. The Board therefore, made purchases (February to July 1979) of 70 transformers of 250 KVA at Rs. 20,700 per transformer and 40 transformers of 100 KVA at Rs. 10,400 per transformer from another private firm of Bangalore. The failure of the Board to finalise the tenders opened in March 1978 within the validity period (June 1978) resulted in an extra expenditure of Rs. 3.19 lakhs.

The matter was referred to the Board in October 1980 and to Government in January 1981; replies were awaited (November 1981).

14.07. Purchase of single phase house service meters

The Chief Engineer (Electricity) on the basis of tenders received, placed (August 1978) orders on a company in Bangalore for the supply of 40,000 single phase meters of 5 amps and 10,000 meters of 10 amps at Rs. 58 per meter. The supply was to commence from February 1979 and was to be completed by June 1979. The company claimed (March 1979) an increase in the price of Rs. 10 per meter due to increase in raw material prices, though a firm price was specified in the purchase order and had been agreed upon. However the Chief Engineer allowed (August 1979) a price increase of Rs. 10 per meter on 10,000 meters which the company supplied after the stipulated period of supply. This resulted in an extra expenditure of Rs. 1.14 lakhs (including Rs. 0.14 lakh in the form of excise duty and sales tax on the additional amount) to the Board.

The remarks of the Board called for in May 1980 were awaited (November 1981).

14.08. Excess payment of customs duty

The Board placed (March 1972) an order with a foreign firm for import of spares (cost: Rs.12.60 lakhs) for turbines and generators for the Kuttiadi hydroelectric project. Against the order, three cases of spares (cost: Rs. 7.39 lakhs) were shipped by the foreign firm in December 1973 and the consignment reached Cochin in April 1974. Earlier in March 1974, the suppliers had intimated to the Board that some spare parts (cost: Rs. 0.56 lakh) intended to be supplied with the consignment already shipped and included in the bill of lading were being despatched separately. Instead of insisting on an open examination and apprising the customs authorities of the spares short supplied, the Board cleared (July 1974) the consignment after payment of customs duty (Rs. 3.62 lakhs) which included Rs. 0.36 lakh (as assessed by the Board) in respect of spares short shipped. An application for refund of excess customs duty paid (to be filed with the customs authorities within six months from the date of payment) was, however, submitted by the Board in May 1975. The application was rejected (September 1975) on the ground that the claim was time-barred. An appeal filed (December 1975) by the Board with the Appellate Collector of Customs was rejected in April 1976 and a revision application filed (May 1976) with the Government of India was also rejected in July 1980. The spares short shipped were subsequently received in September 1974 and customs duty of Rs. 0.36 lakh was paid on these imports. Failure to claim refund of customs duty in respect of spares not received in July 1974 within the time limit specified in the Customs Act resulted in an extra expenditure of Rs. 0.36 lakh.

14.09. Idle outlay

The work of construction of a road from Kakkayam dam site to Thariode first reach, covering a distance of 17 kms. was awarded to a contractor in February 1974 for Rs. 2.5 lakhs. The work was commenced in March 1974 and was to be completed by September 1974. The contractor stopped (April 1974) the work after executing a portion of the work, on the ground that cement required for masonry work was not issued by the Board. The contractor was paid (January 1976) Rs. 0.51 lakh towards the value of the work executed.

The work actually completed consisted of clearing the forest, earthwork excavation, *etc.* preparatory to the construction of the road, extending to 3.5 kms. of road distance. It was carried out in two segments of the road, which were not connected, and the cross drainage works and retaining walls were not executed.

The construction of the road before the project was sanctioned for implementation resulted in an idle outlay of Rs. 0.51 lakh on an incomplete road for a period of about five years (April 1981). The present utility of the works carried out in 1974 had not been assessed by the Board (April 1981).

Government stated (April 1981) that the State Public Works Department had a proposal to construct a road from Thariode to Kosani saddle and that the Board would resume the work on the road and connect the same at Kosani saddle as and when the work was taken up by the P.W.D.

Summing Up

(i) The Idukki hydroelectric project, commenced in 1961 envisaged generation of 780 MW of power by installing 6 generating units of which 3 units were to be installed in the first stage and scheduled to be completed by March 1972. Against the original estimated cost of Rs. 49.23 crores (revised to Rs. 115 crores in July 1976) the expenditure up to December 1979 was Rs. 102.37 crores. The work on second stage had not been taken up so far (March 1981).

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(ii) The agreement with the contractor provided for use of rubble obtained from excavation in the concrete and allied works. However, when the contractor expressed difficulty in extracting the rubble he was allowed to use his own rubble and paid for it against the terms of the contract. This resulted in extra expenditure of Rs. 1.15 lakhs.

(iii) Though the agreement for construction of underground power house envisaged certain architectural work (called fluting) for which no separate rate was specified, the contractor was paid Rs. 0.50 lakh for it.

(iv) In order to avoid labour unrest arising from the dispute between the contractor and his workers in respect of fringe benefits, the labour content of the rate was increased by 27 *per cent* involving payment of Rs. 4.43 lakhs outside the terms of the contract.

(v) Due to not settling the rate for concrete flooring in the work of construction of the bye-pass channel, an extra expenditure of Rs. 4.03 lakhs was incurred. Delay in taking decision about lining of the floor of the channel necessitated use of concrete pumps for speedy execution of the work, resulting in extra consumption of cement, involving additional expenditure of Rs. 0.54 lakh.

(vi) Failure to supply and install compressor at Kallar before commencing the work on deviation tunnel from Kallar to Erattayar, resulted in avoidable expenditure of Rs. 0.23 lakh by getting the work done by hand drilling.

(vii) An avoidable expenditure of Rs. 0.66 lakh was incurred by failing to take advantage of lower rates quoted by two contractors, in the event of being supplied with some heavy earth-moving equipment for the work, as the Board could not assess the availability of such equipment in time.

(viii) Non-inclusion of a suitable clause in the contract for construction of a road at Ayyappancoil regarding the use of rubble obtained by blasting, resulted in a loss of Rs. 1.12 lakhs.

(ix) Non-inclusion of a claim for Rs. 0.97 lakh due from a contractor in the statement furnished before the arbitrator in a dispute resulted in foregoing of the claim.

(x) Non-issue of notice to the Tamil Nadu Electricity Board for disconnection of bulk supply of power sufficiently in time resulted in extra expenditure of Rs. 1.12 lakhs on minimum electricity charges.

(xi) Irregular payment of daily allowance and travelling allowance to the staff of the section office at Kulamavu/Moolamattam for attending the work at Nadukani amounted to Rs. 1.71 lakhs.

(xii) In order to settle a dispute between the contractor and labour in the work of construction of a dam across Idamalayar, Rs. 4.41 lakhs were paid to the workers as retrenchment compensation, which was outside the terms of the contract.

(xiii) Failure to finalise tenders for purchase of transformers within the validity period resulted in an extra expenditure of Rs. 3.19 lakhs.

(xiv) Grant of increase in the price of meters to a supplier, outside the terms of the contract, resulted in an extra expenditure of Rs. 1.14 lakhs.

SECTION XV

KERALA STATE ROAD TRANSPORT CORPORATION

Workshops of the Corporation

15.01. Introduction

The Corporation has a Central Works (Central Workshop) at Trivandrum, four Regional Workshops (Alwaye, Calicut, Edappal and Mavelikkara) and five Divisional Workshops (Alleppey, Alwaye, Ernakulam, Kottayam and Trivandrum). The Central Works and the Regional Workshop at Alwaye were taken over (March 1965) from the erstwhile departmental undertaking while the Regional Workshops at Edappal, Mavelikkara and Calicut were established in February 1974, October 1977 and October 1979 respectively. The Divisional Workshops were started in September 1972. The Central Works and the Regional Workshops carry out major overhauling and reconditioning of vehicles, engines and other major repairs. The Divisional Workshops mainly attend to half-yearly maintenance and repairs for obtaining fitness certificates from the Regional Transport authorities and also attend to major repairs of vehicles. The routine maintenance, lubrication, top-up of oil levels, *etc.* on the basis of kilometres operated and major repairs and replacements of reconditioned units are done at the 35 depot garages attached to operating units.

There is a body building workshop attached to Central Works, Trivandrum while there are two tyre retreading units attached to Central Works, Trivandrum and Regional Workshop, Edappal.

The Mechanical Wing of the Corporation is under the control of a Deputy General Manager who is assisted by the Mechanical Engineer (Headquarters) and Mechanical Engineer (North) stationed at Calicut.

Mention was made about the performance of activities of the workshops in paragraph 12, Section VI of the Audit Report (Commercial) for 1974-75.

15.02. Overhauling/reconditioning of vehicles

The table on the next page gives details of targets and achievements in respect of overhauling of vehicles in Central Works, Regional Workshops and Divisional Workshops for the 3 years up to 1979-80:—

Unit	1977-78			1978-79			1979-80		
	Target	*Achievement*	*Shortfall (Percentage)*	*Target*	*Achievement*	*Shortfall (Percentage)*	*Target*	*Achievement*	*Shortfall (Percentage)*
	(Number of vehicles)			*(Number of vehicles)*			*(Number of vehicles)*		
1. Central Works	300	327	..	300	284	5.33	300	235	21.67
2. Regional Workshops									
1. Alwaye	180	138	23.33	180	190	..	180	152	15.56
2. Calicut	..	..	..	..	..	..	..	8	..
3. Edappal	120	115	4.17	120	116	3.33	120	74	38.33
4. Mavelikkara	NA	NA	NA	NA	NA	NA	NA	NA	NA
3. Divisional Workshops									
1. Alleppey	120	88	26.67	120	73	39.17	120	65	45.83
2. Alwaye	120	117	2.50	120	103	14.17	120	102	15.00
3. Ernakulam	144	100	30.56	144	86	40.28	144	102	29.17
4. Kottayam	144	296	..	144	185	..	144	114	20.83
5. Trivandrum	150	129	14.00	168	152	9.52	168	137	18.45

Note:—Regional Workshop at Mavelikkara commenced functioning from October 1977 and at Calicut started functioning from October 1979. Regular work has not yet started at Calicut (April 1981).

N A denotes not available

The Corporation had fixed 30 days for completing overhauling of vehicles. The table below gives the particulars of bus days lost due to delay in completing the repairs within the prescribed limit of 30 days:—

Unit	1977-78			1978-79*			1979-80		
	Number of buses overhauled	*Number of buses where the time taken in overhauling exceeded 30 days*	*Bus days lost due to docking in excess of 30 days*	*Number of buses overhauled*	*Number of buses where the time taken in overhauling exceeded 30 days*	*Bus days lost due to docking in excess of 30 days*	*Number of buses overhauled*	*Number of buses where the time taken in overhauling exceeded 30 days*	*Bus days lost due to docking in excess of 30 days*
1. Central Works	327	149	8,468	284	104	5,056	235	110	7,588
2. Regional Workshops									
1. Alwaye	138	85	2,395	190	60	1,496	152	59	1,501
2. Edappal	115	68	2,205	116	45	1,965	74	41	2,190
3. Mavelikkara	50	40	711	151	105	3,033	170	137	4,237
3. Divisional Workshops									
1. Alleppey	88	20	621	73	34	1,245	65	34	1,742
2. Alwaye	117	20	443	103	29	1,311	102	22	1,073
3. Ernakulam	100	18	232	86	27	445	102	30	502
4. Kottayam	296	26	1,040	185	18	1,640	114	23	1,076
5. Trivandrum	129	35	977	152	48	1,797	137	48	1,609
			17,092			17,988			21,518

*Excluding cases of delay for September 1977 and November 1977 for which information is not available.

Government attributed (April 1981) the following reasons for the shortfall in performance:

(i) more number of over-aged vehicles in the fleet;
(ii) higher rate of major accidents resulting in heavy damages;
(iii) non-availability of essential spare parts in time;
(iv) difficulty in procuring materials in time due to financial difficulties; and
(v) lack of working facilities at the depot garages as well as at the Divisional Workshops, resulting in undue delay in carrying out the maintenance of vehicles and certificate of fitness repairs *etc*.

The docking of vehicles in excess of the prescribed limits resulted in cancellation of scheduled services as indicated in the table below:—

	1977-78	1978-79	1979-80
		(*Figures in lakhs*)	
Number of trips scheduled	69.59	76.33	81.55
Total number of trips cancelled	10.25	13.45	13.59
Number of trips cancelled for want of buses	5.79	7.43	7.21
		(*per cent*)	
Percentage of the number of trips cancelled for want of buses to total number of trips cancelled	56.5	55.2	53.1

The cancellation of services accounted for 15.2 *per cent* (365.76 lakh Kms.), 19.1 *per cent* (486.80 lakh Kms.) and 20.1 *per cent* (535.58 lakh Kms.) of the distance scheduled for operation in 1977-78, 1978-79 and 1979-80 respectively.

The docking of vehicles in excess of the prescribed limits resulted in a shortfall in revenue of Rs. 96.27 lakhs in 1977-78, Rs. 106.49 lakhs in 1978-79 and Rs. 133.19 lakhs in 1979-80 based on the average revenue earned per bus per day for these years.

The major assemblies of buses were reconditioned in the Central Works at Trivandrum and Regional Workshops at Mavelikkara, Alwaye and Edappal. The reconditioning of the major assemblies in these workshops as compared to the targets fixed for the 3 years up to 1979-80 is indicated in the table below:—

Name of major assembly reconditioned	*Central Works*				*Regional Workshop*											
	Trivandrum				*Mavelikkara*				*Alwaye*				*Edappal*			
	Output Target	*Actual output* 1977-78 *	1978-79	1979-80	*Output Target*	*Actual output* 1977-78 (*from October* 1977)	1978-79	1979-80	*Output Target*	*Actual output* 1977-78	1978-79	1979-80	*Output Target*	*Actual output* 1977-78	1978-79	1979-80
	(Numbers)															
Front Axle Assembly	1,200	595	702	398	Not fixed	64	404	477	600	420	372	249	192	122	152	77
Rear Axle assembly	600	462	742	582	,,	43	276	330	300	298	249	229	144	118	115	96
Steering assembly(†)	1,800	1,274	1,672	994	,,	47	465	500	..	..	..	..	180	176	224	144
Gear box	1,500	1,533	1,735	1,179	,,	74	915	880	900	1,474	1,526	1,366	264	245	348	211
Fuel Injection pump	1,500	1,210	2,447	2,225	,,	24	248	319	600	374	334	448	240	190	281	251
Valve pump	..	..	..	..		..	..	..	..	..	..	..	..	..	380	401
Engine overhauling	900	980	1,742	1,559	,,	..	..	..	144	33	6	7	..	..	..	125

*Excluding the months November 1977 to February 1978 for which details were not available.

(†) Target fixed in August 1978

Targets were fixed on an *ad hoc* basis without taking into account the requirements of major assemblies available for reconditioning. The stock accounts of material awaiting reconditioning were not kept. No targets were fixed for the reconditioning of major assemblies in the Regional Workshop, Mavelikkara and for the production of steering assembly in Regional Workshop, Alwaye. No targets were also fixed in respect of engine overhauling in the Regional Workshop, Edappal. The actual performance fell short of the targets fixed in many units. According to Government (April 1981), "shortfall may be there on account of non-availability of spares, abnormal absenteeism, *etc.*"

The extent to which the shortfall in reconditioning led to purchase of additional major assemblies had not been assessed by the Corporation (April 1981).

15.03. Tyre retreading shops

The tyre retreading units attached to the Central Works, Trivandrum and Regional Workshop, Edappal attended to retreading/recapping of old tyres. The table below indicates the installed capacity per day, the targets fixed and performance of the two units for the 3 years up to 1979-80:—

	1977-78		1978-79		1979-80	
	Trivandrum	*Edappal*	*Trivandrum*	*Edappal*	*Trivandrum*	*Edappal*
			(*Number*)			
Moulds at the end of the year	8	6	10	6	10	7
Installed capacity per day at the end of the year	96	72	120	72	120	84
Targets for recapping/retreading	30,000	23,364	42,000	25,704	41,760	28,176
Actual performance	24,522	20,341	33,864	21,339	33,786	22,032
Shortfall	5,478	3,023	8,136	4,365	7,974	6,144
			(*per cent*)			
Percentage of shortfall to target	18.3	12.9	19.4	17.0	19.1	21.8

The following reasons were attributed by Government (April 1981) for the shortfall in the achievement of tyre retreading shops:—

—frequent power failures which were very common in Edappal workshop;

—absenteeism of employees on account of leave, holidays, *etc*;

—shut-down of boiler for annual maintenance;

—break-down of machinery; and

—shortage of retreadable casings, *etc*.

It was, however, found that—

—the capacity of the tyre retreading units was not created with reference to actual requirements;

—the number of tyres available for retreading/recapping at the workshop and in operating depots was not assessed periodically to ensure proper utilisation of the capacity of tyre retreading units;

—the cost of retreading of tyres was not worked out periodically and compared with the market rates;

—norms of consumption of retreading/recapping materials were not fixed; and

—there were no arrangements for the assessment of the performance of retreaded tyres at the various tyre retreading centres with the view to detect and examine the reasons for premature failures.

A review of the actual performance of tyres (900 x 20 size) received for scrapping at Central Works, Trivandrum and Regional Works, Edappal for the 3 years up to 1979-80 revealed that the average performance of tyres after retreading was far less than the norm of 16,500 Kms. per tyre fixed by the Management (July 1980). The table below indicates the shortfall in performance:—

	1977-78		1978-79		1979-80	
	Number of tyres scrapped	*Average performance after retreading (Kms.)*	*Number of tyres scrapped*	*Average performance after retreading (Kms.)*	*Number of tyres scrapped*	*Average performance after retreading (Kms.)*
Central Works	5,878	14,803	6,913	13,048	8,565	15,090
Regional Workshop, Edappal	7,795	13,302	8,049	12,947	9,911	11,985

The following reasons were stated (April 1981) by Government for the shortfall in average performance of retreaded tyres:

—absence of regular supply of tyres to the depots resulting in continuous use of worn-out tyres causing damage to casings; and

—factors such as poor mechanical condition of vehicles, overloading, bad driving habits, bad condition of the roads, low quality of tyre retreading materials, *etc.*

15.04. Payment of overtime wages

The sanctioned strength of staff and workers in Central Works, Trivandrum, Regional Workshop and Divisional Workshops was not fixed after a proper work study and job evaluation. The table on the next page gives the particulars of sanctioned strength and overtime wages paid for the 3 years up to 1979-80:—

	1977-78			1978-79			1979-80		
	Sanctioned strength	*Actual strength*	*Overtime wages (Rupees in lakhs)*	*Sanctioned strength*	*Actual strength*	*Overtime wages (Rupees in lakhs)*	*Sanctioned strength*	*Actual strength*	*Overtime wages (Rupees in lakhs)*
	(Numbers)			*(Numbers)*			*(Numbers)*		
Central Works, Trivandrum	1,122	1,011	15.85	1,208	964	23.05	1,283	1,106	20.65
Regional Workshops									
Alwaye	274	253	1.73	286	265	1.89	297	283	1.48
Edappal	236	183	1.13	251	227	1.64	251	212	1.90
Mavelikkara	315	227	0.28	365	313	0.93	365	336	1.08
Total	1,947	1,674	18.99	2,110	1,769	27.51	2,196	1,937	25.11
Divisional Workshops									
Alleppey	54	47	0.13	74	45	0.41	74	60	0.15
Alwaye	58	56	0.30	58	52	0.24	58	62	0.44
Ernakulam	66	67	0.34	87	76	0.33	87	90	0.50
Kottayam	44	53	0.57	75	53	0.39	76	68	0.50
Trivandrum	74	72	NA	114	103	0.67	107	109	NA
Total	296	295	1.34	408	329	2.04	402	389	1.59
Grand Total	2,243	1,969	20.33	2,518	2,038	29.55	2,598	2,326	26.70

Note:—N A denotes not available.

The total overtime wages paid represented 17.2 *per cent*, 16.5 *per cent* and 14.5 *per cent* of direct wages for the years 1977-78, 1978-79 and 1979-80 respectively.

While actual strength had gone up and overtime had to be continuously paid, the targets for achievement remained stationary over the years.

As the engagement of workers on overtime basis, caused additional financial burden to the Corporation, the Corporation ordered (March 1981) discontinuance of engagement of all categories of staff on overtime basis with effect from 1st April 1981

15.05. Regional Workshop, Mavelikkara

Against the anticipated date of commissioning of the Regional Workshop, Mavelikkara early 1975, the workshop was commissioned in October 1977 and the delay was attributed by Government (April 1981) to changes in the design of buildings which resulted in delay in the completion of civil works.

According to the project report, this workshop with 32 bays was required to attend to 64 vehicles a month with an annual installed capacity of 768 vehicles. Though the workshop was commissioned in October 1977 monthly targets had been fixed only from February 1979 onwards as 20 vehicles per month, the annual target being 240 vehicles. As against the annual target of 240 vehicles the number of vehicles handled varied from 50 in 1977-78 to 151 in 1978-79 and to 170 in 1979-80.

The table below gives the particulars of the mechanical staff required as per project report and the actual staff employed, for the 3 years up to 1979-80:—

	1977-78	1978-79	1979-80
Number of vehicles to be handled by the workshop as per target in the project report	585	585	585
Mechanical staff required as per project report	339	339	339

	1977-78	1978-79	1979-80
Vehicles overhauled	50	151	170
Staff required with reference to the norms	29	88	99
Mechanical staff actually employed	227	313	336
Surplus staff based on the number of vehicles actually overhauled	198	225	237

The shortfall had been attributed by the Management (August 1980) to longer tea-breaks for want of a canteen, posting of inexperienced employees, frequent power failure, labour unrest for 3 months from February 1978, delay in posting painters and coach builders and lack of adequate spares.

The staff strength employed was much more than that given in the project report and the norms adopted by the Corporation, whereas the actual performance was much below the rated capacity and annual targets fixed. However, the workshop had also engaged staff on overtime basis and paid them overtime wages. This was stated to have been necessitated due to high percentage of absenteeism (about 30 *per cent*) in the workshop.

15.06. General defects in the functioning of the workshops

(i) In respect of jobs undertaken in the workshops for overhauling and repairs, proper accounts were not maintained in respect of material consumed, labour and overheads. The cost of jobs executed could not therefore be known. As estimates were not being drawn before the commencement of the repairs and overhauling work, no control was possible over the actual cost of repairs.

(ii) Systematic cost records were not maintained in respect of reconditioning of major assemblies undertaken by the workshops. Hence the cost of reconditioning the assemblies could not be compared with estimates. The actual service rendered by the reconditioned assemblies were neither available nor compared with anticipated service to be rendered by such assemblies.

(iii) There were no arrangements in the workshop to assess the performance of the reconditioned parts.

15.07. Construction of bus bodies

The Corporation has a workshop attached to the Central Works, Trivandrum for construction of bus bodies. The capacity of the shop was assessed (April 1967) at 14 bus bodies per month. It was also estimated (November 1972) by the Corporation that production could be raised to a maximum of 28 bus bodies a month if workers were engaged on overtime basis. A production incentive scheme was introduced in April 1977. The table below indicates the number of bus bodies completed against the annual target of 336 bus bodies per annum and the shortfall in the construction of bus bodies for the 3 years up to 1979-80:—

Year	*Work in progress at the beginning of the year*	*Number of chassis received for body building*	*Number of bus bodies completed*		*Work in progress at the end of the the year*	*Percentage of shortfall in the utilisation of capacity*
			at the body building workshop	*at production centre, Fort*		
1977-78	14	176	190	Nil	..	43.5
1978-79	..	225	216	..	9	35.7
1979-80	9	194	194	5	4	42.3

The Corporation incurred an expenditure of Rs. 3.37 lakhs towards incentive wages and Rs. 22.62 lakhs towards overtime wages during the 3 years up to 1979-80, (28.28 *per cent* of direct wages) to increase the productivity of the workshop. The actual strength of the employees in the workshop was also in excess of the sanctioned strength by more than 20 *per cent* during the period.

The Management attributed (April 1981) the following reasons for the shortfall in bus body construction at the body building workshop:

(i) irregular flow of chassis and stores materials;

(ii) absenteeism of workers which accounted for about 25 to 30 *per cent*;

(iii) postponement of purchase of chassis due to paucity of funds;

(iv) delay in receipt of chassis due to power cuts and strikes in the manufacturers' works; and

(v) the strike at MICO during 1979-80 which affected the transport industry as a whole.

The production capacity of the body building workshop was not fixed after conducting a proper study. The Corporation conducted (1978) a study through the Central Institute of Road Transport (CIRT) to improve the performance of the body building shop. The following important recommendations were made by the CIRT in their report submitted in August 1978—

—to construct the bus bodies on old chassis which has covered 7 years of life;

—to modify the layout of the workshop;

—mechanisation of body building with new machines;

—revising the incentive scheme; and

—to organise industrial engineering cell.

The first recommendation was not considered, the third recommendation was dropped after consideration and other recommendations had not been implemented so far (April 1981).

The Corporation proposed (August 1979) to start a full-fledged body building unit and also production units for reconditioning of spares at Trivandrum and Mavelikara. Except for the production of 5 bus bodies in the production unit at Fort, Trivandrum during 1979-80, the Corporation had not so far set up additional facilities for the construction of bus bodies (April 1981).

15.08. Delay in construction of bus bodies

The chassis purchased by the Corporation were required to be issued by the Chief Store Keeper to the body building workshop within seven days of receipt. There were delays in the transfer of the chassis to the body building workshop which delayed commencement of body construction. The table below gives the particulars of the number of bus days lost due to delay in the transfer of chassis to the body building workshop during the 3 years up to 1979-80:—

Year	*Total number of bus bodies built*	*Number of cases in which there was delay*	*Bus days lost due to delay in taking up the work beyond seven days of receipt of chassis*	*Maximum delay involved (days)*
1977-78	190	32	137	9
1978-79	216	61	546	31
1979-80	194	108	2,598	156

The Corporation fixed 575 man-days as the standard for completing body construction based on the suggestion of a firm of consultants in 1967. The normal period of construction of a bus body was estimated as 35 calendar days. The table below gives the particulars of the delay in the construction of the bus bodies during the 3 years up to 1979-80:—

Year	*Number of bus bodies built*	*Number of cases in which there was delay*	*Number of bus days lost due to delay in completion*	*Maximum period of delay*
1977-78	190	69	1,007	229
1978-79	216	32	561	49
1979-80	194	112	1,569	53

The Corporation stated (April 1981), "Eventhough the normal period of construction of a bus body is estimated as 35 calendar days, due to circumstances beyond the control such as power failure, labour unrest, non-availability of materials, construction of bodies was delayed". Based on the average revenue earned per bus per day in the respective years the shortfall in revenue for the 6,418 bus days lost works out to Rs. 38.78 lakhs.

15.09. Construction of bus bodies through outside agencies

As the body building workshop had not been able to build the bus bodies on the chassis purchased by the Corporation, the construction of bus bodies was entrusted to certain outside parties without obtaining rates on competitive tender. The table below brings out the difference between the cost incurred on construction through the contractors and the cost incurred by the workshops during the stated period:—

Year	*Number of bodies built*	*Make*	*Contract rate (Rupees)*	*Cost of body building at body building workshop*	*Loss (Rupees)*
1978-79	44	Leyland	63,272	38,803	10,76,636
	11	Tata	59,764	35,540	2,66,464
1979-80	10	Leyland	63,272	53,450	98,220
	41	Tata	55,000	49,122	2,40,998
					16,82,318

Note: 1. The specifications of bus bodies built by private parties differ from that of the specifications of the bus bodies built at the body building workshop. The capacity, life and utility were, however, the same.

2. The cost of body building is as furnished by Central Works.

The Corporation awarded to a firm the work of construction of bodies for 10 tractor trailer buses at Rs. 1,17,136 per body. The total cost of a tractor trailer bus including cost of chassis amounted to Rs. 3,40,165. The Board, to whom the award of the contract was submitted for ratification observed:

> "The substitution of tractor trailer chassis was decided on the ground that there would not be much cost difference. The cost difference when compared to cost of ordinary chassis was actually more than Rs. 1 lakh per unit. The proposal to agree to the construction of tractor trailer chassis was approved at comparatively lower level".

Summing up

1. The Corporation has a Central Workshop, four Regional Workshops and five Divisional Workshops for attending to major repairs and overhauling of vehicles. The performance of the workshops was far below the targets fixed resulting in shortage of buses for the operation of services. More than 50 *per cent* of the trips cancelled for the three years up to 1979-80 were for want of buses. The approximate loss due to cancellations amounted to Rs. 336 lakhs.

2. The tyre retreading units attached to Central Works, Trivandrum and Regional Workshop, Edappal were also working below capacity.

3. The construction of bus bodies in the Body Building Workshop attached to Central Works, Trivandrum was also short of the annual targets fixed. There were delays in taking up construction as also in the duration of construction. The shortfall in revenue due to delays in completion of bus bodies is estimated at Rs. 38.78 lakhs for the three years up to 1979-80.

4. Contracts for construction of 106 bus bodies at rates ranging from Rs. 55,000 to Rs. 63,272 per body were awarded to private firms (cost of construction in the workshop ranging

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from Rs. 35,540 to Rs. 53,450) without inviting competitive tenders; this resulted in loss of Rs. 16.82 lakhs.

Trivandrum,
The 7th JANUARY 1982

(S. SETHURAMAN)
Accountant General, Kerala.

(Countersigned)

G. Prakash

New Delhi,
The 16th JANUARY 1982

(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* 1979-80 (*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* 1.02.

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	30-4-1980	51.50
2	Forest Industries (Travancore) Limited	Industries	10-8-1946	31-3-1980	28.58
3	Travancore Titanium Products Limited	Industries	18-12-1946	31-12-1979	752.99
4	United Electrical Industries Limited	Industries	3-10-1950	31-12-1979	142.19
5	The Travancore-Cochin Chemicals Limited	Industries	8-11-1951	31-3-1980	1835.98
6	Pallathra Bricks and Tiles Limited	Industries	21-12-1957	31-3-1980	30.47
7	Traco Cable Company Limited	Industries	5-2-1960	31-3-1980	215.57
8	Kerala State Industrial Development Corporation Limited	Industries	21-7-1961	31-3-1980	1717.15
9	Steel Complex Limited*	Industries	12-12-1969	31-3-1980	615.30
10	Kerala State Textiles Corporation Limited*	Industries	9-3-1972	31-3-1980	199.42
11	Astral Watches Limited*	Industries	10-2-1978	31-12-1979	18.55
12	The Plantation Corporation of Kerala Limited	Agriculture	12-11-1962	31-3-1980	1004.35
13	Oil Palm India Limited *	Agriculture	21-11-1977	31-3-1980	235.00
14	Trivandrum Spinning Mills Limited	Industries	1-11-1963	31-3-1980	285.00
15	The Kerala Agro-Industries Corporation Limited	Agriculture	22-3-1968	31-3-1980	411.06

—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)
(+) 9.69	5.09	..	(+)9.69	108.21	(+)14.78	18.82	13.66
(+) 0.61	..	..	(+) 0.61	29.13	(+)0.61	2.13	2.09
(—) 35.99	35.17	34.37	(—) 1.62	978.67	(—)0.82	..	..
(+) 17.79	16.50	5.55	(+)23.34	175.52	(+)34.29	16.41	19.54
(+) 4.71	169.41	123.44	(+)128.15	854.32	(+)174.12	6.98	20.38
(—) 2.79	1.21	1.08	(—) 1.71	(—)0.25	(—)1.58	..	..
(+) 48.27	13.09	6.20	(+) 54.47	265.83	(+)61.36	25.27	23.08
(+) 15.93	62.87	62.87	(+) 78.80	(C) 1642.66	(+)78.80	4.59	4.80
(+) 16.81	31.78	18.16	(+) 34.97	448.20	(+)48.59	5.68	10.84
(+) 9.05	6.74	6.74	(+) 15.79	(C) 182.71	(+)15.79	7.92	8.64
(—) 0.42	(E) 1.18	1.18	(+) 0.76	16.55	(+)0.76	4.10	4.59
(+) 94.15	42.79	(D) 42.79	(+)136.94	950.76	(+)136.94	13.63	14.40
(—) 18.02	4.59	4.59	(—) 13.43	40.62	(—) 13.43	..	..
(+) 32.40	8.95	6.30	(+)38.70	172.46	(+) 41.35	13.58	23.98
(+) 4.03	2.25	..	(+)4.03	268.92	(+)6.28	0.98	2.34

ANNEXURE

Summarised financial results of

(*Referred to in paragraph* 1.02.

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)
16	Meat Products of India Limited*	Agriculture	13-1-1973	31-3-1980	38.70
17	Kerala State Handloom Development Corporation Limited	Industries	24-6-1968	31-3-1980	252.91
18	Kerala Garments Limited*	Industries	17-7-1974	30-9-1979	33.10
19	The Chalakudy Refractories Limited	Industries	15-3-1969	31-3-1980	116.59
20	Kerala Urban Development Finance Corporation Limited	Local Administration and Social Welfare	28-1-1970	31-3-1980	980.32
21	Kerala State Bamboo Corporation Limited	Industries	10-3-1971	31-3-1980	57.11
22	The Kerala Minerals and Metals Limited	Industries	16-2-1972	31-3-1980	1221.87
23	Kerala State Electronics Development Corporation Limited	Industries	29-9-1972	31-3-1980	1547.76
24	Keltron Counters Limited *	Industries	21-7-1964	31-3-1980	59.66
25	Dielectro Magnetics Limited*	Industries	23-4-1974	31-3-1980	63.83
26	Keltron Crystals Limited*	Industries	8-10-1974	31-3-1980	71.01
27	Keltron Magnetics Limited*	Industries	1-3-1975	31-3-1980	44.21
28	Keltron Resistors Limited*	Industries	29-4-1975	31-3-1980	40.87
29	Keltron Power Devices Limited*	Industries	28-1-1976	31-3-1980	144.53
30	Keltron Rectifiers Limited *	Industries	22-3-1976	31-3-1980	79.00
31	Kerala Land Development Corporation Limited	Agriculture	15-12-1972	31-3-1980	971.73

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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)
(—) 7.28	2.22	2.22	(—) 5.06	7.84	(—) 5.06	..	..
(—) 1.57	1.87	1.60	(+) 0.03	205.30	(+) 0.30	0.01	0.15
(—) 3.04	1.44	1.44	(—) 1.60	29.17	(—) 1.60	..	..
(—) 4.94	1.48	1.26	(—) 3.68	53.52	(—) 3.46	..	..
(+) 0.66	59.63	59.63	(+) 60.29	(C) 980.33	(+) 60.29	6.15	6.15
(—) 7.37	2.57	2.44	(—) 4.93	47.01	(—) 4.80	..	..
(+) 18.17	..	..	(+) 18.17	38.92	(+) 18.17	1.49	46.69
(+) 6.34	83.53	(D) 83.53	(+) 89.87	1282.58	(+) 89.87	5.81	7.01
(—) 18.83	29.17	2.83	(—) 16.00	69.12	(+) 10.34	..	14.96
..	Commercial production not commenced						
(—) 1.46	8.65	(D) 8.65	(+) 7.19	70.25	(+) 7.19	10.13	10.23
(+) 0.16	5.32	(D) 5.32	(+) 5.48	61.37	(+) 5.48	12.40	8.93
..	Commercial production not commenced						
..	Commercial production not commenced						
..	Commercial production not commenced						
(—) 66.76	54.62	54.62	(—) 12.14	(C) 866.59	(—) 12.14	..	..

ANNEXURE

Summarised financial results of

(Referred to in paragraph 1.02.

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)
32	Kerala State Industrial Enterprises Limited	Industries	25-1-1973	31-3-1980	972.05
33	Trivandrum Rubber Works Limited *	Industries	1-11-1963	31-3-1980	371.62
34	Travancore Plywood Industries Limited *	Industries	1-11-1963	31-3-1980	96.84
35	The Kerala Ceramics Limited *	Industries	1-11-1963	31-3-1980	222.72
36	Kerala Soaps and Oils Limited *	Industries	1-11-1963	31-3-1980	359.77
37	Kerala Electrical and Allied Engineering Company Limited *	Industries	5-6-1964	31-3-1980	348.09
38	Kerala State Drugs and Pharmaceuticals Limited *	Industries	23-12-1971	31-3-1980	223.17
39	Kerala State Detergents and Chemicals Limited *	Industries	10-6-1976	31-3-1980	159.29
40	Kerala Shipping Corporation Limited	Public Works & Electricity	25-5-1974	31-3-1980	694.64
41	Steel Industrials Kerala Limited	Industries	3-1-1975	31-3-1980	188.40
42	Kerala Forest Development Corporation Limited	Agriculture	24-1-1975	30-6-1980	477.36
43	Kerala State Film Development Corporation Limited	General Administration	23-7-1975	31-3-1980	302.13
44	Kerala State Coconut Development Corporation Limited	Agriculture	10-10-1975	31-3-1980	105.30
45	Kerala Inland Navigation Corporation Limited	Public Works & Electricity	29-12-1975	31-3-1980	22.00

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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)
(+) 0.18	15.69	15.69	(+) 15.87	(C) 824.71	(+) 15.87	1.63	1.92
(—) 30.52	17.04	(D) 17.04	(—) 13.48	150.46	(—) 13.48	..	..
(+) 0.57	9.58	6.19	(+) 6.76	56.63	(+) 10.15	6.98	17.92
(—) 47.43	26.91	14.16	(—) 33.27	89.78	(—) 20.52	..	..
(+) 10.50	21.41	9.03	(+) 19.53	290.76	(+) 31.91	5.43	10.97
(—) 15.05	31.57	(D) 31.57	(+) 16.52	265.05	(+) 16.52	4.75	6.23
(+) 3.13	17.36	4.87	(+)8.00	196.21	(+) 20.49	3.58	10.44
(+) 1.49	5.71	3.31	(+)4.80	169.76	(+) 7.20	3.01	4.24
(—) 90.59	42.23	42.23	(—) 48.36	478.71	(—) 48.36	..	..
(—) 4.96	..	..	(—)4.96	169.73	(—) 4.96	..	..
(+) 13.62	5.83	5.83	(+) 19.45	463.63	(+) 19.45	4.07	4.20
(—) 0.60	..	..	(—)0.60	193.84	(—) 0.60	..	..
(—) 11.02	0.10	..	(—) 11.02	90.88	(—) 10.92	..	..
(+) 0.23	..	..	(+)0.23	15.00	(+) 0.23	1.05	1.53

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ANNEXURE

Summarised financial results of

(Referred to in paragraph 1.02.

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)
46	The Rehabilitation Plantations Limited	Irrigation and Rehabilitation	5-5-1976	31-3-1980	249.16
47	Kerala State Industrial Products Trading Corporation Limited	Industries	4-8-1976	31-3-1980	12.84
48	Overseas Development and Employment Promotion Consultants Limited	Labour	20-10-1977	31-3-1980	23.29
49	Kerala Fishermen's Welfare Corporation Limited	Transport Fisheries and Ports	31-1-1978	31-3-1980	160.19
50	Kerala Automobiles Limited	Industries	15-3-1978	31-3-1980	27.00
51	Kerala State Engineering Works Limited	Public Works and Electricity	20-3-1978	31-3-1980	10.81
52	Malabar Cements Limited	Industries	11-4-1978	31-3-1980	500.00
53	Foam Mattings (India) Limited	Industries	18-12-1978	31-3-1980	31.75
54	Kerala State Coir Corporation Limited	Industries	19-7-1969	31-3-1976	104.61
55	Kerala Livestock Development and Milk Marketing Board Limited	Agriculture	14-11-1975	31-3-1977	97.95
56	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	Health	8-9-1975	31-3-1978	6.18
57	Kerala State Small Industries Development and Employment Corporation Limited	Industries	6-11-1975	31-3-1978	603.84
58	The Kerala State Cashew Development Corporation Limited	Industries	12-4-1966	31-3-1979	835.88
59	Scooters Kerala Limited	Industries	15-11-1976	31-3-1979	50.34

—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
(—) 0.45	0.04	0.02	(—) 0.43	296.95	(—) 0.41	..	..
(+) 9.20	..	..	(+) 9.20	12.95	(+) 9.20	71.65	71.04
(—) 7.33	..	..	(—) 7.33	8.38	(—) 7.33	..	..
(—)15.38	4.53	4.51	(—)10.87	214.24	(—)10.85	..	..
..	..	Commercial production not commenced					
(—)12.34	0.28	0.27	(—)12.07	(—)2.12	(—)12.06	..	..
..	..	Commercial production not commenced					
..	..	Commercial production not commenced					
(+) 0.47	2.60	1.62	(+) 2.09	104.24	(+) 3.07	2.00	2.95
(—)35.31	2.27	2.27	(—)33.04	57.42	(—)33.04	..	..
(+) 6.80	2.36	..	(+) 6.80	22.99	(+) 9.16	110.03	39.84
(—)21.47	25.05	25.05	(+) 3.58	573.87	(+) 3.58	0.59	0.62
(—)1627.21	356.80	19.44	(—)1607.77	89.01	(—)1270.41	..	..
(—)10.47	..	..	(—)10.47	29.75	(—) 10.47	..	..

ANNEXURE

Summarised financial results of

(Referred to in paragraph 1.02.

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)
60	Handicrafts Development Corporation of Kerala Limited	Industries	16-11-1968	31-3-1979	87.39
61	Kerala State Construction Corporation Limited	Public Works	25-3-1975	31-3-1979	60.50
62	The Kerala Fisheries Corporation Limited	Transport Fisheries and Ports	12-4-1966	31-3-1979	528.49
63	Kerala Tourism Development Corporation Limited	General Administration (Political)	29-12-1965	31-3-1979	172.35
64	Kerala State Development Corporation for Schduled Castes and Scheduled Tribes Limited	Development	7-12-1972	31-3-1979	296.79

Notes:—(A) Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves

(B) Except in the case of financial institutions, capital employed represents net fixed

(C) Capital employed represents the mean of the aggregates of opening and closing

(D) Includes other interest charges also.

(E) Includes bank charges also

* Subsidiary Company

—B

Government Companies

of Section 1)

(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)
(—) 10.87	4.92	2.23	(—) 8.64	28.62	(—) 5.95	..	..
(+) 2.83	1.04	0.24	(+) 3.07	64.60	(+) 3.87	5.07	5.99
(—) 54.55	27.66	17.65	(—) 36.90	(—)16.37	(—) 26.89	..	..
(—) 2.24	2.29	0.11	(—) 2.13	109.26	(+) 0.05	..	~~0.50~~ 0.05
(—) 7.27	16.16	16.16	(+) 8.89	265.64	(+) 8.89	3.00	3.35

at the close of the year.

assets (excluding capital works-in-progress) *plus* working capital.

balances of paid-up capital, reserves and borrowings.

ANNEXURE

Summarised financial results of

(*Referred to in paragraph* 13.01.

Sl. No.	*Name of the Board/Corporation*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
1	Kerala State Electricity Board	Public Works and Electricity	1-4-1957	31-3-1979	32248.13
2	Kerala State Road Transport Corporation	Transport Fisheries and Ports	15-3-1965	31-3-1979*	2931.54
3	The Kerala Financial Corporation	Finance	1-12-1953	31-3-1980	4,678.67
4	Kerala State Warehousing Corporation	Agriculture	20-2-1959	31-3-1980	203.46

Notes:—(A) Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves

(B) Except in the case of Kerala Financial Corporation, capital employed represents

(C) Capital employed represents the mean of the aggregates of opening and closing

* Provisional pending certification of accounts

—C

Statutory Corporations

of section XIII)

(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*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Nil	4161.59	4161.59	(+)4161.59	31196.88	4161.59	12.90	13.34
(—) 827.32	141.51	141.51	(—) 685.81	1526.61	(—)685.81	..	..
(+) 1.76	231.29	231.29	(+) 233.05	(C) 4285.87	233.05	4.98	5.44
(+) 3.80	3.92	2.93	(+) 6.73	199.02	7.72	3.31	3.88

at the close of the year.

net fixed assets (excluding works-in-progress) *plus* working capital.

balances of paid-up capital, bonds and debentures, borrowings, deposits and free reserves.

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