REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR 1977-78

(COMMERCIAL)

GOVERNMENT OF KERALA

22-78

VIII (A) Draft report recd on 1-11-85 not vetted as it was in Malayalam. Returned on 8-11-85 / Copy in English called for

Draft Report in English recd on 8/7/86

TABLE OF CONTENTS

Report of the Comptroller and Auditor General of India for the year 1977-78

(Commercial)

		Reference to Section	Reference to Page
Prefatory remarks		..	(iii)—(iv)
CHAPTER I	GOVERNMENT COMPANIES—		
	Introduction	I	1—9
	The Plantation Corporation of Kerala Limited	II	9—38
	The Travancore Sugars and Chemicals Limited	III	38—50
	The Kerala Minerals and Metals Limited	IV	51—61
	Forest Industries (Travancore) Limited	V	61—73
	Kerala State Construction Corporation Limited	VI	73—77
	Steel Industrials Kerala Limited	VII	77—81
	Travancore Titanium products Limited	VIII	81—89
	The Kerala State Civil Supplies Corporation Limited	IX	89—94
	Kerala State Drugs and Pharmaceuticals Limited	X	94—96
	Kerala Electrical and Allied Engineering Company Limited	XI	96—97
	The Kerala Ceramics Limited	XII	97—98

102|9267|MC

		Reference to	
		Section	Page
CHAPTER II	STATUTORY CORPORATIONS—		
	Introduction	XIII	99—103
	The Kerala Financial Corporation	XIV	103—116
	Kerala State Electricity Board	XV	117—141
	Kerala State Road Transport Corporation	XVI	141—147
ANNEXURES			
	Annexure A—List of Companies in which Government have invested more than Rs. 10 lakhs but which are not subject to audit by the Comprtoller and Auditor General		151
	Annexure B—Summarised financial results of Government Companies		152—159
	Annexure C—Summarised financial results of Statutory Corporations		160—161

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:

(i) Statutory Corporations;

(ii) Government Companies; and

(iii) 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. In the case of Government Companies, audit is conducted by professional 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 professional auditors. The Companies Act further empowers the Comptroller and Auditor General to issue directives to the auditors in regard to the performance of their functions. In November 1962, such directives were issued to the auditors for looking into certain specific aspects of the working of Government Companies. These were revised in December 1965 and February 1969.

4. 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 such undertakings where Government investment is more than Rs. 10 lakhs as on 31st March 1978 is given in Annexure 'A'.

5. 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 professional auditors appointed under the respective Acts.

6. The points mentioned in this Report are those which have come 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

1.01.1. There were 65 Companies, including 11 subsidiaries, of the State Government as on 31st March 1978. During the year 1977-78, five new Companies, *viz*. Oil Palm India Limited, Kerala Automobiles Limited, Overseas Development and Employment Promotion Consultants Limited, Kerala Fishermen's Welfare Corporation Limited and Kerala State Engineering Works Limited had been incorporated. Two Companies, *viz*. Dielectro Magnetics Limited (incorporated in April 1974) and Keltron Rectifiers Limited (incorporated in March 1976) had become Government Companies on 26th May 1977 and 12th August 1977 respectively by virtue of their becoming subsidiaries of Kerala State Electronics Development Corporation Limited.

1.01.2. The accounts of two Companies which were incorporated during the year, *viz*. Kerala Automobiles Limited and Kerala State Engineering Works Limited were not due. One Company, *viz*. Kerala Water Transport Corporation Limited, was under liquidation.

1.01.3. Summarised financial results of 54 Companies on the basis of latest available accounts are given in Annexure 'B'.

1.01.4. The accounts of the following Companies are in arrears (March 1979):-

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Year(s) for which accounts are in arrears*
1	Kerala State Small Industries Corporation Limited	Industries	21st July 1961	1976-77 *(up to 17th March 1977)

* The Company has been amalgamated with Kerala State Small Industries Development and Employment Corporation Limited with effect from 18th March 1977.

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Year(s) for which accounts are in arrears*
2	The Kerala Premo Pipe Factory Limited	Local Administration and Social Welfare	12th September 1961	1977-78
3	Packaging Paper Corporation Limited	Industries	29th June 1962	1975-76
4	The Kerala Fisheries Corporation Limited	Development (Fisheries)	12th April 1966	1977-78
5	Handicrafts Development Corporation of Kerala Limited	Industries	16th November 1968	1974-75 to 1977-78
6	The Kerala State Cashew Development Corporation Limited	Industries	19th July 1969	1977-78
7	The Kerala State Coir Corporation Limited	Industries	19th July 1969	1975-76 to 1977-78
8	The State Farming Corporation of Kerala Limited	Industries	15th April 1972	1976-77 and 1977-78
9	Kerala Garments Limited	Industries	17th July 1974	1977-78
10	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	Health	8th September 1975	1st July 1976 to 31st March 1977 and 1977-78
11	Kerala State Small Industries Development and Employment Corporation Limited	Industries	6th November 1975	1977-78
12	Kerala Livestock Development and Milk Marketing Board Limited	Agriculture	14th November 1975	1976-77 and 1977-78
13	Kerala Fishermen's Welfare Corporation Limited	Development (Fisheries)	31st January 1978	1977-78

The arrears in account were brought to the notice of Government in February 1979.

1.02. Paid-up capital

Total investment by Government by way of share capital in the 54* Companies (excluding 11 subsidiaries) at the end of March 1978 was Rs. 5,736.38 lakhs.

1.03. Profits and dividends

1.03.1. According to the annual accounts of 44 Companies (including 6 subsidiaries) which had started commercial production/business, there was a total net loss of Rs. 515.84 lakhs during the year 1977-78 as against the total net loss of Rs. 279.41 lakhs of these Companies during the previous year. Of these, four Companies (Kerala Inland Navigation Corporation Limited, Scooters Kerala Limited, Overseas Development and Employment Promotion Consultants Limited and Oil Palm India Limited) started commercial production/business during the year 1977-78 only; the losses suffered by them during the year aggregated Rs. 9.07 lakhs. In respect of the remaining 40 Companies, the total net loss during 1977-78 was Rs. 506.77 lakhs (loss suffered by 24 Companies: Rs. 749.30 lakhs; profit earned by 16 Companies: Rs. 242.53 lakhs) as against their total net loss of Rs. 279.41 lakhs (loss suffered by 27 Companies: Rs. 567.88 lakhs; profit earned by 13 Companies: Rs. 288.47 lakhs) during the previous year.

1.03.2. The working results of the 44 Companies (including 6 subsidiary Companies) which had started commercial production, for the year 1977-78 are analysed in the table given below:—

Particulars		*Number of Companies*	*Paid-up capital*	*Profit (+)/ Loss (—)*	*Percentage of profit to paid-up capital*
			(Rupees in lakhs)		
Companies other than subsidiary Companies:					
(a) Which earned profits	Industrial and trading	12	1,817.73	(+)170.75	9.39
	Financial	3	904.11	(+) 65.81	7.28

* Includes Kerala State Engineering Works Limited incorporated during 1977-78 in which the investment of Government as on 31st March 1978 was nil.

Particulars		*Number of Companies*	*Paid-up Capital*	*Profit (+)/ Loss (—)*	*Percentage of profit to paid-up capital*
			(Rupees in lakhs)		
(b) Which incurred losses	Industrial and trading	20	2088.39	(—) 690.03	..
	Financial	3	255.47	(—) 15.65	..
	Total	38	5,065.70	(—) 469.12	..
Subsidiary Companies:					
(a) Which earned profits	Industrial and trading	..	..		..
	Financial	1	50.00	(+) 5.97	11.94
(b) Which incurred losses	Industrial and trading	5	301.43	(—) 52.69	..
	Financial	..	..	..	..
	Total	6	351.43	(—) 46.72	..

1.03.3. At the beginning of 1977-78, the accumulated loss of 25 out of the 44 Companies (including 6 subsidiaries), which finalised their accounts for 1977-78 and which had commenced commercial production/business in earlier years, stood at Rs. 1,511.98 lakhs. Of these, three Companies, *viz*. The Plantation Corporation of Kerala Limited, The Kerala Handloom Finance and Trading Corporation Limited and Kerala Tourism Development Corporation Limited earned profit during 1977-78 reducing their aggregate cumulative loss from Rs. 65.43 lakhs at the end of 1976-77 to Rs. 59.54 lakhs at the end of 1977-78. All the other 22 Companies suffered losses during 1977-78, increasing their accumulated loss from Rs. 1,446.55 lakhs at the end of 1976-77 to Rs. 2,007.84 lakhs as at the end of 1977-78. Four other Companies (Kerala Inland Navigation Corporation Limited, Scooters Kerala Limited, Overseas Development and Employment Promotion Consultants Limited and Oil Palm India Limited) which started commercial production/business during 1977-78 suffered loss of Rs. 1.12 lakhs, Rs. 1.40 lakhs, Rs 1.23 lakhs and Rs. 5.32 lakhs respectively during the year. Thus, the accumulated loss of 29 out of the 44 Companies, which had started commercial production/business, amounted to Rs.2,076.45 lakhs as at the end of 1977-78.

1.03.4. The cumulative losses incurred by each of the following Companies were more than their paid-up capital:—

	1977-78	
	Paid-up capital	*Cumulative loss*
	(Rupees in lakhs)	
The Travancore-Cochin Chemicals Limited	634.75	651.99
Trivandrum Spinning Mills Limited	65.45	189.75
Kerala Electrical and Allied Engineering Company Limited	105.82	142.43
Trivandrum Rubber Works Limited	57.70	235.15
Pallathra Bricks and Tiles Limited	18.56	25.78
The Kerala Ceramics Limited	107.95	227.33
The Kerala State Civil Supplies Corporation Limited	21.00	130.57
Keltron Counters Limited	50.00	80.97

1.03.5. During 1977-78, out of 15 Companies (excluding one subsidiary) which earned profits totalling Rs. 236.56 lakhs, only 4 Companies declared dividends of Rs. 38.94 lakhs as detailed below:—

Name of Company	*Amount of surplus*	*Amount retained in business*	*Amount of dividend*	*Percentage of dividend to paid-up capital*
	(Rupees in lakhs)			
Travancore Titanium Products Limited	32.58	8.62	23.96	15
Traco Cable Company Limited	17.52	7.93	9.59	8
The Kerala State Financial Enterprises Limited	9.88	7.64	2.24	8
Kerala State Bamboo Corporation Limited	5.27	2.12	3.15*	15 for 1976-77 6 for 1977-78

* Includes Rs. 2.25 lakhs being the dividend declared relating to the year 1976-77 but charged to the account for the year ended 31st March 1978.

1.04. Long-term loans

The balance of long-term loans outstanding against 41 Companies (excluding 10 subsidiaries), in respect of which accounts for 1977-78 have been received, stood at Rs. 6,887.03 lakhs at the end of 1977-78 (Rs. 2,042.37 lakhs from the State Government, Rs. 4,521.58 lakhs from other parties and Rs. 323.08 lakhs as deferred payment credits) representing an increase of Rs. 1,402.97 lakhs over the long-term loans (Rs. 5,484.06 lakhs) outstanding at the end of the previous year.

1.05. Guarantees

1.05.1. The State Government had guaranteed repayment of loans and overdrafts, amount raised by issue of bonds or debentures and payment for machinery purchased (with interest thereon) in respect of 28 Companies as detailed below:—

	(*Rupees in lakhs*)
Maximum amount guaranteed (Principal)	5,853.99
Amount guaranteed outstanding on 31st March 1978	
Principal	4,035.10
Interest	465.37

1.05.2. The State Government stood (March 1973) guarantee for a loan of Rs. 25 lakhs taken by the Kerala Fisheries Corporation Limited from the State Bank of India for financing its boat building operations. The five boat building yards of the Company were taken over by Government between December 1974 and May 1975 and following this, the cash credit account was closed by Government by paying to the Bank Rs. 25 lakhs (principal) in March 1977 and Rs. 6.72 lakhs (interest) in March 1978. Guarantee given by the State Government in favour of Government Companies had not been invoked in any other case during 1977-78.

1.05.3. In consideration of the guarantees given by Government, the Companies have to pay guarantee commission to Government. According to information furnished by Government (February 1979) in 12 cases, the payment of guarantee commission was in arrears as on 31st March 1978. Particulars of the cases where the amount of guarantee commission in default was large (exceeding Rs. 0.50 lakh) are given below:—

Name of Company	*Amount of guarantee commission in arrears as on 31st March 1978* (*Rupees in lakhs*)
The Kerala State Civil Supplies Corporation Limited	13.16
The Kerala Fisheries Corporation Limited	4.93
The Kerala State Cashew Development Corporation Limited	2.46 ⊗ See LHP
The State Farming Corporation of Kerala Limited	1.86
Handicrafts Development Corporation of Kerala Limited	0.85
Trivandrum Rubber Works Limited	0.70
Kerala State Electronics Development Corporation Limited	0.67

1.06. The Companies Act, 1956 empowers the Comptroller and Auditor General of India to issue directives to the professional auditors of Government Companies in regard to performance of their functions. In pursuance of the directives so issued, special reports of the company auditors on the accounts for the year 1976-77 have been received in the case of 13 Companies. The important points noticed in these reports are summarised below:—

Nature of defect	*Number of Companies where defects were noticed*
1. Failure to obtain confirmation of balances under sundry debtors	10
2. Absence of internal audit manual	6

Nature of defect	Number of Companies where defects were noticed
3. Absence of manual laying down the procedure of compilation and maintenance of accounts	5
4. Non-fixation of maximum/minimum limits of stores and spares	5
5. Non-fixation of norms for man-power	5
6. Absence of internal audit system	5
7. Absence of system for ascertaining idle time for labour and machinery	4
8. Sale below cost of production	3
9. Failure to conduct physical verification	3
10. Absence of budgeting system and comparison of actuals with estimates	3
11. Non-maintenance/defective maintenance of property/plant/asset registers	3
12. Absence of regular costing system	2
13. Retention of man-power in excess of norms	2
14. Non-determination of surplus/unserviceable stores	1
15. Arrears in internal audit	1

1.07. In accordance with Section 619-B of the Companies Act, 1956 (effective from February 1975), a company becomes subject to the provisions of Section 619 of the Act, as if it were a Government Company, if 51 *per cent* or more of the Company's paid-up share capital is held by one or more of the following or any combination thereof, namely, the Central or one or more State Governments and one or more Government Companies or Corporations owned or controlled by the Central or State Governments or one or more Government Companies or Corporations owned or controlled by Government. As on 31st March 1978, there were eight such Companies in the State, *viz.* Kerala Rubber and Reclaims Limited, Steel Complex Limited, South India Wire Ropes Limited, Excel Glasses Limited, Transformers and Electricals Kerala Limited, Keltron Component Complex Limited, Vanjinad Leathers Limited and Power Systems and Projects Limited.

Of these, five Companies had prepared accounts for 1977-78 (Transformers and Electricals Kerala Limited, Keltron Component Complex Limited, South India Wire Ropes Limited and Vanjinad Leathers Limited for the year ended 31st March 1978 and Steel Complex Limited for the year ended 30th June 1978). The total paid-up capital of these Companies was Rs. 818.25 lakhs, of which shares of Rs. 552.84 lakhs were subscribed by the State Government and Companies and Corporations controlled by Government. Three Companies (*viz.* South India Wire Ropes Limited, Steel Complex Limited and Vanjinad Leathers Limited) sustained loss of Rs. 76.97 lakhs while one Company (Transformers and Electricals Kerala Limited) earned a profit of Rs. 99.12 lakhs. Keltron Component Complex Limited had not commenced commercial operation.

SECTION II

THE PLANTATION CORPORATION OF KERALA LIMITED

2.01. Introduction

The Plantation Corporation of Kerala Limited was incorporated in November 1962 with the object of raising plantation crops like rubber, oil palm, cashew nut, etc. and carrying on business as planters and dealers in agricultural crops. After acquiring 2,994 hectares of rubber plantation under lease from the Government of Kerala, the Company started functioning in January 1963. A report obtained in December 1965 from a Management Consultant was adopted by the Company as the basis for planning and phasing its activities. As on 31st March 1978, the agricultural operations of the Company extended over 12,128 hectares (rubber: 7,160 hectares, cashew: 3,916 hectares and oil palm: 1,052 hectares).

The working of the Company was previously reviewed in paragraphs 70 to 78 of the Report of the Comptroller and Auditor General of India for the year 1971-72 and these have been dealt with in the Twenty-third Report (February 1976) of the Committee on Public Undertakings (1975-76). In November 1977, a subsidiary company, *viz.* Oil Palm India Limited, was incorporated to take over and manage the oil palm plantation established by the Company. Working of this subsidiary Company has been dealt with in paragraph 2.12.

2.02. Capital structure

2.02.1. *Share capital*

The authorised capital of the Company is Rs. 750 lakhs. The paid-up capital as on 31st March 1978 (entirely subscribed by the State Government) was Rs. 449.44 lakhs.

2.02.2. *Borrowings*

At the end of March 1978, the borrowings of the Company from Government stood at Rs. 463.84 lakhs. These loans carried interest at rates varying from $5\frac{1}{2}$ *per cent* to $10\frac{3}{4}$ *per cent* per annum. Repayment of the Government loans was in heavy arrears; the amount in default as on 31st March 1978 was Rs. 112.11 lakhs (principal: Rs. 35.38 lakhs and interest: Rs. 76.73 lakhs) excluding penal interest. The liability towards penal interest (2 *per cent* to $2\frac{1}{2}$ *per cent* on default) worked out to Rs. 13.21 lakhs. As a result of the default, the Company has lost rebate of $\frac{1}{4}$ *per cent* admissible for prompt repayment in the case of two loans amounting to Rs. 103.50 lakhs; the rebate thus lost up to 31st March 1978 worked out to Rs. 0.78 lakh. The default was attributed (August 1978) by the Management to difficult financial position of the Company.

2.03. Financial position

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

		1975-76	1976-77	1977-78
			(*Rupees in lakhs*)	
	Liabilities			
(a)	Paid-up capital	437.44	441.44	449.44
			£	£
(b)	Reserves and surplus	6.00	28.73*	50.80*
(c)	Borrowings	425.97	406.22	463.84
(d)	Trade dues and current liabilities including provision	99.42†	145.14†	173.21†
	Total	968.83	1,021.53	1,137.29
	Assets			
(e)	Gross block	357.12	412.14	422.05
(f)	*Less*: Depreciation	80.45	94.61	102.53
(g)	(i) Net fixed assets	276.67	317.53	319.52
	(ii) Development of property	514.95	557.20	499.98
	Total	791.62	874.73	819.50
(h)	Buildings and roads under construction and machinery under erection	36.00	33.74	55.13
(i)	Investment	0.46	0.46	0.45
(j)	Current assets, loans and advances	118.54	109.68	261.04

£ The accumulated loss at the end of March 1977 and 1978 was Rs. 39.44 lakhs and Rs. 34.15 lakhs respectively which has been set off against the rehabilitation reserve of Rs. 56.53 lakhs and Rs. 66.20 lakhs to arrive at these figures.

* These include subsidy of Rs. 11.64 lakhs and Rs. 18.75 lakhs received from Government during 1976-77 and 1977-78 respectively for Housing Schemes.

† These include balance under Welfare Fund which formed part of reserves and surplus during previous years.

	1975-76	1976-77	1977-78
		(*Rupees in lakhs*)	
(k) Miscellaneous expenditure	1.14	2.92	1.17
(l) Accumulated loss	21.07*	..	..
Total	968.83	1,021.53	1,137.29
Capital employed	810.74	839.27	907.33
Net worth	421.23	467.24	499.07

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

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

2.04. Operational results

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

	1975-76	1976-77	1977-78
		(*Rupees in lakhs*)	
1. Value of production			
(a) Sales	379.45	395.81	381.95
(b) Closing stock of finished goods, works-in-process and stock-in-transit	37.44	48.48	30.62
(c) Opening stock of finished goods, works-in-process and stock-in-transit	28.18	37.44	48.48
Value of production (a+b—c)	388.71	406.85	364.09
Less: Consumption of raw materials, stores and spares	52.63	50.44	50.90
2. Value added	336.08	356.41	313.19
3. Expenses other than consumption of raw materials, stores and spares (*less* miscellaneous/non-trading income)	292.55	329.71	307.49
4. Profit	43.53	26.70	5.70

*This has been arrived at after setting off rehabilitation reserve of Rs. 44.73 lakhs from the accumulated loss of Rs. 65.80 lakhs.

	1975-76	1976-77	1977-78
		(*Rupees in lakhs*)	
5. Provision of income tax	0.30	0.35	0.41
6. Net Profit	43.23	26.35	5.29
Percentage of			
(a) Value added to value of production	86.46	87.60	86.02
(b) Expenses to value added	87.05	92.51	98.18
(c) Value of raw materials, stores and spares consumed to value of production	13.54	12.40	13.98

The Company incurred losses till 1972-73 and the accumulated loss as at the end of March 1973 was Rs. 179.72 lakhs. The Company has been earning profit since 1973-74. The profit earned during 1973-74 to 1977-78 amounted to Rs. 145.56 lakhs, leaving a net loss of Rs. 34.16 lakhs as on 31st March 1978.

2.05. Planting operations

2.05.1. The Company has seven rubber estates. The estate-wise area under rubber plantation, as at the end of each of the four years up to 1977-78, was as follows:—

District	Name of estate	Area as on 31st March			
		1975	1976	1977	1978
			(*in hectares*)		
Quilon (Kodumon group)	Kodumon	1,195	1,200	1,200	1,200
	Chandanappally	1,609	1,632	1,639	1,637
Quilon	Thannithode	157*	130	130	207
Ernakulam (Kalady group)	Kallala	1,211	1,211	1,261	1,301
	Adirappally	1,094	1,155	1,200	1,339
	Vettilappara	690	690	702	702
Kozhikode	Perambra	625	650	730	774
	Total	6,581	6,668	6,862	7,160

Of the 7,160 hectares under rubber plantation, 5,656 hectares had been brought under tapping (March 1978).

* Plantations in 30 hectares perished by June 1975.

2.05.2. *Longer maturity period*

Rubber trees take, on an average, almost 7 years ($5\frac{1}{2}$ years to 7 years for clonal* and $7\frac{1}{2}$ years to 9 years for budded** trees) to reach the yielding stage. However, 21.3 hectares planted (RRIM† clone) in 1967 in Vettilappara estate, 20 hectares planted (G.G.†† clone) in 1968 in Kallala estate and 163.7 hectares planted (RRIM budded clone) during 1967-69 in Perambra estate have not been brought under tapping (March 1979).

The delay in bringing the area under tapping was attributed (October 1978) by the Management to rocky sheet under shallow soil in certain patches and to presence of iron ore, silica, mica, etc. in certain other patches.

2.05.3. *Loss due to abnormal failure of plantation*

In April 1974, the Company took on lease from Government 193 hectares of forest land at Thannithode. Between April 1974 and June 1975, the Company planted rubber in 160 hectares of the area. The total expenditure incurred on raising and maintaining the plantation up to March 1976 was Rs. 11.96 lakhs. Heavy casualties were reported (June 1975) and by 1976, there were no surviving plants on 30 hectares and hence the area was planted with cashew during 1976. The resultant loss (proportionate expenditure on raising rubber in the area) to the Company worked out to Rs. 2.24 lakhs.

The high mortality was attributed (December 1976 and October 1978) by the Management to "the fact that one-third of the estate was rocky in nature with shallowed soil" and consequent drying up of a large number of plants during summer. It was, however, noticed in the course of audit that before the

---

* Clonal plants are those raised from seeds collected from seed gardens of bud-grafted trees.

** Budded plants are those raised by vegetative propogation process of 'bud-grafting'

† Rubber Research Institute of Malaysia.

†† Gough Garden of Malaysia.

area was taken over from Government, its suitability for rubber plantation had been ascertained from the Rubber Board and the area was also inspected by an officer of the Company.

According to the Rubber Board, the normal stand per hectare expected to remain beyond the tenth year of planting (third year of tapping) is 310 plants. Though planting was done at the rate of 382 plants per hectare, the stand per hectare in the remaining area (130 hectares) dwindled to 241 plants by June 1978 owing to failure of plants due to late planting, vigorous growth of weeds and insufficient pruning. The visiting agent (Technical Adviser of the Company) recommended (June 1978) gap filling to raise the stand to at least 300 plants per hectare. Though 7,670 gaps were to be filled to make the stand to 300 plants per hectare, only 2,040 gaps had been filled up to the end of March 1979.

2.05.4. *Yield*

The annual yield per hectare, originally anticipated in the report (December 1965) of the Management Consultant, was 1,120 kg. of latex. The Committee on Public Undertakings (Third Lok Sabha) in paragraph 52 of their Eighteenth Report had observed (March 1966) that necessary steps needed to be taken to improve upon the anticipated yield, particularly when a substantial number of plantings were of high yielding varieties.

The actual yield obtained was, however, below the anticipated yield of 1,120 kg. per hectare as detailed below:—

Estate	*Yield per hectare during*		
	1975-76	1976-77	1977-78
		(*in kilograms*)	
Kodumon	1,238	1,377	962
Chandanappally	997	1,139	908
Kallala	944	1,073	989
Adirappally	643	753	638
Vettilappara	775	911	824
Perambra	537	494	422

The Management ascribed (July 1978) the decline in yield during 1977-78 to—

(i) loss of 34 tapping days due to a strike during 1977-78 as against loss of one day each during 1975-76 and 1976-77;

(ii) increase in the absenteeism of tappers; and

(iii) decrease in number of tasks* tapped due to discontinuance of seven day tapping since May 1977.

The reasons ascribed (December 1978) by the Management for the continuous lower yield in Adirappally, Vettilappara and Perambra estates were—

(i) the stand per hectare being lower than the standard;

(ii) uneven girthing of plants; and

(iii) absenteeism and go-slow tactics of tappers.

2.05.5. *Excessive production of scrap and lump*

In the report of the Management Consultant (1965), it was estimated that 80 *per cent* of the total production would be in the form of field latex and the balance (20 *per cent*) in the form of scrap and lump. The actual arising of scrap and lump during the three years up to March 1978 was, however, excessive and ranged between 23 *per cent* and 27 *per cent* as detailed below:—

	1975-76		1976-77		1977-78	
	Quantity (tonnes)	*Percentage*	*Quantity (tonnes)*	*Percentage*	*Quantity (tonnes)*	*Percentage*
Latex	3,737	73	4,518	77	3,639	75
Scrap and lump	1,351	27	1,379	23	1,199	25
Total	5,088	100	5,897	100	4,838	100

Compared to the norm fixed (20 *per cent*), the scrap (including lump) arising during the three years up to 1977-78 was in excess by 764 tonnes. Computed with reference to the cost of conversion of scrap into Estate Brown Crepe grade rubber (Rs. 450 per tonne), the loss resulting from excess arising of scrap

* A task represents the area handled by one tapper in a day.

and consequent short production of latex worked out to Rs. 3.44 lakhs. Apart form generally stating (July 1978) that heavy rains at the time of collection resulted in higher percentage of scrap, the Management did not specify the exact reasons for excess arising of scrap during 1975-76 and 1976-77. The excess arising of scrap during 1977-78 was stated to be due to abnormal rain and labour indiscipline.

2.05.6. *Discontinuance of seven day tapping system*

Latex is obtained from the bark of the rubber trees by tapping. It means 'controlled wounding of the bark' (one millimetre close to the cambium) of rubber tree whereby the latex vessels are cut open. In tapping, thin shavings of bark are removed from the tree by a tapping knife. Latex flowing from the tapped panel is conducted through a spout into coconut shells. The latex is collected from the shells by tappers four to five hours after tapping.

The Company follows the alternate day tapping system (d2) in the areas under tapping. Even though there is tapping during the six days of the week, the same tasks are tapped only on alternate days. As there is no tapping on Sundays, the tasks* tapped on Fridays/Saturdays are tapped only on Mondays/Tuesdays, i.e. after a lapse of two days. According to the Management (January 1976), this upsets the tapping rhythm and results in pronounced drop in crop at the beginning of the week; the crop gradually improves by the end of the week to be again upset by the weekly rest.

Earlier a seven day tapping system was introduced on an experimental basis in November/December 1975. As there was an increase in yield by 10 to 15 *per cent* under this system, it was introduced on a regular basis in March 1976, by suitably staggering the weekly off-days of the tappers. The requirement of additional number of tappers for implementing the system was met by diverting 402 field workers after imparting necessary training to them for 3 to 4 weeks. Though there was an increase

* A task represents the area handled by one tapper in a day. The number of trees to be covered in a tapping task ranges between 250 and 300.

in the yield by 12 *per cent* under this system, a committee constituted (September 1976) by the Management to examine its working recommended (April 1977) for its discontinuance without specifying any reasons. Accordingly, it was discontinued from May 1977. One of the reasons stated by the Company for the fall in production during 1977-78 (from 5,897 tonnes in 1976-77 to 4,838 tonnes in 1977-78) was the discontinuance of the seven day tapping system.

Judged from the results obtained during experimental tapping in November-December 1975 and regular tapping during 1976-77, it would appear that continuance of the system during 1977-78 would have given an additional yield of 550 tonnes approximately. Computed at the average price fetched for the Company's products in 1977-78, the loss of revenue during the year was Rs. 29.45 lakhs after making allowance for the wages payable to the additional number of tappers required.

2.05.7. *Non-tapping of tappable tasks*

In order to get maximum yield of latex, it is necessary to tap the entire tappable tasks without fail in accordance with the tapping system followed. It was, however, seen that all the tappable tasks had not been tapped. This resulted in a loss of revenue of Rs. 44.10 lakhs during the three years up to 1977-78, as detailed in the table below:—

	1975-76	1976-77	1977-78	*Total*
Tappable tasks (numbers)	6,23,935	7,21,289	5,94,782*	19,40,006
Actual tasks tapped (numbers)	6,06,043	6,77,452	5,69,763	18,53,258
Total yield (tonnes)	5,088	5,897	4,838	15,823
Tappable tasks left untapped (numbers)	17,892	43,837	25,019	86,748
Percentage of tasks untapped to tappable tasks	2.87	6.08	4.21	4.47
Production loss of latex (tonnes)	150.21	381.59	212.44	744.24
Average sale price per tonne (Rupees)	7,710	6,880	7,260	..

* Excluding tappable tasks lost due to strike in October 1977, January 1978 and February 1978.

	1975-76	1976-77	1977-78	*Total*
		(*Rupees in lakhs*)		
Value of production loss	11.58	26.25	15.42	53.25
Less: Tapping wages per task that would have been payable for tapping the tasks	1.60 (@Rs. 8.92 per task)	3.41 (@Rs. 7.78 per task)	2.03 (@ Rs.8.12 per task)	7.04
Add 30 *per cent* (based on average) to account for over pound*, bonus, etc.	0.48	1.02	0.61	2.11
Loss of revenue	9.50	21.82	12.78	44.10

The Management had stated (June 1976 and July 1978) that in spite of engaging reserve tappers at ten *per cent* of permanent tapper strength, it had not been possible to tap all tappable tasks on account of factors such as absenteeism during festivals, harvest season, etc. It was further stated (July 1978) that loss in revenue was partly off-set by the reduction in the consumption of bark of trees. As at the time of replanting, all the plants in a reach are felled without regard to the number of tapping done on individual trees, the reduction in the consumption of bark of some trees does not extend the effective life of the plants.

2.05.8. *Excessive bark consumption*

The maximum yield from a tree depends on the optimum rate of bark consumption. For obtaining the optimum yield it was preferable to consume about 20 to 23 cms of bark per annum on s/2 d/2 (a spiral cut on the half circumference, alternate daily tapping) system. Against this, the bark consumption in Kodumon and Chandanappally estates for the periods up to June 1978 averaged 30 cms and 25 cms per annum respectively. The visiting agent of the Company opined (June 1978) that there was no systematic attempt to keep the quality of tapping high. The Management admitted (December 1978) that "cutting away a shaving thicker than what is necessary does

* Wages payable for production in excess of prescribed minimum.

not increase yield, but only wastes the bark, resulting in the cutting down of the yield life of the tree".

2.06. Manufacturing operations

2.06.1. The crop obtained as latex and scrap (shell scrap, tree lace, etc.) is processed in the factories at Kodumon, Vettilappara and Perambra. The total installed capacity of the factories is 35 tonnes daily (centrifuged latex: 9 tonnes; rubber sheets: 8 tonnes; estate brown crepe: 4 tonnes and block rubber: 14 tonnes). Particulars of production in the factories for the three years up to 1977-78 were as below:—

Items	1975-76	1976-77 (*in tonnes*)	1977-78
Centrifuged latex	1,524.5	1,854.7	1,370.2
Sheets (RMA*1 to 5 and cuttings)	898.6	1,116.4	875.6
Block rubber	179.5	329.9	287.2
Estate brown crepe	455.0	596.1	538.6
Total	3,057.6	3,897.1	3,071.6

The quantity processed during 1977-78 was less than that processed during 1976-77 by 825.5 tonnes; this shows that the available capacity has not been utilised in full.

The Management stated (October 1978) that the sale of latex without further processing was mainly due to inadequate capacity of the existing plant in the factories and that establishment of a pale latex crepe unit to increase the capacity was under way. What imbalances are there in the plant is not known to audit.

In the case of Kalady group of estates, the Management Consultant had estimated (December 1965) conversion of 90 *per cent* of the normal latex into RSS 1 (Ribbed Smoked Sheets) or equivalent grade sheets; only the balance ten *per cent* was to be sold in the form of off-grade and cuts. However, the actual

*RMA indicates the grading as per specifications prescribed by Rubber Manufacturers' Association.

production of sheets during the three years up to 1977-78 fell short of the norms by 639 tonnes as indicated in the following table:—

Items	1975-76	1976-77	1977-78
		(*in tonnes*)	
1. Normal latex received in the factory	1,0 99	1,226	844
2. Normal latex due for conversion into sheets (as per norm)	989	1,103	760
3. Sheets produced	716	870	627
4. Latex not converted into sheets(2—3)	273	233	133
5. Shortfall in achievement compared to normal (*per cent*)	28	21	18

2.06.2. In order to increase the processing capacity, the Company decided (March 1973 and May 1976) to instal three more processing units, *viz.* a crumb rubber unit at Vettilappara estate, a pale latex crepe unit at Kallala estate and a skim crepe unit at Chandanappally estate. The skim crepe unit (cost: Rs. 8.36 lakhs approximately) was commissioned in April 1978. The pale latex crepe unit is under installation (March 1979). Action taken for the establishment of the crumb rubber unit is indicated below:—

In March 1973, the Company placed an order on a firm for the supply and erection of a crumb rubber plant with a capacity of 5 tonnes (consisting of 1.5 tonnes of scrap, 1.5 tonnes of skim and 2 tonnes of latex) per day at a cost of Rs. 5.59 lakhs (excluding sales tax). The Company did not invite any tenders and the firm was selected on the basis of negotiations.

Mechanical erection of the unit was completed and the unit formally commissioned in May 1975. The Company paid Rs. 5.59 lakhs (including Rs. 0.28 lakh towards sales tax) to the supplier till April 1975.

The unit was under trial run up to 7th July 1976, when it was taken over by the Company. The delay in taking over the plant was attributed (June 1978) by the Management to frequent troubles noticed on its commissioning.

According to the rated capacity as specified by the supplier, the plant was to produce 2,730 tonnes of crumb rubber during

July 1976 to March 1978 (21 months of 26 days each at 5 tonnes per day). Against this, the actual production during the period was 542 tonnes of which 88 tonnes were off-grade. Thus, the utilisation of the plant during the period was only 20 *per cent* of the rated capacity specified by the supplier. The Superintendent of the estate had, however, pointed out in July 1976 itself that the production capacity of the unit was only one tonne per shift (3 tonnes per day).

The conveyor system of the drier of the plant was defective and its capacity was found to be 3 tonnes against 5 tonnes required. The drier (cost: Rs. 0.95 lakh) of the plant, which went out of commission in February 1977, has not been recommissioned (June 1979). The plant was found to be defective in other respects also; the tonnage of its press was very low and its macerators did not function properly.

In order to overcome the defects in the plant and to increase the capacity of the drier, the Company purchased and erected between August 1975 and November 1976 additional equipment (one diesel fired crumb rubber plant costing Rs. 2.3 lakhs and three macerators costing Rs. 1.02 lakhs). The circumstances under which the Company contemplated purchase of additional equipment even before taking over the plant in July 1976 without insisting the supplier firm to step up the capacity of the plant suitably so that it worked to the capacity specified in the supply order, were not on record.

In May 1978, the Company referred the case to its legal advisers to examine whether the firm could not be made liable for the losses suffered by the Company on account of the poor performance of the plant and consequent shortfall in production. Based on legal advice obtained (May 1979), the Company filed a suit against the firm claiming compensation for capital loss (Rs. 5.50 lakhs) and loss of income (Rs. 11.03 lakhs). Further developments are awaited (June 1979).

2.06.3. *Short-production of superior quality sheets*

The Company has units for conversion of normal field latex into sheet rubber in Kalady, Kodumon and Perambra groups of estates. According to the norm fixed (April 1972) by the Company, 85 *per cent* of rubber sheet produced should be in the grade of RMA 1x and RMA 1, which fetch comparatively higher prices. The actual recovery of RMA 1x and RMA 1 was below the norm. The details are given in the following table:—

Grades	1975-76		1976-77		1977-78	
	Quantity (tonnes)	*Percentage*	*Quantity (tonnes)*	*Percentage*	*Quantity (tonnes)*	*Percentage*
RMA 1 x	..	..	178.7	16.01	124.4	14.21
1	234.4	26.09	372.2	33.34	505.6	57.74
2	272.5	30.32	260.7	23.35	102.4	11.70
3	195.9	21.80	141.8	12.70	55.9	6.38
4	90.3	10.05	56.9	5.10	21.2	2.42
5	70.7	7.87	41.9	3.75	15.4	1.76
Sheet cutting	34.8	3.87	64.2	5.75	50.7	5.79
Total	898.6	100.00	1,116.4	100.00	875.6	100.00
RMA 1x and 1	234.4	26.09	550.9	49.35	630.0	71.95

The loss of revenue on account of shortfall in production of RMA 1x and RMA 1, during the three years up to 1977-78, worked out to Rs. 0.67 lakh.

The Management stated (July 1978) that sheet production was mainly done in the factory at Kalady as major portion of latex in Kodumon group was being centrifuged. The various divisions of Kalady group of estate were 20 to 25 kilometres away from the factory and the latex in transit got coagulated before it reached the factory, even after use of anti-coagulant. In these circumstances, the only alternative, according to the Company, was to collect the latex in the nearest station for sheeting and to convert the rest into lump. But as the price of lump was comparatively lower than that of low grade sheets, it was considered wiser to make low grade sheets rather than converting latex into lump.

The reasons stated by the Management do not fully explain the shortfall as these factors were known to the Company even while fixing the norms. The Management stated (October 1978) that the problem would be solved with the commissioning of the pale latex crepe unit.

2.07. Accounting of rubber

Yield obtained from rubber trees is in the form of normal latex, lump, tree lace and shell scrap which contain moisture. Their stock accounts are maintained with reference to the dry rubber content in them. The dry rubber content of normal latex received in the factory is determined by analysing samples. Tree lace, shell scrap and lump are received in lots from the field and the dry rubber content in them is assumed by the Company as 70 *per cent*, 50 *per cent* and 40 *per cent* respectively for the purpose of accounting. These percentages are being followed from 1966 onwards.

Though the receipts of latex, scrap, lump, etc. are accounted on dry rubber content basis, the Company has not kept accounts of the actual quantity of these issued and utilised for manufacturing operations.

A major portion of the total yield of scrap, lump and skim lump is sold as such without further processing.

The dry rubber content in scrap, lump and skim lump estimated at the time of sale ranged between 70 *per cent* and 80 *per cent* which was significantly higher than that estimated at the time of their receipt. No records indicating the basis of assessment of the dry rubber content of scrap, lump and skim lump at the time of their sale were, however, kept. As the estimation of dry rubber content at the time of receipt and their sale was not on uniform basis and without proper assessment, the correctness of the balance shown from time to time could not be checked in the course of audit. The Management stated (February 1979) that necessary records would be kept for determining the dry rubber content.

2.08. Excess payment due to variation of agency terms

The Company invited (January 1976) offers from licensed rubber dealers for appointment as selling agents for sale of latex in Bombay, Delhi, Madras and Calcutta regions for a period of two years from 1st April 1976. According to the tender conditions, the agents were entitled to a basic commission provided the monthly off-take did not fall short of the minimum fixed(100 drums in a month or 400 drums in four months) and to an incentive commission for sale (in full hundred drums) over the minimum guaranteed off-take; commission was payable for off-take expressed in multiples of 100 drums and no commission was admissible for fractions of 100 drums. Based on the offers received, agents were appointed for the period from 1st June 1976 to 31st March 1978. In their offers, the agents had accepted all the conditions stipulated by the Company. However, while entering into agreements with the agents, the words 'in full 100 drums' were omitted from the condition regarding incentive commission. No reasons were recorded for this deviation. As a result of this omission in the agreement, the Company had to pay incentive commission on actual sales including fraction of 100 drums; commission thus paid in excess between June 1976 and March 1978 amounted to Rs. 0.28 lakh, which was not due in terms of the tender conditions. The Management stated (July 1978) that the agreement was drafted by lawyers in consultation with the then Sales Officer and the Managing Director.

2.09. Classification of tapping tasks

For the purpose of regulating the wages, the area under rubber tapping is classified every year into four groups on the basis of the average yield per hundred trees obtained in the immediately preceding year. The minimum yield per task in the different groups was fixed as follows:—

Annual yield per 100 *trees (in kilograms)*	*Grade*	*Minimum yield to be obtained per day per task (in kilograms)*
Up to 113	I	1.5
114 to 179	II	2.5
180 to 272	III	4.5
273 and above	IV	6.5

For yields in excess of the minimum fixed for the respective groups, 'over pound wages' were payable at the rate of 30 paise per kilogram till 31st March 1977, 50 paise per kilogram during

1st April 1977 to 30th September 1977 and 60 paise per kilogram of latex/40 paise per kilogram of scrap from 1st October 1977; for shortfall in output, a proportionate deduction from the basic wages (Rs. 3.37 per day) was to be made.

A test check of the classification of the area during the period 1975-76 to 1977-78 showed that the Company had classified certain areas in lower groups though the average yield reckoned justified their classification in higher groups. This resulted in fixation of lower minimum yield, leading to excess payment by way of over pound wages. The excess payment on this account in two estates (Kallala and Kodumon) for the three years ended 31st March 1978 amounted to Rs. 1.60 lakhs. The Management stated (July 1978) that even though the classification was initially made based on the average yield for the preceding year, it was subsequently changed when the yield during the period was found to be lower. It was, however, seen in the course of audit that the actual yield during the year in question also warranted their classification in the higher grades.

2.10. Other topics

2.10.1. *Handling arrangements at Cochin*

In March 1972, the Company invited offers for handling its products, *viz.* rubber sheets, centrifuged latex (in barrels), EBC rubber, etc. at Cochin for further despatch by rail, road and ship during 1972-73. Based on the offers received, the Company accepted (May 1972) the rates of a Cochin firm. Though the contract was for one year from April 1972 to March 1973, the Company continued to engage the firm for the succeeding years also.

The rates offered by the firm were inclusive of rent-free storage. From 15th January 1977, the firm hired accommodation at Cochin for storing centrifuged latex (in barrels) at the rate of Rs. 1,250 per mensem. The rent amounting to Rs. 5,000 for the period up to 14th May 1977 was paid by the Company. Storage accommodation (686 sq. metres) in the Company's godown at

Cochin was also made available to the firm from 1st April 1977 without any stipulation as to recovery of rent. The rent recoverable for the area worked out to Rs. 4,116 per mensem at the rate of Rs. 6 per sq. metre, i.e. the rate at which the balance portion of the godown had been rented out. The rent due for the period from 1st April 1977 to 14th November 1978 amounting to Rs. 80,262 and Rs. 5,000 paid by the Company towards rent for January 1977 to May 1977 have not been recovered from the firm. It was stated (July 1978) by the Management that 'in the quotation given by the firm on 25th March 1972, it did not include the storage rent'. It was, however, seen that the rates offered by the firm were inclusive of rent-free storage.

2.11. Cashew cultivation

2.11.1. *Production of cashew nuts*

As at the end of March 1978, the yielding area out of Company's cashew plantations was 2,320 hectares at Kasargode and 178 hectares at Cheemeni.

The yield from the cashew plantation at Kasargode during 1977-78 (February 1978 to June 1978 season) was estimated (December 1977) at 955 tonnes of raw nuts. Against this, the yield obtained was 312.76 tonnes only; the shortfall was 67 *per cent*. The Management attributed (June 1978) this to drying of the last waves of flowers that emerged late after the second round of spraying of insecticides. In a report sent by the Company to Government in July 1978, it was observed that this could have been saved if a third round of spraying had been given.

The yield during 1977-78 from 178 hectares of cashew plantation of Cheemeni was estimated (December 1977) at 55 tonnes. The actual yield was 22.74 tonnes. The Management stated (February 1979) that the estimates were made based on certain assumptions which were not realistic.

2.12. Working of subsidiary company

OIL PALM INDIA LIMITED

2.12.1. *Introduction*

Red palm oil, used in the manufacture of soap and by confectionary units, constitutes a major item amongst imported oils and during the period 1970-71 to 1975-76, 1,24,070 tonnes of palm oil were imported.

The Holding Company prepared a project report in October 1968 for the establishment of an oil palm plantation (Elasis guineesis) in an area of 4,500 acres (1,821 hectares) in Calicut District at an estimated cost of Rs. 213 lakhs. The cost of the project was proposed to be met mostly by equity contribution from the State Government (Rs. 207 lakhs) and partly from its internal resources (Rs. 6 lakhs). The project was sanctioned by the State Government in December 1970. In January 1971, the Management of the Holding Company decided to change the location of the plantation to Yeroor Reserve Forest of Anchal Range in Quilon District as the land there was found to be more suitable for oil palm. The plantation area was also proposed to be increased to 2,000 hectares. The project report was accordingly revised in January 1971.

The project report (1971) envisaged import of seeds of oil palm from Malaysia and Nigeria on 50:50 basis to meet the entire requirement of planting materials for raising nurseries of seedlings. It was estimated that about 10 lakh seeds were required till 1973-74 for undertaking planting operations in 2,000 hectares in a phased programme. An approximate idea of the outlay for the factory could be obtained by the Holding Company in 1973. These factors necessitated a further revision of the project report in December 1973. The revised project reports (1971 and 1973) envisaged implementation of the project by obtaining financial assistance from the Government of India. At the instance of the Government of India (July 1976), the project report was up-dated in October 1976.

2.12.2. *Financing arrangement*

In February 1971, the Holding Company decided to form a subsidiary Company to implement the project. The up-dated project report (1976) envisaged an outlay of Rs. 496.84 lakhs. The subsidiary Company would have a share capital of Rs. 200 lakhs to which the Government of India and the Holding Company would contribute in the ratio of 49:51 and the balance amount (Rs. 297 lakhs) of the project cost would be met by loans from financing institutions and the State Government. The Government of India agreed (March 1977) to provide a loan of Rs. 102 lakhs to the Holding Company through the State Government to enable it to subscribe to the equity capital in the subsidiary. Oil Palm India Limited was registered in November 1977 (authorised capital: Rs. 10 crores) to take over and run the oil palm plantation established by the Holding Company. The oil palm plantation was taken over with effect from 1st January 1978. Till 31st March 1978, the subsidiary Company received Rs. 98 lakhs towards contribution to the share capital from the Government of India and the Holding Company received Rs. 102 lakhs from the State Government (out of a loan given by the Central Government) for investment in the shares of the subsidiary Company.

The subsidiary Company allotted shares for Rs. 98 lakhs to the Government of India and Rs. 102 lakhs to the Holding Company up to August 1978.

The Holding Company assessed the value of oil palm plantations and other assets less liabilities at Rs. 161.11 lakhs and transferred it to the subsidiary Company on 1st January 1978. Interest on loans obtained for financing the capital requirements of the project up to the commencement of commercial production is an item of project cost; this was not estimated by the Holding Company and included in the project estimate. However, the Holding Company had claimed interest (at 12 *per cent*) amounting to Rs. 43.15 lakhs for the period up to 31st December 1977, from the subsidiary Company, towards the funds diverted by it from time to time for implementing the project.

The Holding Company had also charged Rs. 80 per hectare per annum towards service charges for the plantations raised from 1971-72 to 1977-78.

2.12.3. *Financial outlay*

As against the cost of Rs. 213 lakhs estimated in October 1968, the cost of the project was revised to Rs. 286.92 lakhs in January 1971, Rs. 337.32 lakhs in December 1975 and Rs. 496.84 lakhs in October 1976.

The increase in the estimated cost was attributed (July 1977) by the Management to—

(i) increase in wage rate;

(ii) provision for new items such as water sprinkler, platform balances, pumpsets in the revised project report (1976);

(iii) increased provision for factory plant and machinery (Rs. 90.30 lakhs as against Rs. 30 lakhs estimated in 1971);

(iv) escalation in the cost of vehicles; and

(v) increase in cost of construction; etc.

The revised project report (October 1976) was approved by the Government of India in December 1977 subject to the following conditions:—

(i) The cost of the project should be brought down to Rs. 450 lakhs;

(ii) construction of the factory should be so phased as to be completed by the time production from the planted trees was ready for crushing;

(iii) location and size of the factory should be determined keeping in view the actual requirements and transport costs involved; and

(iv) the land for raising plantation would be free contribution by the State Government.

These conditions remain (March 1979) to be fulfilled.

2.12.4. *Execution of the project*

(i) *Allotment of land*

Between May 1971 and March 1978, the Holding Company took on lease from the Forest Department, 1,681.92 hectares of land at Yeroor Reserve Forest of Anchal Range (Quilon District) for cultivation of oil palm. The land was cleared by the Forest Department for which slash felling charges were payable. Lease rent from May 1971 to December 1978 amounting to Rs. 15.75 lakhs in respect of 1,681.92 hectares claimed in July 1978 by the Forest Department have not been paid (April 1979). The Holding Company requested (May 1978) Government to exempt the subsidiary from the payment of lease rent in the light of the Government of India's conditional approval (December 1977) of the revised project report. Decision is awaited (March 1979). The land taken over from the Forest Department had also not been surveyed to ascertain the actual area in possession of the Company. The Management stated (October 1978) that the Survey Department had been addressed to survey the land. As the area is unsurveyed, the accuracy of the claim for lease rent could not be checked.

(ii) *Utilisation of land*

The table below indicates the year-wise details of the area allotted by Government and the area actually utilised for planting, up to March 1978:—

Year	*Area allotted by Government during the year*	*Area actually utilised for planting during the year*	*Area left fallow at the end of the year*
		(*in hectares*)	
1971-72	122.40	122.40	Nil
1972-73	320.17	202.02	118.15
1973-74	321.45	224.75	214.85
1974-75	396.30	No planting	611.15
1975-76	160.35	442.65	328.85
1976-77	273.80	No planting	602.65
1977-78	87.45	No planting	690.10
Total	1,681.92	991.82*	690.10

*In the annual report of the Holding Company for the year 1976-77, the area planted has been mentioned as 1,150 hectares. This includes 98 hectares utilised/set apart for construction of roads, office buildings, staff quarters, cooly lines, factory, etc. and also 60 hectares where no planting was done, although the area was erroneously reckoned as planted for statistical purposes from 1975-76 onwards.

According to the Holding Company (July 1977), the areas transferred during 1972-73 and 1973-74, had to be partly left fallow as the land was transferred by the Forest Department after the planting seasons (June/July of each year). There was only partial planting during 1975-76 and no planting during 1974-75, 1976-77 and 1977-78. This was attributed (July 1977) by the Holding Company to—

(a) non-availability of sufficient planting materials; and

(b) non-raising of nursery, consequent on the ban imposed on export of seeds by the Government of Malaysia in early 1972.

(iii) *Unsuitability of land for cultivation of oil palm*

According to experts, land having a slope of more than 50 *per cent* (one metre vertical drop for every two metres of horizontal length) is not suitable for growing oil palm. No soil survey to ascertain the suitability of the land taken over was, however, conducted before commencing planting operations in 1971-72. A soil survey undertaken (June 1976) by the Soil Survey Organisation of the State Government, to assess the suitability of the area for oil palm cultivation, revealed that plants had been raised in bad terrain also. Out of 992 hectares of land under cultivation, about 350 hectares were found to have a slope of more than 50 *per cent* and 62 hectares poorly drained and hence unsuitable for cultivation of oil palm. An expert committee on oil palm cultivation, constituted (November 1976) by the Holding Company suggested (April 1977) that the unsuitable lands could also be put to use by following intensive land improvement practices like terracing and providing drainage facilities. Further developments in this regard are awaited (March 1979). The additional cost involved in implementing the suggestions, which is likely to affect the overall profitability of the project, has not been estimated (March 1979).

(iv) *Development of seedlings at the nursery*

Pre-heated seeds are imported from abroad, usually in December/January and are developed at the nursery for about 18 months. The seedlings are then replanted in the fields in June/July of the succeeding year. Between 1969 and 1973, the Company imported 2,49,879 seeds at a cost of Rs. 6.77 lakhs from Malaysia and Nigeria. Out of 1,89,598 seeds that germinated, the seedlings available for planting were only 1,59,801. The casualty (29,797) of 15.7 *per cent* was attributed (September 1976) by the Holding Company to overgrowth of plants in the nursery because of delay on the part of the Forest Department in making land available and to malformation.

(v) *Planting operations*

The project report envisaged that on an average there would be about 135 palms in a hectare in the initial years and that 50 seedlings per hectare would be required for gap filling during the first three years of planting.

A total number of 1,14,702 seedlings were planted in an area of 992 hectares during the four planting seasons in 1971, 1972, 1973 and 1975. This worked out to 115 palms per hectare against 135 palms per hectare envisaged in the project report. Out of 1,14,702 seedlings planted, 50,661 seedlings were damaged after planting and were, therefore, removed. The resultant gaps were filled up by planting 50,661 new seedlings of which 5,562 seedlings were procured from the Central Plantation Crop Research Institute, Palode (Kerala State). Thus, 1,65,363 seedlings were altogether used in planting. Of these, 65,947 plants had survived (March 1978). This worked out to 66 palms per hectare against 135 palms envisaged. The effective land required for 65,947 plants as per norms was 488 hectares resulting in under-utilisation of 504 hectares. According to the Management of the Holding Company (September 1976), it might not be possible to get 135 palms planted in one hectare under the contour system of planting as the land utilised included marshy areas, rocky patches and steep slopes unsuitable for planting. However, the project report as revised from time to time did not contemplate any reduction in the number of plants under any system of planting.

The value of the seedlings lost (99,416) amounted to Rs. 24.85 lakhs. The heavy casualties of seedlings (99,416) which worked out to 60 *per cent* of total seedlings planted against the permissible loss of 37 *per cent* (50 seedlings for gap filling out of 135) were attributed (September 1976) by the Holding Company to the following:—

(a) attack of porcupine and rodents;

(b) conversion of planted areas into roads;

(c) wilful damage caused to the seedlings by casual workers while transporting them to the fields and also while planting them during 1972 when there was labour unrest and wide indiscipline; and

(d) absence of clear-weeding during the period, resulting in jungle growth which in turn was harbouring rodents and porcupine.

It was further stated (September 1977) by the Management that proper weeding could not be done in the initial years for reasons beyond its control and that severe drought and dry wind experienced in the locality also contributed to the heavy casualty. As directed by the State Government in April 1978, the Holding Company constituted (June-July 1978) a committee to enquire into the loss of palm seedlings. The findings of the committee are awaited (March 1979).

According to the project report, planting was to be done after finalising the alignment of roads so as to avoid loss of plants and necessary rounds of weeding were to be done at frequent intervals to prevent jungle growth which would otherwise harbour rodents and porcupine. As stated earlier there was no clear weeding during 1971, 1972, 1973 and 1975 resulting in jungle growth which harboured rodents and porcupine. During the three planting years ending 1973, 6,644 plants were lost due to porcupine attack (618), rodent attack (5,294) and road cutting (732). Similar details in respect of the subsequent years were not available with the Company. The Management of the Holding Company stated (September 1976) that from the 1975 planting season, road alignment had been done prior to peg-marking and pitting and that planting was avoided in such areas. It was further stated that the loss of plants due to attack of rodents and wild animals had declined after introduction of clear-weeding.

(vi) *Yield*

(a) *Yield of fresh fruit bunches (FFB)*

According to the Government of Malaysia, yield from oil palm would commence just after thirty months of planting. The project report (1973) envisaged commercial yield from oil palm from the fifth year of planting; this was revised to the sixth year in the revised project report (1976) which provided for capitalisation of expenses during fifth year also. The Company has actually harvested yield from the oil palm during the fifth year of planting itself.

The actual yield of fresh fruit bunches during the first two years of commercial harvest, compared to the estimates in the project report, was as given below:—

Year	*1971 planting*		*1972 planting*	
	Estimated	*Actual*	*Estimated*	*Actual*
		(kilogram per hectare)		
1976-77	1,850	562	..	..
1977-78	3,700	4,250	1,850	310

The Management of the Holding Company stated (July 1977) that the shortfall in yield during 1976-77 was due to delay in maturing of the oil palm under local conditions and non-conducting of assisted pollination regularly. The low yield during 1977-78 of 1972 planting was attributed (August 1978) to labour strike during the year.

(b) *Production and sale of palm oil*

During 1977-78, the Company extracted 97.75 tonnes of palm oil. Of this, 68.73 tonnes were sold for Rs. 4.33 lakhs. The Company had not assessed the cost of production of oil. According to the Management (November 1977), the sale price for palm oil was fixed on the basis of the ruling market price in Bombay and other regions of the country.

(vii) *Working results*

The 1971 and 1972 plantations have started commercial yield. The working results of the oil palm plantations during the two years ended 31st March 1978 (from April 1976 to December 1977 under the Holding Company and from 1st January 1978 to 31st March 1978 under the subsidiary) ended in a total loss of Rs. 23.65 lakhs (provisional).

Summing up

The Company is working at profit from 1973-74. The loss suffered till 1972-73 has not been wiped off till the end of 1977-78. The working of the Company has been affected, *inter alia*, by the following defects/deficiencies:—

(i) The failure of plantings in plantations at Thannithode was very heavy with the result that stand per hectare had dwindled considerably.

(ii) Plantations raised in an area of 205 hectares in Vettilappara, Kallala and Perambra estates during 1967-69 have not yet been brought under tapping although rubber trees are expected to reach yielding stage in about seven years.

(iii) The entire plantation raised in an area of 30 hectares in Thannithode estate at a cost of Rs. 2.24 lakhs was lost on account of unsuitability of the area for rubber cultivation.

(iv) The annual yield obtained from all the rubber plantations (except Kodumon) of the Company was less than the anticipated yield of 1,120 kg. per hectare during 1975-76 to 1977-78.

(v) Excessive arising of scrap and lump has reduced the income of the Company.

(vi) The tapping system followed was unscientific in that it upsets the tapping rhythm, reducing the overall yield.

(vii) The number of tappable tasks left untapped during the three years up to 1977-78 worked out to Rs. 0.87 lakh.

(viii) The quality of tapping in Kodumon and Chandanappally estates was found to be unsatisfactory in that there was excessive bark consumption, reducing the yield life of the trees.

(ix) Processing capacities of the factories were not fully utilised.

(x) Conversion of normal latex into sheets fell short of the estimate of 90 *per cent* in Kalady group of estates during the three years ended 1977-78.

(xi) The utilisation of the crumb rubber unit was only 20 *per cent* of the rated capacity (as specified by the supplier) during the period July 1976 to March 1978.

(xii) The shortfall in production of superior quality sheets during the three years up to 1977-78 resulted in loss of revenue of Rs. 0.67 lakh.

(xiii) The system followed by the Company for accountal of receipts and issues for manufacturing operation and sales of scrap and lump was such that the physical balance was not susceptible of verification with the book balance.

(xiv) Unilateral revision of terms for payment of incentive commission to selling agents has resulted in extra payment of Rs. 0.28 lakh on sales effected between June 1976 and March 1978.

(xv) Classification of tapping tasks without reference to the actual yield obtained in the previous year resulted in payment of Rs. 1.60 lakhs as excess overpound wages during the three years ended 31st March 1978.

(xvi) Payment of rent/provision of rent-free storage accommodation to a contractor for the period between January 1977 and November 1978 in the absence of a contractual obligation to that effect has resulted in a loss of Rs. 0.85 lakh.

(xvii) The yield obtained during 1977-78 season from the cashew plantations (Kasargod and Cheemeni) under the Company was 335.50 tonnes against the estimated yield of 1,010 tonnes.

(xviii) The estimated cost of the project for the establishment of oil palm plantation undertaken by the Company had increased from Rs. 213 lakhs in October 1968 to Rs. 496.84 lakhs in October 1976.

(xix) Out of 1,682 hectares made available to the Company for oil palm plantation, 690 hectares still remain to be planted (May 1979).

(xx) There was heavy casualty of oil palm seedlings planted in the oil palm plantations. The value of seedlings lost (99,416) amounted to Rs. 24.85 lakhs.

SECTION III

THE TRAVANCORE SUGARS AND CHEMICALS LIMITED

3.01. Introduction

The Travancore Sugars and Chemicals Limited was incorporated in June 1937 to conduct business as distillers and manufacturers of sugar and pharmaceutical preparations. The paid-up capital of the Company at the end of April 1972 was Rs. 51 lakhs divided into 3,60,000 ordinary shares (Rs. 10 each) and 1,50,000 (6.5 *per cent*) cumulative preference shares (Rs.10 each), of which shares for Rs. 4.71 lakhs (25,566 ordinary shares and 21,500 preference shares) were held by the State Government. In order to secure more voting rights in the Company, Government purchased 9,668 ordinary shares (6,964 shares at Rs. 6 per share and 2,704 shares at Rs. 6.05 per share) and 1,425 preference shares (1,125 shares at Rs. 5.85 per share and 300 shares at Rs. 5.86 per share) through a stock broker in September-October 1972. Between March 1972 and May 1973, a private industrialist also entered the field and purchased 51,888 shares of the Company. Following this, Government took a policy decision (July 1973) to purchase more shares of the Company to secure controlling interest in the

Company and appointed a negotiating committee consisting of three officers to purchase shares at a price not exceeding Rs. 10 per share. Accordingly, Government acquired 1,37,948 more ordinary shares and 70,093 cumulative preference shares between May 1973 and October 1974 at prices ranging from Rs. 6 to Rs. 10 per ordinary share and Rs. 5.85 to Rs. 10 per preference share, when the prices of the Company's share quoted in the share market ranged between Rs. 6.85 and Rs. 9.85 per share. Thereby, Government's shareholding in the Company rose to 52.2 *per cent* and it became a Government Company.

3.02. Capital structure

3.02.1. The authorised capital of the Company at the end of April 1978 (accounting year of the Company is May to April) was Rs. 60 lakhs. The paid-up capital of the Company as on 30th April 1978 was Rs. 51 lakhs of which shares for Rs.26.62 lakhs were held by the State Government.

3.02.2. *Borrowings*

For meeting the working capital requirements, the Company obtains loans from banks on cash credit by pledge of stock and stores. The amount outstanding on this account at the end of each of the three years up to 1977-78 was Rs. 1.94 lakhs, Rs. 11.02 lakhs and Rs. 29.41 lakhs respectively.

3.03. Financial position

The financial position of the Company at the end of April of each of the four years up to 1977-78 is summarised below:—

	1974-75	1975-76	1976-77	1977-78
		(Rupees in lakhs)		
Liabilities				
(a) Paid-up capital	51.00	51.00	51.00	51.00
(b) Reserves and surplus	9.09	1.35	1.46	2.05
(c) Borrowings including cash credit	11.94	1.94	11.02	29.41

	1974-75	1975-76	1976-77	1977-78
		(Rupees in lakhs)		
(d) Trade dues and other liabilities (including provisions)	50.36	33.25	33.87	46.35
Total	122.39	87.54	97.35	128.81
Assets				
(e) Gross block	88.07	89.34	92.91	95.45
(f) *Less*: Depreciation	77.47	78.62	81.26	84.00
(g) Net fixed assets	10.60	10.72	11.65	11.45
(h) Capital works-in-progress	0.04	0.07	0.68	0.19
(i) Investments	0.42	0.42	0.42	0.42
(j) Current assets, loans and advances	111.33	73.08	78.76	103.88
(k) Accumulated loss	..	3.25	5.84	12.87
Total	122.39	87.54	97.35	128.81
Capital employed	90.90	69.18	75.35	89.95
Net worth	60.09	49.10	46.62	40.18

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

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

3.04. Working results

During the 38 years of its working from 1937-38 to 1974-75 the Company earned profits during 33 years and declared dividend in 24 years at varying rates from 5 *per cent* to 10 *per cent.* However, the Company began to incur loss after it became a Government Company; the loss incurred was Rs. 10.94 lakhs in 1975-76, Rs. 2.59 lakhs in 1976-77 and Rs. 7.34 lakhs in 1977-78. The reserves and surplus which amounted to Rs.9.48 lakhs at the end of April 1974 declined to Rs. 2.05 lakhs by the end of April 1978.

3.05. Operational results

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

	1974-75	1975-76	1976-77	1977-78
		(*Rupees in lakhs*)		
1. Value of production				
(a) Sales	159.29	179.47	175.69	176.96
(b) Closing stock of finished goods and works-in-progress	41.36	21.03	24.43	52.50
(c) Opening stock of finished goods and works-in-progress	23.13	41.36	21.03	24.43
Value of production (a+b—c)	177.52	159.14	179.09	205.03
2. Consumption of raw materials, stores and spares (including cultivation expenses)	80.63	72.06	86.46	94.61
3. Net value added	96.89	87.08	92.63	110.42
4. Expenses (*less* miscellaneous income)	96.00	98.02	95.22	117.76
5. Profit (+)/Loss (—)	(+) 0.89	(—)10.94	(—)2.59	(—)7.34
6. Percentage of				
(a) Net value added to value of production	55	55	52	54
(b) Conversion expenses to net value added	99	113	103	107
(c) Value of raw materials, stores and spares (including cultivation expenses) to value of production	45	45	48	46

The Company has four divisions, *viz*. sugar, spirit, '*arrack*' and Indian made fine liquor. Division-wise working results for the four years up to 1977-78 as computed by the Company, were as follows:—

Division	Profit (+)/Loss(—) 1974-75	1975-76	1976-77	1977-78
		(Rupees in lakhs)		
Sugar	(—) 11.07	(—) 24.64	(—) 28.01	(—) 39.71
Spirit and Arrack	(+) 0.59	(+) 5.74	(+) 19.77	(+) 26.41
IMFL	(+) 8.93	(+) 6.90	(+) 4.38	(+) 6.30
Unallocated income (+)/ expenditure (—)	(+) 2.44	(+) 1.06	(+) 1.27	(—) 0.34
Total	(+) 0.89	(—) 10.94	(—) 2.59	(—) 7.34

The heavy loss in sugar division was attributed (July 1978) by the Management to poor quality of sugarcane and consequent low recovery of sugar, high sugarcane price, payment of increased transport subsidy and under-utilisation of available capacity. According to the Company (July 1978), the total amount paid as additional cane price, transport subsidy and quality bonus over and above the statutory minimum cane price during each of the years 1974-75 to 1977-78 was Rs. 7.56 lakhs, Rs. 8.66 lakhs, Rs. 18.64 lakhs and Rs. 31.01 lakhs respectively.

3.06. Production performance

3.06.1. *Sugar factory*

The crushing capacity of the factory is 850/900 tonnes per day. Sugarcane being a seasonal crop, the working of the factory is confined to the harvesting season which normally extends from October to March. But the factory worked for shorter periods due to inadequate supply of sugarcane. The table below indicates the number of days for which the factory worked, quantity of sugarcane crushed and the quantity of sugar obtained during the three years up to 1977-78:—

Year	*Number of days the factory worked*	*Cane crushed*		*Total sugar obtained*
		Total	*Average per day*	
			(*in tonnes*)	
1975-76	73	38,676	530	2,684
1976-77	62	39,106	631	2,666
1977-78	96	56,813	592	4,272

The Management stated (August 1978) that the sugar division of the Company required over one lakh tonnes of sugarcane to break-even. According to the Management, short supply of sugarcane was due to the establishment (1966-67) of another sugar factory in the co-operative sector at a distance of about 27 km. from the Company and conversion of sugarcane area for paddy cultivation by *ryots* on account of high cost of sugarcane cultivation and better price fetched by paddy.

3.06.2. *Shortage of molasses*

The Company manufactures spirit out of molasses obtained from its sugar factory as by-product and that purchased from outside. During the four years up to 1977-78, shortages aggregating 298 tonnes (approximate value: Rs. 0.50 lakh) were noticed in consignments of molasses purchased from outside the State. Payments in such cases were made in full to the suppliers of molasses while the transport contractors (for transportation from railway station to the works) were paid charges correctly for the actual quantity delivered.

The Management stated (August 1978) that shortages occurred during handling and that there were no facilities available at the railway station at Thiruvalla for weighing molasses transported in wagons.

3.06.3. *Rectified spirit*

According to the Kerala Excise Manual, one tonne of molasses is expected to yield 475 litres of proof spirit on an average. In the Technical Excise Manual of the Government of India, the possible yield of rectified spirit from molasses has been given as 49.93 proof litres per quintal, if its average sugar content is 53.1 *per cent.* The table below indicates the quantity of molasses consumed, production of spirit, recovery per tonne, etc. during the three years up to 1977-78:—

	Particulars	1975-76	1976-77	1977-78
(i)	Installed capacity (lakh proof litres)	27	27	27
(ii)	Molasses consumed (tonnes)	4,498	5,584	5,300
(iii)	Percentage of average sugar content in molasses	49.2	46.7	45.0
(iv)	Actual production of spirit (lakh proof litres)	18.60	20.08	16.61
(v)	Percentage of production to installed capacity	68.9	74.4	61.5
(vi)	Average recovery per tonne of molasses (proof litres)	413	360	313
(vii)	Expected recovery per tonne of molasses on the basis of actual sugar content in proportion to the norms of Technical Excise Manual (proof litres)	462	439	422
(viii)	Shortfall in recovery (proof litres) per tonne	49	79	109
(ix)	Total short production for the year (lakh proof litres)	2.20	4.41	5.82
(x)	Average price per one lakh proof litres of rectified spirit (Rupees in lakhs)	1.11	1.11	1.11
(xi)	Value of short production (Rupees in lakhs)	2.44	4.90	6.46

The table above shows that the actual yield during 1975-76 to 1977-78 was below the norms prescribed by the State Government and the Government of India. The value of the shortfall in production, during the three years ended 30th April

1978, amounted to Rs. 13.80 lakhs. The Management attributed (August 1978) the low recovery of spirit to poor quality of molasses, contaminated water used in the process and hot weather.

The main distillery products manufactured by the Company are *'arrack'* and fine liquor. The details of installed capacity, spirit produced, spirit used for *'arrack'* and Indian made fine liquor (IMFL) for the three years up to 1977-78 were as follows:—

	1975-76	1976-77	1977-78
		(in lakhs of proof litres)	
Installed capacity of spirit	27.00	27.00	27.00
Target fixed	18.00	18.00	18.00
Actual production of spirit	18.60	20.08	16.61
Purchase of spirit from outside	11.14	14.60	20.06
Quantity of *'arrack'* produced	26.62	30.60	33.56
Quantity of IMFL produced	2.10	1.61	1.35

The low production of spirit as compared to the installed capacity was ascribed (August 1978) by the Management to paucity of molasses, low quality of molasses purchased from outside sources, fuel shortage, non-co-operation of labour and low efficiency of fermentation. The set-back in the production of IMFL was stated to be due to shortage of rectified spirit and severe competition in the market.

3.06.4. *Bottling*

The Company purchased different sizes of bottles for bottling IMFL. However, no records are available to show the extent of breakages in the bottling department. The bottles received and taken to main stock are issued to bottling department based on demand. The differences between the number of bottles issued from the main stock and the number actually used for bottling during the period May 1974 to April 1978 was 5,70,230 (cost: Rs. 2.71 lakhs) which worked out to 15 *per cent* of the total number of bottles used during the period. In the absence of proper records, the control exercised over bottling cannot be considered adequate. The Management attributed (November 1978) the shortage to breakages and stated that breakages occurred at various points such as washing, stacking, bottling, transportation, etc. If the shortage of bottles is entirely due to breakages, it has to be considered excessive as the percentage of breakages in certain other distilleries is less than two *per cent*. Norms for breakages in filling, washing and transport also have not been prescribed (March 1979). The Management also stated that controls over bottling operations had been tightened to limit breakages to the minimum.

3.07. Machine utilisation

3.07.1. The table below indicates the machine utilisation in the sugar division during the crushing season for the three years up to 1977-78:—

	1975-76	1976-77	1977-78
(i) Gross season days	73	62	96
(ii) Total hours available	1,715	1,412	2,299
(iii) Total hours of crushing	1,219	1,223	1,675
(iv) Hours lost due to—			
(a) cane shortage	392	69	19
(b) mechanical trouble	19	29	141
(c) miscellaneous (owing to labour trouble, boatmen's strike, etc.)	85	91	464
Total	496	189	624
(v) Percentage of hours lost to total hours available during the season	29	13	27

3.07.2. *Silent spirit plant*

The table below gives the details of the capacity of the silent spirit plant and actual production of IMFL for the three years up to 1977-78, as worked out by Audit:—

	1975-76	1976-77	1977-78
		(Quantity in lakh bulk litres)	
Installed capacity	6.00	6.00	6.00
Production	2.80	2.15	1.80
Percentage of production to installed capacity	47	36	30

The under-utilisation of the plant was attributed (December 1978) by the Management to shortage of rectified spirit and scaling down of production according to demand.

3.08. Inventory control

The following table indicates the position of inventory and its distribution at the close of each of the four years up to 1977-78:—

		1974-75	1975-76	1976-77	1977-78
			(Rupees in lakhs)		
(i)	Raw materials	1.33	0.86	0.68	1.42
(ii)	Stores (including stores-in-transit)	22.93	23.10	19.33	17.91
(iii)	Finished goods	40.53	18.96	22.81	51.42
(iv)	Works-in-process	0.83	2.07	1.62	1.08
(v)	Others-tools, etc.	0.51	0.49	0.60	0.83
	Total	66.13	45.48	45.04	72.66

The Management stated (August 1978) that the stores consisted mostly of machinery parts required for replacement. During test audit (August 1978), the following points were noticed:—

(a) The maximum, minimum and re-ordering levels of inventory have not been fixed (May 1979).

(b) The Company had a stock of 77,430 pilfer-proof caps (cost: Rs. 0.20 lakh) in December 1974. However, the Company purchased a further quantity of 51,000 pilfer-proof caps (cost: Rs. 0.13 lakh) in June 1975 and September 1975. There were no issues of this item after December 1974, except 6,400 caps (cost: Rs. 1,631) consumed in December 1978. The purchases made in June and September 1975 were, therefore, avoidable. The Management stated (August 1978) that the caps would be used on receipt of orders for supply of IMFL to be packed in double neck deep drown caps. The caps valued at Rs. 0.31 lakh remained to be used (May 1979).

3.09. Cost records

Cost Accounting Records (Sugar) Rules, 1974 issued by the Government of India, requiring maintenance of cost records for sugar, came into effect in October 1974. Cost records were, however, maintained by the Company only from May 1975 onwards. According to the cost statements certified (October 1977) by a Cost Auditor who audited the cost accounts under Section 233-B of the Companies Act, 1956, the cost of production per quintal of sugar for 1975-76 and 1976-77 was Rs. 319.92 and Rs. 350.20 respectively. Against this, the sales realisation (including that from exports) per quintal was Rs. 195 during 1975-76 and Rs. 258 during 1976-77.

3.10. Sales performance

3.10.1. *Distillery products*

'*Arrack*' is sold to the licensed vendors in the district exclusively allotted to the Company by the State Government at prices fixed by Government for each district. As regards IMFL, the Company is competing in the open market. Others items like denatured spirit, methylated spirit, etc. produced in small quantities, are sold to hospitals at prices fixed by the Company from time to time, on the basis of permits issued by the Board of Revenue.

3.10.2. *Sales of 'arrack'*

The details of *'arrack'* sold, value realised, etc. for the three years up to 1977–78 are as follows:—

	1975-76	1976-77	1977-78
Number of districts allotted	3	4	4
Quantity of *'arrack'* sold (in lakhs of bulk litres *)	31.61	40.43	44.17
(in lakhs of proof litres †)	23.70	30.32	33.13
Value realised (Rupees in lakhs)	31.37	59.27	70.27

The increase in the turn-over during 1976-77 and 1977-78 was partly due to the upward revision of *'arrack'* price from 84 paise per bulk litre to Rs. 1.45 per bulk litre from April 1976, and to Rs. 1.60 per bulk litre from April 1977.

For 1978-79, Government allotted (March 1978) five districts to the Company for supply of *'arrack'*. In June 1978, Government ordered to reduce the number of districts allotted to the Company to three on the ground that there were a number of complaints about failure of the Company to supply *'arrack'* regularly and that the Company had no definite arrangement to keep the supply of *'arrack'* sufficient and continuous. However, on a subsequent representation (July 1978) by the Company, Government revised the order and allotted four districts to the Company for 1978-79.

3.11. Other points of interest

3.11.1. *Issue of spirit without bond*

Under the Kerala Distillery and Warehouse Rules, no duty is payable for spirit lost in transit (subject to certain limits) due to breakage of containers, evaporation, etc. if spirit is transported under bond. In respect of spirit transported from its

(*) Bulk litre indicates the actual volume without reference to the alcoholic content.

(†) Proof litre means a litre of the strength of 'London Proof' or 'proof spirit' which is defined as a mixture containing 49.24 *per cent* by weight of alcohol and 50.76 *per cent* of water or 57.06 *per cent of* alcohol by volume.

distillery to the warehouses, the Company has been claiming exemption from payment of duty for the permissible wastage in transit. As the Company did not produce evidence to show that the transportation was under bond, the Excise Department demanded (August 1976) Rs. 3.75 lakhs towards duty on 24,180 proof litres (32,240 bulk litres) of '*arrack*' lost in transit between April 1973 and March 1976. The Company had filed (October 1976) a petition before the Assistant Excise Commissioner against the levy. Further developments are awaited (May 1979).

Summing up

One of the considerations which weighed with Government in acquiring controlling interest in the Company in October 1974 was the expectation that the Company would be in a position to give good return on the capital invested in it. However, this was belied as the performance of the Company deteriorated after it became a Government Company and it has not declared dividend during the period of its working as Government Company. While it was making profit up to 1974-75, it started incurring loss thereafter. The loss has been mainly in the manufacture of sugar due to high cost of sugarcane, short-working of the factory attributed to shortage of sugarcane and short recovery of sugar from sugarcane crushed. The following factors have also contributed to the loss of the Company:—

(a) Low recovery of spirit from molasses.

(b) Under-utilisation of machinery.

Government to whom the matter was reported in October 1978 endorsed (December 1978) the views of the Company incorporated in the paragraphs given above.

SECTION IV

THE KERALA MINERALS AND METALS LIMITED

4.01. Introduction

A partnership firm established an ilmenite factory at Chavara in 1932. It was taken over by a company (in the private sector) in July 1941. As the company defaulted in payment of royalty to Government, the factory was taken over by Government under an agreement executed in January 1956.

A provisional assessment of the dues, as on the date of take over, showed that Rs. 14.84 lakhs were due to Govenment from the company towards arrears of royalty and other liabilities (royalty: Rs. 9.71 lakhs and other liabilities of the company: Rs. 5.13 lakhs) and that after setting off the value of the assets (Rs. 3.51 lakhs) as determined by a Valuation Committee and other amounts receivable by the Company (Rs. 5.53 lakhs), Rs. 5.80 lakhs were still due to Government.

Subsequently, certain disputes arose between Government and the company in regard to their rights and liabilities under the agreement executed in January 1956. The disputes were referred for arbitration in September 1967. The Arbitrator in his award (August 1968) upheld the company's claim to resume possession of the properties taken over. The Arbitrator also awarded that Government was to pay to the company Rs. 19.77 lakhs for the period of Government's management of the unit up to September 1966 and at Rs. 21,000 per year thereafter towards mesne profits till return of the properties. A petition was filed by Government (September 1968) in sub-court, Quilon to set aside the award. This was dismissed by the court in October 1969. Government preferred (March 1970) an appeal before the High Court and as directed by the court, deposited (May 1970) Rs. 5 lakhs in the court. When the appeal was pending, a settlement was reached out of court, according to which Government agreed to pay Rs. 17 lakhs (including Rs. 5 lakhs already deposited in court) to the company in full and final settlement of its claims. The balance amount of Rs. 12 lakhs was paid in April 1971. A sale deed in favour of Government was executed by the company on 14th April 1971 giving the sale retrospective effect from January 1956.

In February 1972, Government formed a new company called 'The Kerala Minerals and Metals Limited' to run the unit and also to carry on the business of mining and processing minerals and metals and producing compounds, alloys and allied chemicals. The assets and liabilities of the unit were taken over by the new Company with effect from 1st April 1972.

The net value of the assets taken over by the Company was fixed at Rs. 38.30 lakhs (after setting off the liabilities) excluding the preliminary expenses of Rs. 41,350 incurred by Government for registration of the Company and the value of 42.2 tonnes of minerals under processing (estimated value: Rs. 0.14 lakh) as at the end of March 1972.

The objectives and precise economic obligations of the Company in regard to matters such as creation of reserves, return on capital employed, pricing policy, etc. have not been laid down by Government so far (March 1979).

4.02. Capital structure

4.02.1. The authorised capital of the Company is Rs. 5 crores divided into 5 lakh equity shares of Rs. 100 each. The paid-up capital as on 31st March 1978 was Rs. 204.05 lakhs entirely subscribed by the State Government.

4.02.2. *Borrowings*

The State Government paid to the Company a loan of Rs. 400 lakhs (Rs. 100 lakhs in October 1977, Rs. 100 lakhs in December 1977 and Rs. 200 lakhs in March 1978) for financing an expansion scheme (Titanium Complex Project).

The loan bears interest at 10.25 *per cent* per annum and is repayable in four annual instalments commencing from December

1979. Penal interest at 2.5 *per cent* is payable on belated in stalments.

4.03. Production

The main products of the Company are ilmenite, rutile, zircon, sillimanite, leucoxene and monazite. These minerals are separated from the mineral sand collected from adjacent beaches. Except sillimanite all these minerals are scheduled minerals coming under the Atomic Energy Act, 1948. Production, possession and stock of these minerals are governed by annual licences issued by the Government of India under the Atomic Energy (Control and Production and Use) Order, 1953. The Company has obtained the licences accordingly.

Raw sand is first sieved and passed through magnetic separators, where about 50 *per cent* of the ilmenite is removed. The balance is heated and passed through electrostatic separators where ilmenite, rutile and leucoxene are separated. Rutile is then separated from ilmenite and leucoxene by magnetic separation.

According to the results of analysis conducted by the Company monthly from July 1976, the average heavy mineral content in raw sand is about 89 to 92 *per cent.* The table below indicates the quantity of sand processed, minerals separated and percentage of recovery during each of the years from 1972-73 to 1977-78:—

Year	*Raw sand processed*	*Total minerals obtained*	*Percentage of recovery*
	(*tonnes*)		
1972-73	39,080	17,711	45.32
1973-74	35,972	17,328	48.17
1974-75	40,337	21,766	53.96
1975-76	53,721	24,127	44.91
1976-77	51,242	25,205	49.19
1977-78	57,674	25,024	43.39

The Management attributed (September 1978) the low recovery of minerals to variation in composition of the ore body, limitation of its plant, want of machinery to process all the by-products, presence of salinity and other impurities in the sand, etc. The Management further stated that its plant was a single stage processing one which separated the minerals based on their physical properties in a single stage operation under which grains falling within a certain size and range of magnetic susceptibility, electrical conductivity, surface property, etc. could alone be collected.

The table below indicates the annual targets fixed and the actual production of various minerals during the three years up to 1977-78:—

Particulars of minerals	1975-76		1976-77		1977-78	
	Target	*Actual production*	*Target*	*Actual production* (*in tonnes*)	*Target*	*Actual production*
Ilmenite	20,000	21,565	25,000	22,662	27,000	22,155
Rutile	1,500	1,633	1,800	1,954	2,400	2,023
Zircon	600	377	500	155	500	521
Sillimanite	..	225	300	126	300	124
Leucoxene	150	237	250	265	250	114
Monazite	110	90	110	43	100	87
Total	22,360	24,127	27,960	25,205	30,550	25,024

In a settlement between the Management and workers in February 1974, the minimum daily production of ilmenite and rutile was fixed as 108 tonnes and 12 tonnes respectively. At this rate, the minimum annual production expected was 32,724 tonnes of ilmenite and 3,636 tonnes of rutile. The annual production targets fixed in respect of ilmenite and rutile were, however, lower than the minimum production specified in the settlement with the workers. The Management stated (December 1978) that annual targets were fixed on the basis of anticipated recovery of minerals from the raw sand collected from the adjacent beaches.

During 1977-78, the actual production of all minerals except zircon was below the targets fixed. The shortfall was attributed (September 1978) by the Company to variation in the percentage of minerals present in the sea washing (raw sand) and levels of impurities present in the minerals.

4.04. Financial position

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

	1975-76	1976-77	1977-78
		(*Rupees in lakhs*)	
Liabilities			
(a) Paid-up capital	83.55	165.05	204.05
(b) Reserves and surplus	18.11	30.87	42.36
(c) Borrowings	Nil	Nil	400.00
(d) Trade dues and other current liabilities (including provisions)	12.66	33.51	34.38
Total	114.32	229.43	680.79
Assets			
(e) Gross block	8.13	10.13	36.79
(f) *Less*: Depreciation	2.19	3.07	8.16
(g) Net fixed assets	5.94	7.06	28.63
(h) Capital works-in-progress	14.27	56.82	250.21
(i) Investments	14.14	0.02	0.02
(j) Current assets, loans and advances	79.89	165.49	401.93
(k) Miscellaneous expenses	0.08	0.04	Nil
Total	114.32	229.43	680.79
Capital employed	73.17	139.04	396.18
Net worth	101.58	195.88	246.41

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.

4.05. Operational results

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

	Year ended 31st March 1976	1977	1978
	(Rupees in lakhs)		
1. Value of production			
(a) Sales (including packing costs)	47.59	74.34	66.02
(b) Closing stock of finished goods and works-in-progress	16.20	11.49	14.05
(c) Opening stock of finished goods and works-in-progress	8.60	16.20	11.49
(d) Value of production (a+b—c)	55.19	69.63	68.58
Less: Consumption of raw materials, stores and spares	4.91	5.89	6.66
2. Net value added	50.28	63.74	61.92
3. Expenses (less miscellaneous income)	38.00	32.97	46.22
4. Profit before tax	12.28	30.77	15.70
Less: Provision for tax	12.10†	18.00	4.21††
Profit after tax	0.18	12.77	11.49
5. Percentage of			
(a) Net value added to value of production	91.10	91.54	90.29
(b) Conversion expenses to net value added	75.58	51.73	74.64
(c) Value of raw materials, stores and spares consumed to value of production	8.90	8.46	9.71

† This includes Rs. 4.10 lakhs paid in excess of provision for previous years.

†† This is after adjusting Rs. 1.39 lakhs being provision for tax made in earlier years, written back.

The Company declared dividend of 6 *per cent* on the paid-up capital during the first two years of its operation, *viz.* 1972-73 and 1973-74. No dividend has been declared thereafter. The Management stated (December 1978) that the Company could not declare dividend thereafter as the Company considered it desirable to retain the surplus in view of the modernisation work undertaken and the outstanding liability of Rs. 15.49 lakhs towards gratuity at the end of March 1978.

The surplus retained with the Company, as at the end of March 1978, was Rs. 27.06 lakhs.

4.06. Inventory control

4.06.1. The comparative position of inventory and its distribution at the close of three years up to 1977-78 was as follows:—

		1975-76	1976-77	1977-78
			(*Rupees in lakhs*)	
A.	1. Stores and spares (including raw materials and loose tools)	6.40	6.94	8.26
	2. Works-in-progress	0.35	0.13	0.24
	3. Finished goods	15.85	11.36	13.81
	Total	22.60	18.43	22.31
B.	Consumption of raw materials, loose tools and stores and spares	4.91	5.89	6.66
C.	Year-end inventories of raw materials, stores, spares and loose tools expressed in terms of number of months' requirement for production	15.6	14.2	14.9

The value of stores and spares held in stock not used at all for periods ranging from 3 to 6 years was Rs. 0.37 lakh. The Management stated (December 1978) that most of the items were rare spares and accessories required for operation of the plant and were retained considering their future requirement.

Shortage of 3,017 tonnes of ilmenite (value: Rs. 1.87 lakhs) was noticed on a physical verification carried out during 1977-78. The shortage has not been investigated (February 1979).

The Management stated (December 1978) that the above shortage represented the total shortage from the inception of the Company and that in view of the limited storage facilities available, the shortage could not be considered abnormal when compared to the total quantity of minerals (1.16 lakh tonnes of ilmenite) dealt with by the Company during these years.

4.06.2. *Excessive stock of ilmenite*

Details of stock of finished goods held for the three years up to 1977-78 were as follows:—

	1975-76		1976-77		1977-78	
	Ilmenite	*Other minerals*	*Ilmenite*	*Other minerals*	*Ilmenite*	*Other minerals*
Production (tonnes)	21,565	2,562	22,662	2,543	22,155	2,869
Sales (tonnes)	12,288	2,324	25,784	3,182	23,457	2,527
Closing stock (tonnes)	31,331	1,100	28,209	461	23,890	803
Value (in lakhs of rupees)	12.17	3.68	10.24	1.12	10.74	3.07

The heavy accumulation of stock of ilmenite was attributed (September 1978) by the Management to the failure of Travancore Titanium Products Limited (bulk buyers of ilmenite) to lift the quantity ordered by it. Against 1,21,000 tonnes ordered by the buyer company during the period 1972-73 to 1975-76, the quantity actually lifted by it during the period was 62,488 tonnes. The Management stated (December 1978) that the buyer company lifted the stock according to its production requirement. During 1976-77 and 1977-78, there was no shortfall in the quantity lifted by the buyer company when compared with the quantity in the orders placed. The Management has not taken steps to find out other outlets for ilmenite in respect of quantities not specifically committed to Travancore Titanium Products Limited.

4.06.3. *Consumption of fuel*

Furnace oil is used as fuel for firing the furnaces maintained for treating sand. The table below compares the consumption of furnace oil with the quantity of minerals produced during the three years up to 1977-78:—

	1975-76	1976-77	1977-78
Furnace oil consumed (litres)	52,839	60,640	1,50,867
Production of minerals (tonnes)	24,127	25,205	25,024
Rate of consumption of furnace oil per tonne of minerals produced	2.19	2.41	6.03

The cost of excess consumption of furnace oil during 1977-78, when compared to the rate of consumption in 1976-77, was Rs. 0.97 lakh. According to the Management (December 1978) excess consumption of oil during 1977-78 was an isolated instance and was mainly due to operation of two furnaces simultaneously to avoid stoppage of production as one of them was a new one commissioned in March 1977.

4.07. Sales performance

The table below indicates the target fixed for sale of various minerals and the actuals for the three years up to 1977-78:—

Sl. No.	*Item*	1975-76		1976-77		1977-78	
		Target	*Actual*	*Target*	*Actual*	*Target*	*Actual*
				(in tonnes)			
1.	Ilmenite	30,000	12,288	30,000	25,784	45,000	23,457
2.	Rutile	1,500	1,505	1,900	2,116	2,400	1,962
3.	Zircon	900	386	1,000	711	1,000	419
4.	Sillimanite	70	201	300	106	350	9
5.	Leucoxene	300	150	450	189	500	72
6.	Monazite	120	82	120	60	120	65
	Total	32,890	14,612	33,770	28,966	49,370	25,984

The shortfall in the sale of ilmenite was attributed (September 1978) by the Company to the fall in the quantity lifted by Travancore Titanium Products Limited (bulk users of ilmenite), against licences obtained by the latter for procuring the minerals.

4.08. Other points of interest

4.08.1. *Extra expenditure on import of machinery*

The Company decided in August 1974 to instal 13 additional machines to improve the quality of its products. Global tenders were invited for their purchase in December 1974. The tender notice did not specify the period for which the tenderers were to keep their offers open. Seven tenders were received. The Company decided (June 1975) to purchase seven machines from an Australian firm and the balance (six) from a Malaysian firm (both being the lowest for the respective items) and applied (June 1975) to the Government of India for import licence. The order with the Malaysian firm was placed in March 1976 and it effected the supplies in April 1977. The offer of the Australian firm was valid only till 1st May 1975. The Company requested (June 1975) the firm to extend the validity period. But the firm demanded (July 1975) enhanced rates (increase: A. $ 7,150) for effecting the supply. On receipt of import licence in February 1976, the Company placed order with the firm in March 1976 for the supply of machines at the enhanced rates, which resulted in an extra expenditure of Rs. 1.14 lakhs (including customs duty) to the Company. In this connection it may be mentioned that while inviting tenders the Company did not specify any validity period for the offers, after taking into account the period involved in processing the purchase case including the period required for obtaining the import licence.

Summing up

Although the Company is working at a profit, it has been affected by factors such as shortfall in achievement of production targets, decline in the recovery rate of minerals, heavy accumulation of ilmenite, excessive consumption of fuel during 1977-78, delay in processing tenders, etc.

Replies given by the Management to the various points mentioned in the preceding paragraphs were endorsed by Government in December 1978.

SECTION V

FOREST INDUSTRIES (TRAVANCORE) LIMITED

5.01. Introduction

The Forest Industries (Travancore) Limited was incorporated in August 1946 with the main object of economic exploitation, conversion, utilisation and marketing of timber and other forest products and to develop forest based industries in the State.

The objectives as also the precise economic obligations of the undertaking in matters, such as creation of reserves, return on capital employed, pricing policy, etc. have not been laid down by Government so far (May 1979).

The main activities of the Company are extraction of timber, manufacture of furniture, doors, window frames, etc. and their sale.

The working of the Company was previously reviewed in paragraphs 129 to 133 of the Report of the Comptroller and Auditor General of India for the year 1970-71 and also dealt with in the thirteenth and nineteenth reports of the Committee on Public Undertakings (1973-74).

5.02. Capital structure

The authorised capital of the Company was Rs. 100 lakhs at the time of its formation (1946). It was reduced to Rs. 50 lakhs in December 1951 by diminishing the nominal amount of shares. It was further reduced in March 1956, January 1958 and February 1959 to Rs. 40 lakhs, Rs. 25 lakhs and Rs. 20 lakhs respectively by diminishing the nominal amount of shares and paying off part of the paid-up capital, as the Company had created enough reserves by then to meet its capital requirements. The paid-up capital of the Company as on 31st March 1978 was Rs. 17.71 lakhs of which shares for Rs. 9.19 lakhs (51.9 *per cent*) were held by the State Government.

5.03. Financial position

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

	1975-76	1976-77	1977-78
Liabilities		(*Rupees in lakhs*)	
(a) Paid-up capital	17.71	17.71	17.71
(b) Reserves and surplus	11.07	7.77	8.52
(c) Borrowings	..	..	5.02
(d) Trade dues and other current liabilities (including provisions)	29.66	31.09	34.15
Total	58.44	56.57	65.40
Assets			
(e) Gross block	17.07	17.07	16.87
(f) *Less*: Depreciation	11.98	12.66	12.49
(g) Net fixed assets	5.09	4.41	4.38
(h) Capital works-in-progress	..	0.62	0.62
(i) Investments	0.23	0.23	0.23
(j) Current assets, loans and advances	53.12	51.31	60.17
Total	58.44	56.57	65.40
Capital employed	28.55	24.63	30.40
Net worth	28.78	25.48	26.23

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

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

5.04. Working results

During the 31 years of its working up to 1977-78 the Company earned profits aggregating Rs. 137.72 lakhs in 25 years and sustained losses amounting to Rs. 24.67 lakhs in six years. The Company declared dividends ranging from 5 to 20 *per cent* during the years 1958-59 to 1971-72. The total amount of dividend paid to Government up to March 1972 was Rs. 11.70 lakhs. During these years, the Company had been extracting timber from forest area and paying only concessional rates of royalty to the Forest Department.

The working results of the Company with particulars of timber sales and sale of timber products/manufactured goods for the years 1972-73 to 1977-78 are given in the following table:—

Year	*Timber extracted from forest area (cu.m.)*	*Sale of timber*	*Sale of timber products/manufactured goods*	*Total sales*	*Percentage of sale of timber to total sales*	*Profit (+)/ Loss (—) (Rupees in lakhs)*	*Remarks*
		(Rupees in lakhs)					
1972-73	4,376	11.01	12.30	23.31	47.2	(—)0.76	According to the Management (June 1973), the loss was due to acute shortage of timber for sale and manufacturing operation on account of delay in getting forest areas handed over by Forest Department.
1973-74	9,626	28.76	10.99	39.75	72.4	(+)4.88	
1974-75	2,121	3.43	15.36	18.79	18.3	(—)5.78	The Management stated (June 1975) that the loss was due to acute shortage of timber as forest areas for extraction of timber during the year were made available to the Company only in February 1975.
1975-76	8,202	24.94	33.70	58.64	42.5	(+)4.81	
1976-77	Nil	Nil	40.51	40.51		(—)3.08	The loss was attributed (August 1977) by the Management to non-allotment of forest areas for working.
1977-78	Nil	Nil	46.93	46.93		(+)0.28	

No dividend has been declared after 1971-72.

5.05. Operational results

The Company did not maintain separate accounts for trading and manufacturing activities. As such, operational results of these two activities were not separately ascertainable. In this connection, a reference is invited to paragraph 9.7 of the 13th Report of the Committee on Public Undertakings (1973-74) wherein the Committee urged the Company to maintain separate accounts for each manufacturing unit.

The table below indicates the operational results of the Company as a whole during the three years up to 1977-78:—

		1975-76	1976-77	1977-78
			(*Rupees in lakhs*)	
1.	Value of business			
	(a) Sale of timber, manufactured goods, etc.	58.64	40.51	46.93
	(b) Closing stock of timber and manufactured goods including works-in-progress	10.07	10.43	17.81
	(c) Opening stock of timber and manufactured goods including works-in-progress	10.63	10.07	10.43
	Value of business (trading in timber and manufacturing) (a+b—c)	58.08	40.87	54.31
2.	*Less*: Cost of timber/logs, stores and spares consumed/sold	35.14	23.54	31.34
3.	Value added	22.94	17.33	22.97
4.	Expenses (other than cost of timber/logs, stores and spares) *less* miscellaneous non-trading income	18.13	20.41	22.69
5.	Profit (+)/Loss (—)	(+) 4.81	(—) 3.08	(+) 0.28

	1975-76	1976-77	1977-78
Percentage of			
(a) Value added to value of business	39.5	42.4	42.3
(b) Cost of timber/logs, stores and spares to value of business	60.5	57.6	57.7
(c) Expenses to value added	79.0	117.8	98.8

After December 1975, no allotments of forest area have been made in favour of the Company (May 1979). The requirements of the Company are, therefore, met either by bidding in public auctions or lifting quotas of timber logs allotted by the Forest Department or by purchase from private timber merchants.

5.06. Production performance

The Company has not fixed any annual production targets. Government stated (November 1978) that the Company had not yet introduced a system of budgetary control for operations.

The installed capacity of the timber workshop is indicated in the annual accounts as 7,26,000 man hours per annum. Production is assessed by the Company in terms of man hours and according to it, the actual time for which the workers were employed was 2,42,124* man hours during 1975-76, 2,32,616* man hours during 1976-77 and 3,08,488 man hours during 1977-78. It was pointed out in audit (July 1978) that assessment of production in man hours did not give an accurate index of the quantity produced. Government stated (November 1978) that with a view to measuring production and assess production efficiency, a suitable system would be

* These figures differ from those given in the annual accounts of the Company. The Management stated (July 1978) that these were the correct figures and that there were certain mistakes in the figures given in the annual accounts.

evolved by giving appropriate index values to the various items produced.

The Company maintains no records to show the details of yield and wastage either at various stages of production from sawing of timber to assembly of finished products; nor is any attempt made to determine the timber content of the finished products and to compare it with the total quantity of timber used for finding out the overall wastage.

5.07. Procurement of timber

According to an agreement entered into in July 1947 between Government and The Fertilisers and Chemicals Travancore Limited (FACT), a Central Government Company, the latter was given the right to cut and remove firewood from an area of 113 sq. miles of forest land at agreed rates and FACT agreed to extract timber from the said area and deliver the same to Government at specified depots. In a separate agreement entered into between Government and Forest Industries (Travancore) Limited in July 1947, the former agreed to sell to the Company all the timber extracted by FACT from the area except firewood required by it. In June 1948, FACT transferred its rights over the forest area to Forest Industries (Travancore) Limited and consequently the latter Company got the right to cut and remove timber and to extract firewood from the area for supplying to FACT. According to the agreement executed between the Company and Government, the former was to pay royalty at 66.7 *per cent* of the weighted average auction price per ton of each corresponding species and girth class realised by Government in public auction in each half year in the depots of the Forest Department, reduced by the cost of extraction and delivery of timber at factory or depot site, i.e. "2/3 (A—E) where 'A' is the weighted average auction price and 'E' the extraction cost and the cost of delivery at factory or depot site". The agreement which stipulated the conditions governing the supply of timber to the Company, was to run for a period of 20 years from 2nd July 1947. In 1962, FACT stopped taking firewood. Following this, Government, after a review of the entire arrangement, decided (February 1964) to continue the agreement with the Company till its expiry and issued an order (February 1964) to that effect. This order was further clarified/ modified in September 1975. It was laid down in these orders (February 1964 and September 1975) that the Company would arrange the extraction of firewood and timber, conduct auction sales of the entire quantity of firewood and credit to Forest Revenues the net sale proceeds after deducting working charges and charges for conducting sales. The royalty rate was also revised with effect from 1st April 1964 to 80 *per cent* of 'auction price less cost of extraction'. On expiry of the period of agreement, Government issued orders in November 1968 extending the supply of timber to the Company for a further period of 10 years. The Company's entitlement to get timber at the concessional rate was restricted to 3,000 tons (3,048 tonnes) for the extended period. In November 1970, Government refixed the royalty payable by the Company at 87.5 *per cent* of 'the average auction price minus cost of extraction' and stated that the question as to what factors should be taken into account for determination of the average auction price and extraction charges would be examined separately. In October 1975, Government issued orders specifying that the Company should pay to Government royalty equal to the weighted average auction price minus the aggregate of extraction charges, charges on maintenance of roads and salary of staff exclusively engaged for extraction of timber. Necessary agreement between the Company and Government laying down the conditions applicable to the supply for the period from 2nd July 1967 has not yet been executed (March 1979). In this connection, the following points were noticed:—

(i) The agreement executed in July 1947 envisaged forward sales of timber by the Company up to a maximum of 5,000 tons of logs in a year and in respect of such sales, the Company was to retain profit subject to a maximum of 10 *per cent* of the sale price on sales of logs and 20 *per cent* of the sale price on sale of fabricated, kiln-seasoned or processed timber and to pay to Government the entire balance sale proceeds. The Company has not, however, worked out the details of amount payable to Government on this account (May 1979).

(ii) According to orders issued by Government in February 1964 and September 1975, the net sale proceeds of timber extracted by the Company from July 1967 in excess of 3,000 tons required for its Door and Window Frame Factory, for which the concessional rate of royalty was applicable, were to be credited to Government, after deducting working charges, charges for conducting sales and commission. During the years 1967-68 to 1975-76, the Company extracted 1.01 lakh cubic metres of timber from forest area and sold during the above period 1.03 lakh cubic metres of timber as such for Rs. 2.06 crores. The amount payable to Government out of the sale proceeds has not yet been determined (May 1979). The amount provided for by the Company for payment to Government was only Rs. 56.61 lakhs, including the royalty on the timber utilised in the timber workshop.

The amount payable to Government by the Company on this account both for the period up to July 1967 and also for the later period has not been finally intimated by the Forest Department.

5.08. Machine utilisation

(a) Log books for recording the particulars of working of the various machines in the saw mill and wood workshop of the Company were not maintained. According to a study conducted (1969) by Kerala State Productivity Council (a society engaged in studies relating to industrial productivity) for developing workload standards in the workshop, the average machine time available per day in respect of the two band saws in the saw mill is 398.62 minutes and the average machine time required to saw one cubic metre of wood is 22.25 minutes. On this basis, utilisation of the band saws for the three years up to 1977-78 was as indicated below:—

	1975-76	1976-77	1977-78
Quantity of logs sawn (cubic metres)	2,558	2,449	1,986
Machine time required at 22.25 minutes per cubic metre (hours)	949	908	736

	1975-76	1976-77	1977-78
Number of working days	303	301	305
Number of machines	2	2	2
Machine time available at 398.62 minutes per day per machine (hours)	4,026	3,999	4,053
Percentage of utilisation	24	23	18

The Management attributed (July 1978) the low utilisation of band saws to non-allotment of forest areas by the State Government and consequent non-availability of soft wood for sawing. The Management stated (March 1979) that since extraction was stopped in 1975-76 the band saw exclusively used for cutting of 'packing case soft wood timber' became idle.

The extent of utilisation of other machines, during the three years up to 1977-78, worked out with reference to the quantity of wood used for manufacture (adopting the basis derived from the study conducted by the Kerala State Productivity Council in 1968-69) was as indicated below:—

	1968-69 (*year of Productivity Council's study*)	1975-76	1976-77	1977-78
Volume of wood used for manufacture (cubic metres)	4,528	2,818	2,737	2,543
Name of machine		*Percentage of utilisation*		
Overhead crane	50	31	30	28
Circular saws	50	31	30	28
Cross-cut saws	32	20	19	18
Surface planer	55	34	33	31
Thickness planer	29	18	18	16
Tenoning machine	91	57	55	51
Mortising machine	62	39	37	35
Spindle moulder	49	31	30	28

The table would show that the extent of utilisation of machines is declining from year to year.

(b) *Idle machinery*

The Company decided (March 1976) to purchase a second hand Ascu treatment plant (for chemical treatment of wood) from a Bangalore firm, on 'as is where is' condition at a cost of Rs. 0.30 lakh for chemical treatment of timber of inferior species. No feasibility study about the profitable utilisation of the plant was made before its purchase, nor was it inspected by any official of the Company. The plant was transported to the Company in May 1976 at a cost of Rs. 0.04 lakh and housed in a shed constructed in December 1976 at a cost of Rs. 0.28 lakh. No action was taken to commission the plant till November 1977. At the instance of the Chairman of the Company, a representative of a Trivandrum firm examined the plant in December 1977 and reported that the plant was not an Ascu treatment plant, but a creosote plant which required a boiler for its functioning. According to him, creosote plants are not used for treatment of wood for manufacture of doors, windows and furniture as it would impart unpleasant odour and black colour on the treated timber.

Government stated (November 1978) that the plant was a dual purpose plant which could be used both for creosote and Ascu treatment and that it would be erected with the Company's know-how. It was further stated that action was afoot to procure a boiler and that timber treatment would be started after its procurement. Further developments are awaited (March 1979).

5.09. Inventory control

The following table indicates the comparative position of inventory at the close of each of the three years up to 1977-78:—

			1975-76	1976-77	1977-78
				(*Rupees in lakhs*)	
A.	(i)	Stores and spares	6.11	7.69	9.35
	(ii)	Works-in-progress	2.88	4.38	15.04
	(iii)	Finished goods (timber and manufactured goods)	7.18	6.04	2.77
	(iv)	Scrap	0.03	0.19	0.48
		Total	16.20	18.30	27.64

	1975-76	1976-77	1977-78
		(*Rupees in lakhs*)	
B. Cost of timber/logs, stores and spares consumed/sold	35.14	23.54	31.34 *
C. Year-end inventories (excluding scrap) as number of months' requirement for production/ sales	5.5	9.2	10.4

The following deficiencies in the maintenance of stock accounts were noticed (July 1978) by Audit:—

(i) Receipt of logs purchased from private parties and their issues were not entered in the stock registers.

(ii) There was no physical verification of timber logs for the year 1976-77. The stock as on 31st March 1978 included 144 soft wood logs (121.543 cubic metres; revalued at Rs. 0.04 lakh) which were brittle, deteriorated and in a disintegrated condition. These were lying in stock from 1975. The Management stated (March 1979) that, these soft wood logs were extracted during 1975 and brought to Company's depot at Neeleeswaram and that they could not be sold as the authority of the Company to dispose of the logs was questioned by Government. Though the matter was represented by the Company, no decision has been taken by Government (March 1979). In the meantime, the logs were attacked by fungus and termites and perished.

5.10. Pricing policy

Prices of standard items like doors, windows, etc. are indicated in price lists, but the basis on which the price lists have been drawn up was not available with the Company. Till August 1978, prices of non-standard items of furniture and other products were fixed on the basis of estimated cost of materials, direct labour, overheads at 20 *per cent* of direct labour and a profit margin ranging from 10 to 25 *per cent*. It was noticed in the course of audit (July 1978) that estimates were not compared with the actuals to examine their correctness and that the actual overhead charges worked out to 120, 116 and 110 *per cent* of direct labour for the years 1975-76, 1976-77 and 1977-78 respectively, resulting in under-realisation of cost. Government stated (November 1978) that steps had been taken by the Company in July 1978 to reckon overheads accurately and to reduce the profit margin from 25 *per cent* to 15 *per cent* to make the pricing policy a rational one.

5.11. Sundry debtors

The book debts outstanding at the close of the three years up to 1977-78 were Rs. 21.79 lakhs, Rs. 25.51 lakhs and Rs. 22.31 lakhs respectively and represented 37.2, 63.0 and 47.5 *per cent* of the sales in the respective years.

The details of book debts as on 31st March 1978 are tabulated below:—

	Government departments	*Public sector undertakings*	*Others*
		(Rupees in lakhs)	
Debts outstanding for six months and below	11.37	0.19	0.27
Debts outstanding for more than six months	0.36	2.96	7.16
Total	11.73	3.15	7.43

In respect of debts of Rs. 2.50 lakhs due from 22 customers, the Company filed (1963 to 1976) suits against them and obtained decrees in its favour. Of this, Rs. 2.49 lakhs remained to be realised (May 1979). Non-realisation was attributed (June 1977) by the Company to absence of information about the whereabouts of the debtors, change of their business place/residence, necessitating transfer of execution petition to different courts and filing of insolvency petition by debtors.

5.12. Other points of interest

5.12.1. *Budgetary control and cost accounting*

The Company does not prepare any financial (revenue and capital), production or sales budget, for effective financial management and control.

The Company has not introduced any system of cost accounting (May 1979). In July 1971, the Company engaged a Chartered Accountant on a fee of Rs. 1,500 to study the production method, accounting systems, etc. and to suggest a scientific system of costing. Though he submitted his report in July 1971, no further action has been taken (May 1979). Government stated (November 1978) that a suitable costing system would be introduced. The Management stated (March 1979) that budgetary control would be introduced during 1979-80.

Summing up

The main activity of the Company up to 1975-76 was extraction of timber from forest areas and its sale. As it was paying only concessional rate of royalty to the Forest Department for the timber extracted, it could earn profits during 25 out of 31 years up to 1977-78. With the discontinuance of the concessional arrangement from 1976-77, the profitability of the Company solely depends on the efficiency and expansion of its manufacturing operations. Under-utilisation of machines, inadequate inventory control, etc. have been noticed. The accounts with the Forest Department for the timber extracted from the Forest area up to 1975-76 have not been finally settled.

SECTION VI

KERALA STATE CONSTRUCTION CORPORATION LIMITED

6.01. With the object of curbing the tendency on the part of contractors to quote exorbitant rates for works, execute inferior quality work, adopt 'go slow' tactics and put in fantastic claims later on, the State Government decided (February 1975) to form a company to undertake major construction works like bridges, major national highway projects, dams, etc. Accordingly, the Kerala State Construction Corporation Limited was incorporated in March 1975.

The authorised capital and paid-up capital of the Company, at the end of March 1978, were Rs. 100 lakhs and Rs. 35.50 lakhs respectively. The working of the Company resulted in a net loss of Rs. 3.35 lakhs during 1975-76. The Company earned net profit of Rs. 0.81 lakh during 1976-77 and Rs. 2.76 lakhs during 1977-78.

The following points were noticed on a test check conducted by Audit during September-October 1978:—

6.02. Execution of works

During the three years ended March 1978, the Company undertook 62 construction works (estimated cost: Rs. 731.17 lakhs) of which 26 works (estimated cost: Rs. 601.84 lakhs) were awarded by the State Government and the remaining by Government Companies and autonomous bodies. Of these, only one work (construction of Vikas Bhavan-estimated cost: Rs. 33.57 lakhs) was secured by the Company on the basis of tenders. Other 61 works were awarded to the Company by nomination or negotiation.

Works are undertaken by the Company on "estimate plus" "actual plus", "lump sum" and "no profit-no loss" basis. Estimate plus works were mostly those entrusted by the Public Works Department; in these cases, the works were taken up, 'based on discussion' with the departmental officers 'at the highest level possible'. In respect of such contracts, the plus element (percentage of excess added to the estimate to arrive at the rate receivable by the Company) ranged between 10 *per cent* and 55 *per cent*. According to Government (December 1978), the wide variation in the percentage of excess was due to the fact that 'in certain cases estimates prepared by Public Works Department based on standard data and schedule of rates may not be workable and may be lower than the market rates'.

Though the payment to the Company in the case of 'estimate plus' contracts is linked to the estimates prepared by the body awarding the work, the Company does not scrutinise or analyse the rates for various items individually before acceptance of the works. Government stated (December 1978) that the Regional Engineers of the Company worked out only the overall rates acceptable for each work on the basis of local market rates and that an overall tender percentage of excess over estimate was settled while undertaking the works.

The Company entered (May 1976) into an agreement, on the basis of negotiations, with the Public Works Department of the State Government, for construction of Baliapattom bridge, at 24 *per cent* above the estimate (Rs. 59.19 lakhs). The offer was made by the Company on the basis of the estimate rates indicated in the tender schedule furnished by the Public Works Department. It transpired (June 1976) that the rates for welding the chisel cut ends of 40 mm. dia and 30 mm. dia mild steel rods were shown in the tender schedules erroneously as Rs. 14.03 and Rs. 7.56 per 10 rods respectively, although according to the Standard Data Book of the Public Works Department, the rates were those intended for welding one rod. The request of the Company (June 1976) to rectify the defect was, however, turned down (July 1976) by the Chief Engineer. The estimated loss to the Company on welding the agreed number of 363 M.S. rods (40 mm : 312; 10 mm: 51) works out to Rs. 0.53 lakh. The work is still in progress (May 1979). According to the Management (October 1978), the individual items of estimate were not checked while accepting the work and the defect was noticed only after signing the agreement. Government stated (December 1978) that the Company did not press the matter further with the Public Works Department as a dispute.

The Company has undertaken till March 1978, 31 works (cost: Rs. 103 lakhs) on "actual plus" basis. In respect of such contracts, the addition usually made to cover overheads and profits was 25 *per cent*. However, the Company has not evolved a system of costing to control the costs.

6.03. Delay in execution of works

One of the aims with which the Company was formed was to avoid delay in the execution of works. Considerable delay was, however, noticed in completion of works. Out of 24 works (value of contract: Rs. 716.28 lakhs) entrusted to the Company by Government Departments to the end of March 1977, nine works were due to be completed before the end of March 1978.

Of these, only five works (value of contract: Rs. 86.59 lakhs) were completed by the Company up to November 1978. The period of delay in these cases ranged from 7 months to 10 months. Of the remaining four works (value of contract: Rs. 25.62 lakhs) which were due to be completed between March 1977 and March 1978, three works (value of contract: Rs. 21.78 lakhs) were completed between December 1978 and March 1979. One work (value of contract: Rs. 3.84 lakhs) is still in progress (March 1979). The reasons attributed by the Management for the delay in the completion of the work were delay in supply of materials and in communication of decision by the Public Works Department.

6.04. Piece work contracts

All the items of work included in the work schedules are got executed by the Company through piece work contractors. The following points were noticed in this regard:—

(a) In December 1976, the Company awarded a piece work contract for fabrication of one set of steel form works for girders in Alleppey-Changanacherry road to a firm of Cochin which quoted the lowest rate in response to an invitation of quotation in September 1976. The steel sheets, plates, flats and angles required for the work were to be supplied by the Company. The Company supplied 90.09 tonnes of steel between December 1976 and October 1977 eventhough only 50 tonnes of steel was required for one set. The firm was directed to fabricate an additional set of form work using the balance material available. The firm returned 53.23 tonnes of fabricated material between December 1976 and October 1977 and failed to fabricate the additional set of form work. The balance 36.86 tonnes of steel was also not returned.

The same firm was awarded (September 1977) another piece work contract for supply of 850 sheets of form work for which the Company issued (October 1977) 12.17 tonnes of steel sheets. Up to February 1978, the firm returned 7.29 tonnes of fabricated material. It did not fabricate the remaining material. A further quantity of 4.04 tonnes of semi-finished materials was taken over from the firm in April 1978.

The balance quantity of steel to be returned by the firm, after allowing wastage of 5 *per cent*, was 34.47 tonnes.

After setting off the fabrication charges due to the firm (Rs. 0.12 lakh), the amount due from it towards the value of steel to be returned was Rs. 0.64 lakh.

The Project Engineer of the Company reported (May 1978) to the Management that the workshop of the firm had been closed and that the proprietor was absconding.

The Company filed a suit against the firm in March 1979. Further developments are awaited (April 1979).

(b) In July 1978, the Company invited tenders for earth work (13,500 cubic metres) for laying an approach road to Kakkathuruthy bridge. The work was entrusted to the lowest tenderer, in August 1978, for Rs. 1 lakh. His rate was Rs. 74 per 10 cubic metres. The contractor did not commence the work. On his expressing (August 1978) inability to execute the work, it was awarded (October 1978) to the second lowest contractor for Rs. 1.23 lakhs at his rate of Rs. 91 per 10 cubic metres. In the absence of earnest money deposit/agreement stipulating penal conditions, etc. the Company could not take any penal action against the first contractor.

The Management stated (October 1978) that such cases were stray.

Section VII

STEEL INDUSTRIALS KERALA LIMITED

7.01. Between April 1974 and January 1975, the State Government sought the clearance of the Government of India for starting a wagon manufacturing unit in the State and also applied for letters of intent for setting up four ancillary units, *viz.* a steel casting foundry in Alleppey District, a steel forging and spring manufacturing unit in Trichur District, a steel structural and fabrication unit in Palghat District and a roller and tapered bearing unit in Cannanore District. The proposal for establishment of the wagon unit was turned down (March 1974) by the Government of India as adequate capacity for wagon manufacturing existed in the country. However, letters of intent for the ancillary units were issued by the Government of India between October 1974 and December 1975. In January 1975, the State Government formed a new Company, *viz.* Steel Industrials Kerala Limited to act as a holding Company for steel and iron based industries. The letters of intent were passed on to the new Company for implementation. The assets and liabilities (preliminary expenses: Rs. 0.80 lakh and other assets: Rs. 0.68 lakh comprising Rs. 0.38 lakh paid to a consultant firm for preparing a project report for casting foundry unit, Rs. 0.23 lakh representing the cost of a car and Rs. 0.07 lakh on account of other items) of the erstwhile wagon building project were taken over by the new Company in February 1975. In the course of audit, the following points were noticed:—

(a) *Steel casting foundry unit*

In the application for letter of intent submitted by the State Government to Government of India in April 1974, the annual installed capacity of the unit was proposed as 6,000 tonnes of castings and the unit was proposed to be located in Alleppey District. The work of preparing a project-*cum*-feasibility report for the unit was entrusted to a Bombay-based consultancy firm in January 1975. The firm was also asked to study three or four alternate sites in the State from the point of operational efficiency, economics, future expansion and any other local conditions, etc. and recommend a suitable site. In June 1975, the Government of India issued the letter of intent but restricted the capacity of the unit to 3,000 tonnes of steel castings against 6,000 tonnes applied for. This was, however, not intimated to the consultants. In its report submitted in September 1975, the consultants recommended location of the unit at Athani in Trichur District. The firm was paid Rs. 1.50 lakhs towards consultancy charges.

In November 1976, Government ordered that the steel forging and spring manufacturing unit, the steel casting foundry unit and the steel structural and fabrication unit be located at

Shertallai so as to provide the proposed Alleppey-Ernakulam railway route with sufficient goods traffic. In view of this directive of Government and the variation in the capacity assumed in the feasibility report from that specified in the letter of intent, the Company decided (September 1977) to get the project-*cum*-feasibility report revised, from the same consultancy firm (on a fee of Rs. 0.60 lakh) for setting up the unit with a capacity to produce 4,000 tonnes of steel casting per year on the ground that it would be uneconomical to keep the production level at 3,000 tonnes. The expenditure incurred (Rs. 1.50 lakhs) on the first report was consequently rendered largely infructuous. Government stated (December 1978) that the additional expenditure on preparing a further project report was occasioned as a result of the change in site based on a policy decision of Government.

The revised project report forwarded to Government in September 1978 is awaiting approval (May 1979). In October 1978, the Company decided to entrust the work connected with the provision of "Project Engineering and technical know-how" and the "Project Engineering and costruction management" to the same consultancy firm on a fee of Rs. 12 lakhs (Rs. 9 lakhs for technical know-how and Rs. 3 lakhs for construction management). The necessary agreement with the consultants on provision of these services has not been executed pending approval of the project report by Government (May 1979).

(b) *Steel forging and spring manufacturing unit*

(i) The project-*cum*-feasibility report for establishing a steel forging and spring manufacturing unit at Trichur was obtained from a consultancy firm in April 1976 at a cost of Rs. 0.35 lakh. In August 1976, the Industries Development Commissioner reported that a co-operative society started in 1973 with assistance from Government (share capital contribution: Rs.7 lakhs) for setting up a forging plant at Trichur was finding it difficult to go ahead with the project due to financial difficulties. Government decided in August 1977 to take over the assets of the society for its own steel forging plant. This necessitated revision of the project report. A revised project report was, therefore, obtained from the same consultancy firm in April 1978 at an additional cost of Rs. 0.30 lakh.

Government to whom the revised project report was forwarded in April 1978 approved it in December 1978. The Company has not made much progress in implementing the project, as negotiations with the consultants for obtaining technical assistance for the project have not fructified (January 1979). The Management, therefore, decided (January 1979) "to explore the possibilities of securing a tie-up" with two other consulting firms. Further developments in the matter are awaited (May 1979). In the meantime, Government ordered (May 1978) the Company to pay Rs. 3.41 lakhs to the liquidator of the society towards value of assets that were to be taken over by the Company from the society. Against this, the Company paid an advance of Rs. 0.82 lakh in October 1978 to the liquidator of the society and took over the furniture and office equipment, the semi-finished factory sheds and other construction materials of the society. Details of the payment of the balance amount (Rs. 2.59 lakhs) are awaited (May 1979).

(ii) The letter of intent for the steel forging plant included authority for setting up of a spring manufacturing unit also with an annual capacity of 60,000 large size coil springs. However, the Company has not taken any concrete steps towards setting up this unit (March 1979). The Management stated (March 1979) that there had been no progress in the proposal to set up the unit.

(c) *Other units*

The remaining two units, namely, steel structural and fabrication unit and roller and tapered bearing unit have not yet (May 1979) been taken up except that a consultancy firm has been engaged (June 1978) at a fee of Rs. 0.62 lakh for preparation of project-*cum*-feasibility report for the latter unit. The report which was due before 9th February 1979 is still awaited from the consultants (March 1979).

7.02. Land acquisition

The Company took possession (July 1976) of 95 acres of land at a cost of Rs. 2.37 lakhs at Athani in Trichur District from Government to set up the steel forging and spring manufacturing unit and steel casting foundry unit. The cost of the land was to be adjusted as share capital contribution by Government. The adjustment is yet to be carried out (May 1979). The Company spent Rs. 0.30 lakh on developing 13 acres of land (tube wells: Rs. 0.19 lakh; site development: Rs. 0.03 lakh; soil investigation: Rs. 0.08 lakh). The change in the location of the steel casting foundry unit rendered 50 acres of land at Athani surplus and the Management decided (March 1978) to surrender this surplus land to Government. The land has not been surrendered pending receipt of approval from Government (May 1979).

In connection with the acquisition of land at Shertallai where three units are proposed to be located, the Company spent Rs. 1.81 lakhs (payment made to Government on account of land acquisition staff: Rs. 0.19 lakh; soil investigation: Rs. 1.62 lakhs) till March 1978. Government stated (December 1978) that land acquisition proceedings (for 140 acres) had already been initiated and that it was expected to take advance possession of 51.79 acres of land before the end of December 1978 and the remaining land before the end of March 1979. In December 1978, the Company remitted Rs. 10 lakhs to the Special Tahsildar (Land Acquisition), Shertallai, for enabling the latter to make payments towards land compensation. The Special Tahsildar (Land Acquisition) has handed over to the Company an area of approximately 40 acres till June 1979.

SECTION VIII

TRAVANCORE TITANIUM PRODUCTS LIMITED

8.01. The working of the Company in general and implementation of an expansion scheme launched in 1968 in particular were reviewed in Section II of the Report of the Comptroller and Auditor General of India for the year 1973-74 (Commercial) and examined by the Committee on Public Undertakings (1977-79). The Committee in its first report observed (July 1977)

A that production of titanium dioxide by the Company during 1974 and 1975 was far below the installed capacity and that there was excess consumption of raw materials during 1972 and 1973. Besides urging action to identify and rectify defects in the plant (commissioned under the expansion scheme), the Committee recommended that expeditious steps should be taken to fix reliable B norms for consumption of raw materials so that the efficiency of production could be judged realistically. Action taken by Government on the recommendation of the Committee is awaited (March 1979).

8.02. Production performance

Dropped on 11.10.82

8.02.1. (a) With the completion in December 1973, of the expansion scheme which was designed to increase production of anatase/rutile titanium dioxide so as to meet internal demand in full and to enter foreign markets, the installed capacity of the titanium dioxide plant was increased from 6,500 tonnes to C 24,500 tonnes per annum. The actual production of titanium dioxide during 1974 (7,611 tonnes) and 1975 (5,377 tonnes) was far below the installed capacity. In January 1976, Government appointed an expert committee for an appraisal of the expansion project and for suggesting ways and means to rectify the defects. The expert committee, submitted its report in August 1976. Government's decision thereon is still awaited (March 1979). Government stated (November 1978) that the report of committee was under examination. The shortfall in production during 1974 and 1975, when compared to the rated capacity, was attributed (November 1978) by Government to—

(i) initial troubles in the new plant;

(ii) deliberate curtailment of production during the last quarter of 1974 in the wake of an unprecedented slump in domestic and export markets; and

(iii) suspension/curtailment of production during 1975 to avoid accumulation of stock and to save on investment on raw materials.

The table below compares the actual production of titanium dioxide with the installed capacity and budgeted production for the two years ended December 1977:—

Year	*Installed capacity of the plant*	*Production*		*Percentage of actual production to budgeted production*	*Percentage of of plant utilisation to installed capacity*
		Budgeted	*Actual*		
		(*in tonnes*)			
1976	24,500	12,000	9,717	81	40
1977	24,500	18,000	9,888	55	40

Production targets for 1976 and 1977 were fixed at a level lower than the installed capacity. According to Government (November 1978), this was due to budgeting of production on the basis of estimated sales.

The shortfall in production during 1976, when compared to the budgeted production, was ascribed (April 1977) by the Management to—

(i) the failure of ilmenite grinding mills;

(ii) water scarcity experienced during February-May 1976; and

(iii) difficulties experienced at the initial stages after commissioning the equipment of the wet treatment section and changes introduced in specification and process control (in the production of rutile grade titanium dioxide) from time to time.

The shortfall in production during 1977 was attributed (November 1978) by Government to the inability of the Company to achieve the required quality in the production of rutile grade titanium dioxide due to the technical problems. Even though it is more than five years since the technical problems arose, the Management has neither identified the reasons for the poor quality of the Company's product nor taken remedial steps.

The Management stated (December 1978) that the production would be enhanced to reasonable levels of installed capacity with the rebuilding of 'settler III' and erection of a new 'Dorr Thickner' (Rake Mechanism) which was being imported from United Kingdom at an approximate cost of £ 23,599.

The consumption of raw materials by the new plant was higher than the standard fixed for the old plant. The Management has not yet fixed (December 1978) new norms for consumption of raw materials in the new plant even though the need for it was pointed out (July 1977) by the Committee on Public Undertakings (1977-79) in its first report. According to the Management (July 1978), full utilisation of the installed capacity of the plant is essential to lower the consumption of raw materials.

The value of materials consumed in excess of the existing norms during 1976 and 1977 was Rs. 112.56 lakhs as indicated in the following table:—

Raw materials	*Standard consumption per tonne of titanium dioxide*	*Year*	*Requirement of raw materials as per standard* (x)	*Actual consumption*	*Excess consumption*	*Percentage of excess consumption over standard*	*Value* of excess consumption (in lakhs of rupees)*
				(*in tonnes*)			
Ilmenite	2.054	1976	19,959	22,515	2,556	12.81	3.71
		1977	20,310	22,452	2,142	10.55	3.13
Sulphuric acid	3.911	1976	38,003	41,637	3,634	9.56	13.66
		1977	38,672	43,360	4,688	12.12	18.71
Iron scrap	0.250	1976	2,429	3,087	658	27.09	5.50
		1977	2,472	3,506	1,034	41.83	8.02
Sodium sulphide	0.005	1976	49	108	59	120.41	2.06
		1977	49	121	72	146.94	2.84
				(*in kilo litres*)			
Kerosene/ HSD Oil	0.450	1976	4,373	6,061	1,688	38.60	23.43
		1977	4,450	6,692	2,242	50.38	31.50
							112.56

Government stated (November 1978) that the use-ratios of raw materials in the new plant which was designed and fabricated from indigenous sources were slightly higher than the norms

(x) For the production of 9,717 tonnes of titanium dioxide in 1976 and 9,888 tonnes in 1977 at standard fixed for the old plant.

* Based on the average value per tonne/kilolitre of raw material consumed.

applicable to the old plant and that efforts were being made to lower the 'use-ratios' in the new plant.

The production during August 1976 was 898 tonnes. Taking this as the base, the Company introduced in September 1976 a scheme for payment of incentive bonus to workers with 900 tonnes as the minimum monthly production to be achieved with a view to step up production; the plant capacity was 2,041 tonnes per month. The minimum production fixed for payment of bonus represented 44.1 *per cent* of the capacity which was very low. Yet there was not much increase in production. The monthly production was less than the minimum of 900 tonnes during 10 out of 16 months between September 1976 and December 1977. Even though the scheme was in force throughout 1977 as against four months in 1976, the increase in production during 1977 over that in 1976 was less than 2 *per cent*. Government stated (November 1978) that the incentive scheme was introduced with a view to motivating the workers to put in their best efforts to achieve capacity utilisation. However, the position has not improved much and the capacity utilisation continues to be very low as is evidenced by the fact that it remained static at 40 *per cent* during 1976 and 1977.

(b) *Production of rutile grade titanium dioxide*

Mention was made in paragraph 84 of the Audit Report 1967 about idling from May 1965 of the equipment (cost: Rs. 16.64 lakhs) for the production of rutile grade titanium dioxide. Government informed (November 1969) the Committee on Public Accounts 1971-72 that the idle machinery would be profitably used when the expansion scheme was completed.

As part of the expansion scheme, the Company commissioned (December 1973) an additional plant (cost: Rs. 80 lakhs) to increase production to meet internal demand and to enter the export market. The installed capacity of the composite plant (old and new) is 15,480 tonnes. Soon after commissioning, several defects were noticed in the plant as mentioned in paragraph 6 (A) (iv) to (vii) of Section II of the Report of the Comptroller and Auditor General of India for the year 1973-74 (Commercial).

The table below gives the details of production of rutile grade titanium dioxide and the percentage of utilisation of installed capacity for each of the three years ended 1977:—

Year	*Installed capacity of the plant*	*Actual production*	*Percentage of plant utilisation to installed capacity*
	(in tonnes)		
1975	15,480	377	2.43
1976	15,480	1,233	7.96
1977	15,480	887	5.73

While the capacity of the Company's plant remained under-utilised to the extent of 92 to 98 *per cent*, Government of India had to import 16,792* tonnes of rutile grade titanium dioxide at a cost of Rs. 1,458.68* lakhs between 1974-75 and 1977-78 to meet internal demand. The under-utilisation of the plant was attributed (June 1978) by the Management to the failure of the Company to achieve the required quality in the production of rutile grade titanium dioxide owing to technical problems. It was further stated that its production had been tailored to the demand as the consumers were reluctant to buy rutile grade titanium dioxide manufactured by the Company on account of its inferior colour when compared to the imported variety.

The Management further stated (August 1978) that the exact cause for the inferior colour of the Company's product was under investigation and that negotiations were under way with foreign firms for getting technical aid for improving the quality of rutile grade titanium dioxide. Government endorsed (November 1978) the views of the Management. Further developments are awaited (March 1979).

8.02.2. *Sulphuric acid plant*

Sulphuric acid is one of the main raw materials consumed in the production of titanium dioxide. The Company has three

*Source: Monthly statistics of Foreign Trade of India—Volume II (Imports) published by Director General of Commercial Intelligence and Statistics, Calcutta.

plants with an installed capacity of 400 tonnes per day (2 old plants with a capacity of 50 tonnes each per day in operation from September 1963 and a third plant with a capacity of 300 tonnes per day commissioned in April 1974) for production of sulphuric acid. The unsatisfactory performance of these plants was mentioned in paragraphs 5 (ii) and 6 (B) of Section II of the Report of the Comptroller and Auditor General of India for the year 1973-74 (Commercial). Government appointed in January 1976 a Committee to investigate the reasons for the failure and malfunctioning of the new plant after its commissioning. The report of the Committee was submitted to Government in August 1976. Government's decision thereon is awaited (March 1979).

According to the Management (January 1976) the attainable capacity of the three plants for 270 stream days (after due allowance for shut-down for boiler inspection, maintenance, etc.) was 1,08,000 tonnes per annum (13,500 tonnes each for the two old plants and 81,000 tonnes for the third plant). Against this, the acid produced by the three plants during 1975, 1976 and 1977 was 23,849 tonnes, 41,307 tonnes and 44,944 tonnes respectively. On account of frequent break-downs in the plants, the Company could not produce enough acid to meet its requirement for manufacture of titanium dioxide and this necessitated purchase of 1,437 tonnes (cost: Rs. 5.61 lakhs) during 1977. This resulted in extra cost of Rs. 0.75 lakh to the Company when compared to the cost of production of acid in its own plant. The Management stated (August 1978) that every effort was being made to improve the working of the plants. Details of action taken in this direction are awaited (March 1979). However, before stabilisation of production in the new plant, the Management decided (September 1978) to dispose of the two old acid plants. Accordingly, one of the plants was sold in auction in January 1979 for Rs. 2.58 lakhs.

Quantities of sulphur consumed in the manufacture of sulphuric acid was found to be far in excess of the standard fixed (337 kg. of sulphur per tonne of acid produced) by the manufacturers of the plant. The percentage of excess consumption of sulphur over the standards was 5.95 (478 tonnes-cost: Rs. 4.28 lakhs) in 1975, 5.93 (825 tonnes-cost: Rs. 6.52 lakhs) in 1976 and 6.62 (1,002 tonnes-cost: Rs. 7.16 lakhs) in 1977. Government stated (November 1978) that the standard rate of consumption of sulphur could be achieved only under ideal conditions and that this could not be achieved in practice due to reasons like gas leak, contamination of sulphur, aging of catalyst, frequent shutdown of the plant due to power failure, etc. The steps taken to rectify the defects, called for (March 1979) from the Company are awaited. The Management has, however, revised (March 1979) the 'use-ratio' of sulphur and fixed it at 375 kg. per tonne of acid (98 *per cent* purity) produced.

8.03. Payment of penalty Discussed on 14-10-82

Between September 1976 and March 1977, the maximum demand meter for recording electric power consumpton installed in the premises of the Company was not working and the consumption of electric power was billed (Rs. 3.26 lakhs) in June 1977 by the Kerala State Electricity Board on the basis of average consumption of power up to September 1976. Though the payment was to be made before 28th June 1977, the Company remitted the amount only on 1st August 1977. Penalty for the delay in remittance was levied by the Electricity Board through their subsequent monthly invoices and this was paid (Rs. 0.15 lakh) by the Company between July 1977 and September 1977. Reasons for belated remittance, called for in July 1978 from the Company, were awaited (March 1979). Government stated (November 1978) that the matter was under investigation.

Summing up

The Company completed an expansion programme in December 1973 to increase production of titanium dioxide from 6,500 tonnes to 24,500 tonnes per annum with a view to meeting national (internal) demand in full and entering foreign markets. The utilisation of the installed capacity since then has not exceeded 40 *per cent* in any of the years. The Company has also not been able to achieve the required quality and colour in the manufacture of rutile grade titanium dioxide (which fetches higher margin of profit) and this has affected its demand in the market. The Company's capacity remained considerably under-utilised in the circumstances mentioned in paragraph 8.02.1. (a) and (b). Government of India had to import 16,792 tonnes of rutile grade titanium dioxide (cost:Rs. 1,458.68 lakhs) during the period 1974-75 to 1977-78 for meeting the internal demand in the country. Measures taken to increase capacity utilisation of the plant by paying incentive bonus to workers have also not yielded the desired results.

An expert committee set up by Government in January 1976 for conducting an appraisal of the expansion project and suggesting ways and means to rectify the defects in the plant, submitted its report in August 1976; but follow-up measures are still to be initiated (March 1979).

Consumption of raw materials in the production of titanium dioxide has been very largely in excess (Rs. 112.56 lakhs during 1976 and 1977) of the standard. Steps are yet to be taken to lower down 'use-ratios' of raw materials in the new plant (March 1979).

The performance of the new sulphuric acid plant was far from satisfactory, with the result that the Company had to purchase acid from external sources for its need during 1977, at an extra cost of Rs. 0.75 lakh over the cost of production of acid in its own plants.

The consumption of sulphur in the production of sulphuric acid has also been in excess of the standard consumption.

SECTION IX

THE KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED

9.01. Purchase and sale of cloth for uniform

In April 1976, the State Government prescribed uniform for pupils in the primary schools and authorised the Company to supply certain uncontrolled varieties of cloth to the Education

Department for that purpose during 1976-77. In February 1977, Government decided to continue the scheme during 1977-78 also and extended it to upper primary schools as well. The Company purchased 90.29 lakh metres of cloth between May 1976 and June 1977 and sold 57.97 lakh metres up to March 1978. On a test check, conducted in August 1978, of the transactions relating to the scheme, the following points were noticed:—

(1) Details of purchase, sales and closing balance of cloth for the years 1976-77 and 1977-78 are given in the table below:—

Year	*Variety*	*Opening balance*		*Purchase*		*Sales*		*Closing balance*	
		Quantity (in lakh metres)	*Value (Rupees in lakhs)*	*Quantity (in lakh metres)*	*Value (Rupees in lakhs)*	*Quantity (in lakh metres)*	*Value (Rupees in lakhs)*	*Quantity (in lakh metres)*	*Value (Rupees in lakhs)*
1976-77	Navyblue	..	..	23.92	104.50	13.63		10.29	
	Green casement	..	..	29.80	131.62	16.33	143.26	13.47	112.99
	Cream poplin	..	..	1.80	8.43	Nil		1.80	
1977-78	Navyblue	10.29		5.49	25.35	6.46		9.32	
	Green casement	13.47	112.99	7.11	38.40	9.36	144.18	11.22	153.53
	Cream poplin	1.80		22.17	94.98	12.19		11.78	

The value of closing stock of uniform cloth at the end of March 1978 (Rs. 153.53 lakhs for 32.32 lakh metres) worked out to 106 *per cent* of the sales during 1977-78.

The quantity of cloth required for distribution during 1976-77 was estimated as 57 lakh metres to provide two sets of uniforms to the entire student population (27 lakh pupils) in primary schools. Against this, the off-take during 1976-77 was 29.96 lakh metres which worked out to 53 *per cent* of the estimated requirement.

While extending the scheme for 1977-78, Government ordered (February 1977) that the quantity of cloth to be purchased during 1977-78 should be assessed after leaving a safe margin, to avoid accumulation of stock. Even though the off-take during

1976-77 was poor, the Company, in consultation with the Director of Public Instruction, estimated (December 1976) the requirements for 1977-78 as 68.60 lakh metres and purchased 34.77 lakh metres during 1977-78. The position indicated in the table above shows that the off-take during 1977-78 was only 28.01 lakh metres which worked out to 41 *per cent* of the forecast. In making the forecast of requirements, Government and the Company assumed that the entire student population of the State would purchase the cloth for uniform from it, though wearing of uniform was not compulsory and there were also other sources of supply. The expectation did not materialise. Government stated (March 1979) that while making purchases during 1977-78 the Company effected substantial reduction from the assessed requirements. It was, however, seen in audit that the reduction in purchase during 1977-78 when compared to estimated requirements was only 20 *per cent* in the case of blue drill, 16 *per cent* in the case of green casement and 2 *per cent* in the case of cream poplin, although the shortfall in sales during 1976-77 when compared to the estimates was 47 *per cent*.

(2) The scheme was operated by the Company with funds borrowed from three banks (interest payable: 14.5 *per cent*). The selling price of all varieties of cloth was fixed by Government based on the data furnished by the Company. While fixing the price, it was assumed that the entire stock would be sold within a period of 3½ months in regard to purchases made during 1976-77 and 4 months in the case of purchases during 1977-78. In the case of closing stock at the end of March 1977, additional carrying cost for 13 months was also provided while refixing its selling price for 1977-78. The poor off-take of stock resulted in holding of stock for periods in excess of the anticipated duration and consequent short-realisation of carrying cost. The interest and guarantee commission paid/payable on borrowings raised by the Company for financing the scheme amounted to Rs. 53.21 lakhs to the end of December 1978. Against this, the element of carrying cost provided in the selling price fixed worked out to Rs. 33.67 lakhs. The extra carrying cost borne by the Company for the period April 1977 to December 1978 amounted to Rs. 19.54 lakhs. Government attributed (December 1978)

the poor off-take of cloth to lack of co-operation from the student population and the fact that wearing of uniform was not made compulsory by the Education Department.

(3) The purchase of 'controlled variety' of cloth for uniforms and its distribution to schools during 1976-77 were entrusted by Government in April 1976 to the Kerala Co-operative Consumers Federation Limited. In February 1977, Government decided to dispense with the distribution of controlled variety as it was found to be unsuitable for uniform and ordered the Federation to take back the unsold quantity of it lying in schools. It was further ordered by Government (February 1977) that loss of interest amounting to Rs. 3.13 lakhs suffered by the Federation on account of locking up of funds due to non-sale of the cloth from September 1976 to February 1977 be reimbursed by the Company from the sale proceeds of the uniform cloth distributed during 1977-78. This amount was also taken into account by the Company for fixation of the price of cloth distributed during 1977-78, involving upward revision of the sale price of cloth by 4.59 paise per metre. The Company has not paid the amount to the Federation (May 1979).

(4) One of the reasons for accumulation of stock was belated distribution of cloth by the Company. According to the instructions issued by Government in April 1976, supply of uniform cloth to the Education Department was to be completed by 1st June 1976 to ensure its distribution before re-opening of schools. The Company could not, however, adhere to this schedule on account of belated receipt of cloth from its suppliers. One of the supplier firms with whom the Company placed orders in May 1976 for 47.18 lakh metres supplied only 4.18 lakh metres before 1st June 1976 and the balance was supplied between June 1976 and August 1976. Though the contract with the firm provided for penal action in the case of delay, no action was taken against it. In September 1977, the Company decided not to lay any claim against the suppliers towards compensation for the delay in supply.

(5) Distribution of cloth was done through headmasters of schools during 1976-77 and through the ration shops during

1977-78 in all districts, except Trichur district where it was entrusted to a co-operative society (referred to in sub-paragraph 3 above). The amounts due from the headmasters, the co-operative society and the ration shops have not been fully settled (May 1979). The amount outstanding for recovery from headmasters (1976-77) and the co-operative society (1977-78) at the end of April 1979 was Rs. 0.32 lakh and Rs. 11.58 lakhs respectively. The details of amounts outstanding against ration shops were awaited from the Company (May 1979).

(6) In respect of sales made to the co-operative society during 1977-78, the amount recoverable from it was fixed as the average cost price excluding charges for interest, establishment and contingencies. This resulted in under-recovery of expenses to the extent of Rs. 1.87 lakhs from the society. Government stated (December 1978) that the exclusion of interest charges from the price realisable from the society was done with the expectation that the cost would be realised from the latter without delay and that the exclusion of other elements such as establishment and contingencies from the price fixed, was to facilitate the society to sell the cloth within the selling price fixed by Government after meeting marketing expenses.

Summing up

It would appear from the foregoing details that the Company has not functioned in a business-like manner in this deal, in the following respects:—

(a) Assessment of the quantity of cloth to be purchased was not made realistically. Even when a large quantity of cloth purchased during 1976-77 had remained unsold, belying the assumptions made for that year, further purchases were made which resulted in a further accumulation of unsold stock.

(b) On account of holding the stock for longer periods than anticipated, the Company had to suffer, to the end of December 1978, a loss of Rs. 19.54 lakhs towards extra carrying cost.

(c) The Company assumed liability for a sum of Rs. 3.13 lakhs to the Kerala Co-operative Consumers Federation Limited for the loss of interest suffered by it in holding stocks of controlled cloth, the distribution of which was entrusted to it by Government although the Company had nothing to do with it.

(d) The selling price was not fixed taking into account all the elements of cost in full though there was no provision for subsidy in making the sales.

(e) An amount of Rs. 11.90 lakhs is still recoverable from the headmasters of schools and the co-operative society, who were made responsible to distribute the cloth. The dues from the ration shops have not been finalised yet.

SECTION X

KERALA STATE DRUGS AND PHARMACEUTICALS LIMITED

10.01. Purchase of raw materials

For manufacture of drugs, the Company obtains various items of raw materials from a Central Government Undertaking (Indian Drugs and Pharmaceuticals Limited) which acts as canalysing agent of the Goverment of India for distribution of such items. The indents for these items are to be routed through the Drugs Controller of the State who makes suitable recommendations on the projected requirements of the Company. The Indian Drugs and Pharmaceuticals Limited (IDPL) issues release orders every quarter beginning with April. Delay in lifting allotments and purchase of drugs in excess of requirements have resulted in loss to the Company as indicated in the following cases:—

(a) The Company which commenced production in September 1974 manufactures medicines including B Complex injections/tablets and multi-vitamin tablets. Thiamine Hydrochloride and Thiamine Mononitrate required for the manufacture of vitamin tablets and injections fall under the category of canalised drugs and are procured by the Company from IDPL.

The table below gives the details of opening stock, purchases, consumption, sale and closing stock of the two chemicals for the four years up to 1977-78:—

	Opening stock	*Purchases*	*Total*	*Consumption*	*Sale*	*Closing stock*
			(*in kilograms*)			
Thiamine Hydrochloride						
1974-75	..	85.00	85.00	5.00	..	80.00
1975-76	80.00	390.00	470.00	102.00	..	368.00
1976-77	368.00	150.00	518.00	118.64	300.00	99.36
1977-78	99.36	..	99.36	99.36	..	..
Thiamine Mononitrate						
1974-75	..	4.85	4.85	4.80	..	0.05
1975-76	0.05	170.00	170.05	12.55	..	157.50
1976-77	157.50	30.00	187.50	23.10	125.00	39.40
1977-78	39.40	25.00	64.40	29.47	..	34.93

Considering the level of consumption during 1975-76 and the balance available at the end of the year, purchase made during 1976-77 was unnecessary. Although bulk of the orders received by the Company for the supply of vitamin tablets and injections were from the Director of Health Services of the State, there was no system in the Company to ascertain the needs of the Department of Health Services before placing indents on the IDPL. According to the Company (November 1978), indents for materials were based on level of consumption in the past years and anticipated orders from the Director of Health Services and other Government hospitals.

Between November 1976 and January 1977, the Company disposed of 300 kg. of Thiamine Hydrochloride and 125 kg. of Thiamine Mononitrate for Rs. 2.33 lakhs as against their cost of Rs. 2.61 lakhs; the resultant loss was Rs. 0.28 lakh. Government stated (December 1978) that—

(i) the purchases made during 1976-77 were unavoidable as the release orders of IDPL did not provide for cancellation;

(ii) the Company's sole dependence on one source of sales outlet contributed to material imbalances; and

(iii) the sale of the two items during 1976-77 was to avoid huge loss on account of deterioration on storage.

Had the Company kept the consumption of earlier years in view and also ascertained the requirements of the Department of Health Services for 1976-77 before placing indents with IDPL, the loss on resale could have been avoided.

(b) According to the terms and conditions stipulated by the IDPL, the buyer was to pay carrying charges at 21 *per cent* per annum on the value of materials, in case of delay to lift the allotted items from the former's depots. It was noticed in the course of audit (May 1977 and September 1978) that the Company paid Rs. 7.26 lakhs as carrying charges on 37 consignments between April 1975 and June 1977. The Management stated (July 1977) that the value of each quarterly allotment made by the canalising agent was of the order of Rs. 24 lakhs and that the agency allowed no part-lifting in respect of allotments made up to July 1977. It was further stated that though the Company was aware of the consequences of delay, it could not raise sufficient funds to clear the materials in time. Government attributed (January 1979) the belated clearance of the materials to the delay in obtaining payments from the Director of Health Services which had upset the financial planning of the Company.

Section XI

KERALA ELECTRICAL AND ALLIED ENGINEERING COMPANY LIMITED

11.01. Avoidable expenditure

Coal Mines Authority Limited (a Central Government undertaking) placed (September 1974) a purchase order with the Company for the supply of 104 transformers (f.o.r. destination) and instructed (January 1975 and April 1975) that the transformers be delivered at three different stations. On 20th February 1975, the Company despatched eight transformers to Bilaspur Railway Station instead of Korba Railway Station. On 5th March 1975, the Company detected the mistake and arranged for the re-transportation of the transformers to the correct destination. Again, 15 transformers (six in May 1975 and nine in June 1975) were despatched to Sodepur Railway Station (near Calcutta) instead of Sitarampuram Railway Station in Narainpur (Bihar), necessitating re-transportation to the correct destination. The extra cost (inclusive of demurrage charges) to the Company in re-transporting 23 transformers amounted to Rs. 0.26 lakh.

Government stated (July 1978 and January 1979) that by the time the error was detected the person responsible for the mistake had already left (December 1975) the services of the Company and that necessary instructions were issued (January 1979) to the Company to avoid such mistakes in future.

SECTION XII

THE KERALA CERAMICS LIMITED

12.01. Payment of interest

According to provisions of the Additional Emoluments (Compulsory Deposit) Act, 1974 and the scheme framed thereunder, the Company, while disbursing pay and allowances to its employees, was to deduct the whole of the additional wages and one half of the additional dearness allowance granted to them after 6th July 1974. The amount so deducted during a month was to be remitted to the Regional Provident Fund Commissioner within 15 days of the close of the month, failing which interest at penal rate of 25 *per cent* per annum, i.e. twice the rate at which the deposit was to carry interest under the scheme, was payable for the period of delay.

In 33 out of the 34 months when the scheme was in operation (July 1974 to April 1977), there was delay ranging from 3 days to 189 days in remitting the amounts deducted by the Company from the emoluments of its employees. Consequently, the Company had to pay penal interest aggregating Rs. 0.36 lakh (Rs. 0.29 lakh in July 1976 and Rs. 0.07 lakh in September 1977). The delay in remittance was attributed by the Management (May 1976) to the Company's stringent financial position during the period.

Government stated (November 1978) that due to heavy losses suffered by the Company during 1975-76 and 1976-77, it could not generate enough funds to meet its requirements, that the Holding Company (Kerala State Industrial Enterprises Limited), on which it depended for its fund requirements, could not provide it with enough funds and that in the circumstances, it had no alternative than postponing the deposit of the impounded wages.

CHAPTER II

STATUTORY CORPORATIONS

SECTION XIII

13.01. Introduction

There were four Statutory Corporations in the State as on 31st March 1978, *viz.* Kerala State Electricity Board, The Kerala Financial Corporation, Kerala State Road Transport Corporation and Kerala State Warehousing Corporation.

An analysis of the capital structure, working results, etc. of Kerala State Electricity Board and other Statutory Corporations is given in the succeeding paragraphs. The accounts of Kerala State Road Transport Corporation for 1977-78 have not been finalised (March 1979). Hence, the figures relating to this Corporation included in the succeeding paragaphs are based on provisional accounts.

A synoptic statement showing the summarised financial results of working of the Kerala State Electricity Board and other Statutory Corporations for 1977-78 is given in Annexure 'C'.

13.02. Kerala State Electricity Board

13.02.1. *Loan capital*

The Board's capital comprises loans obtained from the State Government and loans raised from time to time from the public by issue of bonds and debentures, the Life Insurance Corporation of India, banks, etc. The aggregate of long-term loans from Government and other sources obtained by the Board stood at Rs. 29,125.31 lakhs as at the end of 1977-78 recording an increase of Rs. 1,848.17 lakhs over the long-term loans of Rs. 27,277.14 lakhs as at the end of the previous year.

13.02.2. *Guarantees*

Government had guaranteed repayment of loans (including open market loans, overdrafts, purchases under I.D.B.I. Schemes, loans from Rural Electrification Corporation, Agricultural Refinance and Development Corporation, etc.) raised by the Board from time to time. The maximum amount for which guarantee was available as on 31st March 1978 was Rs. 9,507 lakhs against which the amount of loan outstanding on that date was Rs. 8,805.52 lakhs.

The revenues of the Board for the year 1977-78 (including subvention of Rs. 500 lakhs received from the State Government towards loss on rural electrification) amounted to Rs. 6,208.93 lakhs. After meeting its operating, maintenance and management expenses (Rs. 4,169.32 lakhs) and financial charges (Rs. 1,800.30 lakhs), the Board had a net surplus of Rs. 239.31 lakhs during the year 1977-78. Of this, a sum of Rs. 154.13 lakhs was appropriated during 1977-78 towards general reserve (against Rs. 141.97 lakhs during 1976-77) and the balance of Rs. 85.18 lakhs was utilised for clearing part of the accumulated arrears of interest due on loans from the State Government. A sum of Rs. 4,270.58 lakhs was pending payment as on 31st March 1978 towards arrears of interest, for want of surplus revenue.

13.03. Other Statutory Corporations

13.03.1. *Paid-up capital*

The aggregate amount of capital of the three Corporations, *viz.* Kerala State Road Transport Corporation, The Kerala Financial Corporation and Kerala State Warehousing Corporation stood at Rs. 2,472.71 lakhs at the end of 1977-78, recording an increase of Rs. 229 lakhs over the total capital of Rs. 2,243.71 lakhs at the end of the previous year.

The break-up of the investments made by the Central Government, the State Government and other parties in the capital of these Corporations, as at the end of the year 1977-78, was as follows:—

Name of the Corporation	*Investment made by*			
	Central Government	*State Government*	*Others*	*Total*
	(Rupees in lakhs)			
Kerala State Road Transport Corporation	604.87	1,496.04	..	2,100.91
The Kerala Financial Corporation	..	137.92	117.08	255.00
Kerala State Warehousing Corporation	..	58.39	58.41	116.80

13.03.2. *Profit and Loss*

Kerala State Road Transport Corporation sustained a loss of Rs. 347.22 lakhs during 1977-78 as compared to a loss of Rs. 142.06 lakhs during 1976-77. The accumulated loss of the Corporation at the end of March 1978 was Rs. 2,335.23 lakhs. The other two Corporations earned an aggregate profit of Rs. 63.70 lakhs during 1977-78 as against Rs. 75.27 lakhs during the previous year.

13.03.3. *Dividend/interest on capital*

In the case of Kerala State Road Transport Corporation, the interest (6 1/4 *per cent* per annum) on capital contribution outstanding for payment at the end of March 1978 amounted to Rs. 398.93 lakhs (amount due to State Government: Rs. 363.78 lakhs; amount due to Central Government: Rs. 35.15 lakhs).

The Kerala Financial Corporation has earmarked, out of its profit for 1977-78, a sum of Rs. 7.03 lakhs for payment of the guaranteed minimum dividend of 3.5 *per cent* per annum. The corresponding figure for 1976-77 was Rs. 6.01 lakhs.

Kerala State Warehousing Corporation made a provision of Rs. 1.17 lakhs in the accounts for 1977-78 for declaration of dividend, as against Rs. 3.67 lakhs during 1976-77.

13.03.4. *Loans*

The aggregate of long-term loans, including debentures and deposits, obtained by the three Corporations, stood at Rs. 2,990.54 lakhs at the end of 1977-78. This represented an increase of Rs. 358.50 lakhs over the total long-term loans of Rs. 2,632.04 lakhs as at the end of the previous year.

13.03.5. *Guarantees*

Government had guaranteed the repayment of capital (including payment of minimum annual dividend) and loans (including bonds, debentures, fixed deposits and overdrafts) raised by two Corporations and the amount guaranteed outstanding as on 31st March 1978, was as follows:—

	Capital	*Loans*	*Total*
		(Rupees in lakhs)	
(a) The Kerala Financial Corporation	235.00 *	1,699.03 @	1,934.03
(b) Kerala State Road Transport Corporation	..	247.50	247.50
Total	235.00	1,946.53	2,181.53

* This does not include Rs. 20 lakhs received in March 1978 by the Corporation towards share capital contributions, against which shares were allotted in June 1978.

@ Against this, the figure indicated in paragraph 1.9 (a) of the Report of the Comptroller and Auditor General of India for the year 1977-78 (Civil)-Government of Kerala, is Rs. 1,718.92 lakhs (Rs. 1,699 lakhs guaranteed under Section 7 and Rs. 19.92 lakhs under Section 8 of the State Financial Corporations Act, 1951). The difference is under reconciliation.

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

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

SECTION XIV

THE KERALA FINANCIAL CORPORATION

LOANS UNDER DEFAULT

14.01. Introduction

The main objective of The Kerala Financial Corporation, established in December 1953 under the State Financial Corporations Act, 1951, is to encourage, promote and aid the industrialisation of the State by providing assistance to small and medium scale units to start new industries and also expand/diversify existing industries. The assistance given by the Corporation is mainly in the form of loans and advances. Sole proprietorship concerns, partnership concerns, private and public companies and co-operative societies engaged in or proposing to engage in (i) manufacture, preservation and processing of goods, (ii) mining, (iii) hotel industry, (iv) transport industry, (v) fishing or provision of shore facilities for fishing, etc. are eligible for loans from the Corporation. The minimum and maximum amounts of loan to be granted to a concern are fixed at Rs. 0.10 lakh and Rs. 30 lakhs(Rs. 15 lakhs for concerns other than companies and co-operative societies) respectively. In all cases, the borrower is to execute necessary deeds to mortgage the existing and future assets of the unit in favour of the Corporation. The Corporation also provides loans to the concerns for purchasing machinery in which case bills of the suppliers are retired by the Corporation on behalf of the assisted units. In such cases, the borrower has to enter into firm agreement with the supplier and execute a deed mortgaging the factory premises and machinery to be purchased; the supplier is to send the bills and the railway/lorry receipts to the Corporation for retiring them. The Corporation retires the bills, forwards the documents to the concerns for clearance of machinery and treats the amount paid to the suppliers as loan to the units. Loans given by the Corporation are normally to be repaid within a period of 10 years which may be extended up to 15 years for units in backward areas. Loans given for transport industry are repayable in 4 years (reduced to $3\frac{1}{2}$ years from 1st April 1978). In cases of default, the Act empowers the Corporation to take over the management of the industrial concern as well as to transfer it by way of lease or sale and to realise the property obliged, mortgaged, hypothecated or assigned to the Corporation.

55.21 crores upto 3/81 (375 No.

14.02. The total amount of loan disbursed by the Corporation up to March 1978 (1981) was Rs. 33.09 crores (2,214 cases). Of this, the amount outstanding as on 31st March 1978 was Rs. 29.64 crores (2,005 cases). Repayment of loan was in arrears in 1,506 cases. According to the details furnished by the Corporation (January 1979), the amount overdue for recovery as at the end of March 1978 was Rs. 1,123.72* lakhs. This included Rs. 43.01 lakhs due from three textile mills taken over by the National Textile Corporation Limited in April 1974 and Rs. 208.39 lakhs due from 62 units against which suits were filed for realisation of the entire outstanding amount. The default in respect of other units (1,441 cases) was Rs. 872.32 lakhs (principal: Rs. 553.59 lakhs; interest: Rs. 318.73 lakhs), the earliest year of

* This figure differs from the one (Rs. 933.70 lakhs) mentioned in the Annual Report for 1977-78. The Management stated (January 1979) that the figure given in the Annual Report was incorrect. The Management further stated (March 1979) that the difference had been taken note of for rectification.

•61824.75 lakhs upto 3/81 in 2226 cases — see IR 80 (excluding suit filed cases) default being 1957-58. The age-wise particulars of these cases are given below:—

Period	Number of units	Amount in arrears		
		Principal	Interest	Total
			(Rupees in lakhs)	
Less than one year	601	78.39	34.84	113.23
One year and above but less than two years	274	108.32	77.67	185.99
Two years and above	566	366.88	206.22	573.10
Total	1,441	553.59	318.73	872.32

14.03. According to the details furnished by the Corporation, the industry-wise break-up of the arrears at the close of March 1978 (excluding the amount due from units taken over by National Textile Corporation Limited and the cases in which suits were filed) was as shown in the table below: —

Type of industry	Number of units assisted	Amount disbursed to the end of March 1978	Balance outstanding at the end of March 1978	Number of units in default	Amount in arrears			Percentage of default to balance outstanding
					Principal	Interest	Total	
		(Rupees in lakhs)				(Rupees in lakhs)		
Food manufacturing	353	497.96	442.91	248	80.01	51.32	131.33	29.65
Transport	371	302.14	172.72	290	92.46	13.93	106.39	61.59
Textiles	182	398.17	297.74	97	50.80	38.79	89.59	30.09
Hotels	80	211.83	199.67	38	48.11	22.47	70.58	35.33
Rubber products	131	223.83	218.95	62	31.33	30.04	61.37	28.03
Machinery (other than electrical machinery)	100	147.38	146.47	89	33.25	20.70	53.95	36.83
Electrical machinery	49	212.57	213.63	33	18.71	12.34	31.05	14.53
Chemical and chemical products	165	227.58	171.43	109	27.30	14.26	41.56	24.24
Basic metal industries	51	97.23	101.80	35	19.53	17.79	37.32	36.66
Non-metallic mineral products	67	103.48	107.52	43	17.99	16.15	34.14	31.75

Type of industry	*Number of units assisted*	*Amount disbursed to the end of March 1978*	*Balance outstanding at the end of March 1978*	*Number of units in default*	*Amount in arrears*			*Percentage of default to balance outstanding*
					Principal	*Interest*	*Total*	
		(*Rupees in lakhs*)			(*Rupees in lakhs*)			
Furniture and fixtures	105	69.90	77.52	82	19.87	9.87	29.74	38.36
Leather goods and industrial estate	2	30.18	30.18	..	..	..	..	..
Others	558	786.99	783.00	315	114.23	71.07	185.30	23.66
Total	2,214	3,309.24	2,963.54	1,441	553.59	318.73	872.32	29.44

The table above would show that default was very heavy in the case of industries like transport, textile, hotels, machinery (other than electricals) furniture and fixtures, etc. Out of 1,441 cases of default, 646 cases related to loans given to small scale units which carried interest at 5.5 *per cent* per annum against 12.5 to 14 *per cent* for other industries. According to the Corporation (May 1978), the heavy default is mainly due to delay in implementation of the projects for which assistance had been given, inadequate return on investments, lack/shortage of raw materials, marketing difficulties and inadequacy of working capital.

14.04. The following table shows the percentage of the amount under default to the total amount of loan outstanding for the three years up to 1977-78:—

Year	*Amount of loan outstanding at the end of the year*	*Cumulative amount that fell due for recovery to the end of March*	*Amount in arrears at the end of the year*			*Percentage of default to total loan amount outstanding*	*Percentage of default to cumulative demand*
			Principal	*Interest*	*Total*		
			(*Rupees in lakhs*)				
1975-76	1,931.50	1,337.83	222.22	176.30	398.52	20.6	29.8
1976-77	2,435.33	1,814.75	428.63	231.53	660.16	27.1	36.4
1977-78	2,963.54	2,320.72	553.59	318.73	872.32*	29.4	37.6

* This does not include Rs. 43.01 lakhs due from three textile mills taken over by the National Textile Corporation Limited in April 1974 and Rs. 208.39 lakhs due from 62 units against which suits have been filed. If these are also taken into account, the default will work out to 48.42 *per cent* of cumulative demand.

There has been enormous increase in the amount under default and also in the percentage of default to total amount of loan outstanding during the last two years. While the increase in the loan amount outstanding at the end of 1977-78 was only 53 *per cent* over that at the end of 1975-76, the increase in the amount under default was 119 *per cent*.

14.05. The position of demand, collection and balance for the three years up to 1977-78 was as given below:—

Year	*Overdue amount pending collection at the beginning of the year*	*Demand during the year*	*Total*	*Collection during the year*			*Percentage of collection during the year*		*Balance pending collection at the end of the year (Rupees in lakhs)*
				Towards arrears relating to earlier years	*Towards demand that fell due during the year*	*Total*	*Arrears*	*Current demand*	
	(Rupees in lakhs)								
1975-76	250.36	315.20 (+) 4.13†	569.69	51.16	120.01	171.17	20	38	398.52
1976-77	398.52	476.92	875.44	114.64	100.64	215.28	29	21	660.16
1977-78	660.16	506.39 (+) 189.60††	1,356.15	80.22	152.21	232.43	12	22	1,123.72

14.06. An analysis of the action taken in regard to the default cases (excluding those relating to units taken over by the National Textile Corporation Limited and cases involved in suits), as at the end of March 1978, is given below:—

Stage of action	*Number of cases*	*Amount of arrears as on 31st March 1978 (Rupees in lakhs)*
(i) Under moratorium	49	229.74
(ii) Take-over/Seizure of mortgaged property	57	31.21
(iii) Action yet to be initiated/loans under monitoring for recovery	1,335	611.37
Total	1,441	872.32

† Arrear demand for the previous years.

†† Arrear demand relating to cases involved in suits.

14.07. In regard to cases involved in suits, the position at the end of March 1978 was as follows:—

Stage of action	Number of cases	Amount of arrears as on 31st March 1978 (Rupees in lakhs)
Under legal proceedings		
(a) Execution pending	13	52.94
(b) Execution petition to be filed	17	45.21
(c) Suits under compromise	4	18.77
(d) Suits under trial stage	28	91.47
Total	62	208.39

14.08. In 100 cases of default for periods exceeding more than three years (amount under default: Rs. 168.23 lakhs as on 31st March 1978), no effective action (such as institution of legal proceedings, summary recall of loan, seizure/take-over of assets, etc.) has been taken by the Corporation (March 1978). In May 1977, the Corporation moved Government to amend the Revenue Recovery Act to enable it to have recourse to revenue recovery proceedings for recovery of the dues. The decision of Government on the proposal is still awaited (March 1979).

14.09. In terms of the mortgage deed, the Corporation can, whenever it is of the opinion that the market value of the mortgaged premises has depreciated to such an extent as to warrant further security, require the borrower to furnish additional security or to reduce his indebtedness to the Corporation. No review of the default cases, was, however, conducted by the Corporation till June 1978 to ascertain the adequacy of the security offered by the borrowers. A review of 700 cases conducted by the Corporation during July to October 1978 revealed that in 120 cases the aggregate amount of loan outstanding at the end of March 1978 (Rs. 336.38 lakhs) exceeded the written down value (Rs. 251.31 lakhs) of the security offered by Rs. 85.07 lakhs. The Corporation has not assessed the market value of the securities offered to decide whether further security is to be obtained from the borrowers (March 1979). The review of the remaining cases is yet to be completed (March 1979).

14.10. According to the office manual of the Corporation, each concern assisted by it is to be inspected by its inspection staff at least once every year. While conducting inspection, the inspectors are required to verify whether the loanees had utilised the loan for the specified purpose within the specified period and also whether the assisted units continue to function on the lines indicated in the feasibility/project report. However, inspection work is heavily in arrears. Information furnished by the Corporation in December 1978 indicated that out of 2,005 assisted units in respect of which loans were outstanding as at the end of March 1978, 311 units had not been inspected even once after March 1976. Information regarding the number of units which, out of the 311, had defaulted in the repayment of loans was not readily available with the Corporation (March 1979). On a test check of the default cases, it was seen that in the case of 30 units (to which loan amounting to Rs. 42.25 lakhs was disbursed between December 1971 and September 1977) in respect of which the amount overdue for recovery at the end of March 1978 was Rs. 11.07 lakhs, no inspection had been conducted after disbursement of the final/latest instalments of the loan. In eight of the 30 cases, it was further seen that the interval between two successive inspections was more than two years. In nine other cases (amount disbursed : Rs. 24.69 lakhs between June 1971 and November 1975), the interval between the two successive inspections ranged between 24 months and 74 months. The Management stated (March 1979) that "due to inadequacy of the field staff commensurate with the increase in the volume in loan portfolio there had been unavoidable delay in field inspection". In regard to cases where inspection was in arrears, the Corporation was not in a position to identify the reasons for default and also to ascertain whether the units continued to function.

C353
1

14.11. The mortgage deeds executed by the loanees require them to send half-yearly *pro forma* balance sheets and profit and loss accounts and annual audited balance sheets and profit and loss accounts to the Corporation. This is intended to enable the Corporaion to review the working of the units and also to ascertain how far the forecast made in the project report has actually materialised. However, in the cases subjected to test check, there was no indication that the half-yearly/annual accounts of the assisted units had been obtained and reviewed by the Corporation. In the absence of periodical reports from the assisted units, the Corporation was unable to review their working from time to time and also to identify the areas of problems faced by the beneficiary units. The Management stated (March 1979) that the loanees, who by and large came from the unorganised sector, did not maintain proper accounts and hence they did not send the accounts to the Corporation. The Management further stated that a systematic review of financial statements would be done in future.

14.12. The Corporation has no system of preparing monthly consolidated demand, collection and balance statements. Consequently, review of the overall position of default from time to time is rendered difficult.

14.13. The conditions of the loan/mortgage deed stipulate that the project for which the assistance is given by the Corporation should be completed within the specified period (normally one year) reckoned from the date of drawal of the first instalment. Inspection of the assisted units being heavily in arrears there was no means in the Corporation to ensure the utilisation of the loans for the purpose for which they were given. The Corporation admitted (March 1979) that there had been failure in this area and stated that with the strengthening of technical cell things were improving.

14.14. A test check of 220 cases, conducted during June to October 1978, revealed the following:—

(a) In 30 cases (relating to loans aggregating Rs. 62.38 lakhs sanctioned between September 1971 and September 1976 and first instalments disbursed between December 1971 and March 1977 and where the default at the end of March 1978 amounted to Rs. 18.58 lakhs), there was nothing on record to show that the project had been completed as envisaged in the project reports. In another case relating to a loan of Rs. 0.26 lakh disbursed in July 1973 where the amount defaulted till the end of March 1978 was Rs. 0.11 lakh, inspection conducted in September 1977 by an inspector of the Corporation revealed that the entire amount remained unutilised. The Management stated (March 1979) that legal action was under way against the unit for non-utilisation and default.

(b) According to the terms and conditions of loan/ mortgage deed, the loanees have to keep the mortgaged properties insured against loss or damage by fire, flood, earthquake, cyclone, etc. till the loan is repaid in full. The loanees are to remit the insurance premium and deposit the insurance policies and receipts with the Corporation. In 31 default cases involving Rs. 30.43 lakhs, it was seen that there was no evidence to show that the insurance policies taken by the loanees at the time of drawal of the loan were kept alive. According to the details available with the Corporation, insurance cover in six of these cases (amount: Rs. 5.43 lakhs) expired before March 1973, in 10 cases (amount: Rs. 9.02 lakhs) between April 1975 and March 1977 and in 15 cases (amount: Rs. 15.98 lakhs) between April 1977 and March 1978. In none of these cases, the Corporation has taken any action to get the assets insured.

(c) In 11 out of 220 cases, it was seen that even the first instalment, which fell due on different dates between February 1971 and December 1976, had not been paid by the loanees. The default in these cases at the end of March 1978 amounted to Rs. 51.08 lakhs (principal: Rs. 25.46 lakhs and interest: Rs. 25.62 lakhs). Default of all intalments that fell due to the end of March 1978 indicates that either the loanees have not started production or they are not getting enough return to repay the loan due to unsatisfactory performance, or they are deliberately holding up payment in view, *inter alia*, of the lower rate of interest charged by the Corporation, However, the Corporation has not investigated the reasons for the default.

(d) In June 1968, the Reserve Bank of India advised the Corporation not to venture into the field of film industries as the area was risky and that there was another corporation set up by the Government of India to cater to the needs of the film industry. Despite this, the Corporation sanctioned (between July 1968 and July 1975) loans aggregating Rs. 70.64 lakhs to 12 units and disbursed Rs. 39.22 lakhs to eight units up to March 1978, out of which assistance to two units was for meeting working capital requirements. In seven out of the eight cases, the loanees have defaulted in payment of the instalment and the total amount in arrears as at the end of March 1978 worked out to Rs. 7.33 lakhs (principal: Rs. 3.97 lakhs and interest: Rs. 3.36 lakhs). The Management stated (March 1979) that the decision to provide assistance to motion picture producers was taken with a view to encouraging producers in the State.

(e) In two cases under default (amount defaulted as on 31st March 1978: Rs. 0.74 lakh) it was seen that the value assessed by the valuers of the Corporation in respect of the land offered as security was significantly different from that shown in the sale deed, although the valuation was done in the same year (1972) in which the land in question was purchased by the loanee. In one case, the land purchased for Rs. 8,000 in May 1972 was assessed at Rs. 26,450 in October 1972 and in another case, the land purchased for Rs. 5,000 in May 1972 was assessed at Rs. 29,625 in July 1972. Information about the circumstances in which the properties were valued at a higher amount than that shown in the sale deeds is awaited from the Corporation (March 1979). The Management stated (March 1979) that till 1972 the Corporation engaged retired officers of the Revenue Department and Public Works Department of the State Government for valuation works and that as the arrangement was not found satisfactory, it was now engaging its own officers or officers on deputation from Government for such valuation works.

(f) An analysis of nine default cases relating to transport industry (amount of default at the end of March 1978: Rs. 4.46 lakhs) where the period of loan expired between October 1976 and January 1978 revealed (March 1979) that in two cases where the default at the end of March 1978 was Rs. 2.14 lakhs, orders issued by the Corporation for seizure of the vehicles could not be enforced as the vehicles could not be located.

(g) According to the procedure laid down in the office manual of the Corporation for pre-sanction scrutiny on loan applications, the Corporation has to obtain reports on credit-worthiness of the applicants and also examine the feasibility and profitability of the projects (for which assistance is required) with special reference to availability of raw materials, marketing arrangements, arrangements for working capital, etc.

For ascertaining the credit-worthiness of the applicants in a few cases, the Corporation consulted the State Bank of Travancore. Of these, in seven cases, it was observed that though the bank had reported that the applicants had no dealing with it, loans aggregating Rs. 13.89 lakhs were sanctioned to them (between May 1971 and October 1975) without further verification of their credit-worthiness; default in these cases, as at the end of March 1978, amounted to Rs. 6.31 lakhs (principal: Rs. 4.31 lakhs and interest: Rs. 2 lakhs). The Management stated (March 1979) that the practice of obtaining credit report from the State Bank of Travancore had since been discontinued from April 1977 and that the inspectors of the Corporation were now being deputed to collect the details about credit-worthiness of the applicants, wherever necessary.

On completion of the projects for which Rs. 38.88 lakhs were sanctioned to 10 concerns between December 1969 and August 1974, the loanees experienced difficulties to run the concerns on profitable lines for various reasons such as shortage of raw materials, inadequacy of working capital, etc. The profitability, as envisaged in the project report, was not achieved and consequently the units could not generate enough funds to repay the loans causing the instalments to fall into arrears.

The default in these cases aggregated Rs. 34.73 lakhs (principal: Rs. 18.38 lakhs and interest: Rs. 16.35 lakhs) at the end of March 1978. The Management stated (March 1979) that the Corporation had since decided to have closer co-ordination with the commercial banks to ensure provision of timely and adequate working capital for the assisted units.

14.15. Some interesting aspects noticed in four of the cases subjected to test check are given below:—

(a) The Corporation sanctioned a sum of Rs. 2 lakhs in June 1974 to firm 'A' for starting a manufacturing unit for production of spices and curry powder. Out of this, the first instalment of Rs. 1.20 lakhs was paid (August 1974) to another firm 'B' which proposed to supply machinery to the loanee. An inspection conducted by the Corporation in May 1975 showed that firm 'B' had not supplied the machinery and that it was only an institution running a chit fund. When the Corporation issued a legal notice to the loanee (Firm A) in January 1976, the latter intimated (April 1976) that the unit had been set up at a site different from the one mortgaged to the Corporation. The amount defaulted till March 1978 was Rs. 0.37 lakh.

(b) An amount of Rs. 9 lakhs was sanctioned to a sole proprietorship concern in July 1972 to establish a Kaolin unit. Of this, a sum of Rs. 2.50 lakhs was disbursed to the firm till July 1973. Part of the loan disbursed (Rs. 1. 25 lakhs) was for procurement of machinery. The first instalment (Rs. 0.75 lakh) for purchase of machinery was paid in September 1972 and the second instalment (Rs. 0.50 lakh) in July 1973. An inspection conducted in August 1973 revealed that the instalment of Rs. 0.50 lakh was paid in July 1973 when the earlier instalment given in September 1972 remained unutilised. The concern had not purchased any plant and machinery nor started the unit. A suit filed by the Corporation in June 1976 for realisation of the dues had been decreed (September 1977) in its favour. Execution proceedings are yet to be initiated (March 1979). The amount under default at the end of March 1978 was Rs. 3.37 lakhs.

(c) A loan of Rs. 3.85 lakhs was sanctioned to a sole proprietorship concern for establishing a confectionary unit and Rs. 2.15 lakhs disbursed till July 1973. Of this, Rs. 1.09 lakhs were for purchasing machinery, on the basis of quotation, produced by the applicant and without verifying any other document to ensure that firm orders had been placed and the suppliers accepted the orders. An inspection conducted in August 1973 showed that the loanee had not purchased any machinery and that the documents produced by him for claiming the instalment intended for purchasing the machinery were fictitious. The amount under default in this case at the end of March 1978 was Rs. 2.76 lakhs. The Corporation filed a suit in Court in November 1975 for realising the dues. The case has not yet been decreed (March 1979).

(d) A loan of Rs. 7.5 lakhs was sanctioned to a sole proprietorship concern in October 1972 for starting a manufacturing unit for production of high density polythene woven sacks and Rs. 6.56 lakhs disbursed to it till May 1975. Though it was stated in the project report that raw materials (high density polythylene granules and low density polythylene granules) required were indigenously available, the unit when it was due to commence production found that it would have to depend on imported raw materials for meeting its requirement. Owing to non-availability of raw materials, the firm could not commence production till late in 1975. In July 1975, the firm requested the Corporation to grant it moratorium for three years on account of delay in commencing production. The request was under consideration of the Corporation (December 1978). The amount defaulted by the firm to the end of March 1978 was Rs. 2.59 lakhs.

It was noticed in audit that the Industrial Development Bank of India (I. D. B. I.), to which the project report was referred, had advised (June 1972) the Corporation 'not to put through the project as raw materials required for the project were in short supply in the country' but this advice was overlooked by the Corporation while granting the loan.

The Management stated (March 1979) that in this case, the loan was sanctioned based on letters received by the loanee from the Indian manufacturers of 'high density polythylene and low density polythylene granules' regarding supply of raw materials.

Summing up

The foregoing analysis shows that the default in repayment of loans disbursed by the Corporation has been increasing in amount as well as in the percentage of the amount due. Although the Corporation has attributed this to difficulties experienced by the loanees in working the assisted projects due to problems such as want of working capital, inadequate return, marketing problems, shortage of raw materials, etc. it would appear that the failure of the Corporation to appraise properly the feasibility and profitability of the proposed projects before sanctioning the loans has contributed to the growing number of default cases. It appears also that the follow-up action after sanctioning/disbursal of the loans to ensure their proper and effective utilisation has been wanting in many cases.

The Management stated (March 1979) that appraisal of projects was done by its officers in the financial and technical wings, and that the scrutiny of project reports was based on certain assumptions drawn on the then prevailing conditions as the economic and environment factors cannot be predicted with certainty. The Corporation also stated that steps were being taken to bring the tendency to default under control.

The views of the Corporation incorporated in the paragraph were endorsed by Government in March 1979.

SECTION XV

KERALA STATE ELECTRICITY BOARD

TARIFF AND REVENUE

15.01. Tariff

Under Sections 46 and 49 of the Electricity (Supply) Act, 1948, the Board is empowered to fix a grid tariff for supply of power to licensees as also tariffs for supply of power to consumers other than licensees. According to Section 59 of the Act, as it stood up to June 1978, the Board was, as far as practicable, to adjust its charges from time to time in such a way as not to incur losses.

In June 1978, the Act was amended and according to the amended Act, the Board shall, after taking credit for any subvention from the State Government, carry on its operations and adjust its tariffs so as to ensure that the total revenues in any year of account shall, after meeting all expenses properly chargeable to revenues, leave such surplus as the State Government may from time to time specify. The rate of surplus to be achieved by the Board has not been specified by the State Government (May 1979).

Mention was made in paragraph 12, Section VIII, Chapter II of the Report of the Comptroller and Auditor General of India for the year 1973-74 (Commercial) about the tariff policy of the Board and the impact of tariff revisions made up to March 1974 on the revenues of the Board.

15.01.1. *Tariff revision*

The Board had constituted (November 1973) a committee to make a thorough study of the entire tariff structure and to formulate comprehensive proposals for revising the tariff for supply of energy to the various categories of consumers. Based on its recommendations (March 1975, January 1976 and February 1976) and also taking into account the increase in the cost of supplies and services and the rise in the salaries and wages of employees, the tariff in respect of the following types of consumers was revised with effect from various dates beginning with July 1974:—

Category of consumers	*Date from which revision was given effect*
Domestic tariff	1st July 1974
Extra high tension consumers	1st July 1975
H.T. tariff—applicable to 11 KV/22 KV consumers	Date of meter reading in June 1976
L.T. tariff—applicable to 230/400 volts consumers—L.T. Agriculture	Date of meter reading in June 1976
Public lighting	1st January 1977
Grid tariff for licensees for supply at 11/66 KV	1st August 1976

There has been no revision of tariff in respect of other categories of consumers since January 1970.

The important features of the revised tariff are as follows:—

(i) Fixed charges of Rs. 4 per month per consumer plus energy charges at sliding rates (25 paise per unit for the first 50 units, 15 paise per unit for the next 50 units and 10 paise per unit for the balance) were prescribed in the case of domestic consumers.

(ii) A two part tariff, i.e. demand charges and energy charges, was introduced in respect of all extra high tension and high tension consumers.

(iii) In the case of domestic consumers, whose quarterly consumption did not exceed 45/60 units, a flat rate of Rs. 5/6 per month was fixed subject to certain conditions.

(iv) The levy of meter hire and service charges was dispensed with in the case of all categories affected by the above tariff revision.

15.01.2. *Impact of tariff revision*

While the energy sold within the State recorded an increase of 30 *per cent* between 1973-74 and 1977-78 (from 1,787.18 Mkwh in 1973-74 to 2,331.34 Mkwh in 1977-78), the increase in revenue earned from such sale during the same period was 63 *per cent* (from Rs. 1,939.98 lakhs in 1973-74 to Rs. 3,163.71 lakhs in 1977-78). Revenue earned per Mkwh of intra-State supplies increased from Rs. 1.08 lakhs in 1973-74 to Rs. 1.36 lakhs in 1977-78; the increase (26 *per cent*) was mainly attributable to tariff revision and change in the pattern of sale.

Despite the tariff revision, the Board continued to incur losses. According to the Net Revenue and Appropriation Account (in commercial pattern) prepared by the Board, the overall loss during each of the five years up to 1977-78 was as indicated below:—

Year	*Loss during the year*	† *Advance subvention from the State Government towards loss on rural electrification*	*Profit (+)/ Loss (—) on disposal of assets*	*Accumulated loss at the end of the year*
		(*Rupees in crores*)		
1973-74	8.50	1.40	..	18.25
1974-75	10.39	2.90	..	25.74
1975-76	13.71*	4.40	(—) 0.05	35.10
1976-77	5.08	3.26	(+) 0.08	36.84
1977-78	2.61	5.00	..	34.45

† The Board has not kept separate accounts for rural electrification works and loss had been worked out by the Board on '*adhoc*' basis.

* Loss includes Rs. 0.67 crore relating to earlier years.

15.01.3. *Consumer composition*

The consumer composition of the Board shows that bulk of extra high tension consumers, as shown below:—

Category of consumers	Number of consumers		
	1975-76	1976-77	1977-78
High tension and extra high tension	340	373	433
Other consumers within the State	9,10,045	9,90,179	10,71,582
Supplies to other States	..	..	..
Total	9,10,385	9,90,552	10,72,015

P65 / AA 76-77 ; P 134 / KV IV ; P 30 / AA 76-77

C / 129 / DP / II

EHT consumers as at 31.3.1978 } 21

the supplies was made to other States and high tension and

Power consumed in lakh units (Kwh)			*Percentage to total consumption*		
1975-76	1976-77	1977-78	1975-76	1976-77	1977-78
12,827.62	13,658.51	15,370.20	55.35	50.95	39.04
7,325.16	7,714.02	7,943.18	31.60	28.78	20.18
3,025.19	5,432.39	16,051.55	13.05	20.27	40.78
23,177.97	26,804.92	39,364.93	100.00	100.00	100.00

While the percentage of energy supplied to other States to total sale has increased from 13.05 in 1975-76 to 40.78 in 1977-78, the percentage of sale within the State has decreased from 86.95 in 1975-76 to 59.22 in 1977-78.

15.01.4. *Supply of power at concessional rates* 217/DR.II

The Board has been supplying power to a rayon manufacturing company since 1960. At the time of commencement of the supply, there was no agreement between the Board and the consumer entitling the latter to concessional rates and the company was charged at the then prevailing tariff of Rs. 175 per KVA per year for the energy supplied to it. In April 1965, the tariff was revised to Rs. 200 per KVA per year. However, till December 1969, the company was charged at the old rate (Rs. 175 per KVA per year). In January 1970, the tariff was further revised to Rs. 240 per KVA per year and the revised rate was applied for supplies to the company from that date. Thus, for the period April 1965 to December 1969, the company was charged at a rate lower than the tariff rate, although it was not entitled to any such concession. The assessment of the firm at concessional rate during April 1965 to December 1969 had resulted in a loss of revenue to the extent of Rs. 4.74 lakhs besides non-collection of duty of Rs. 0.95 lakh.

In April 1975, an agreement was executed by the Board with the company, with retrospective effect from November 1960 for 20 years. In it, the rate to be applied for supplies made to the company during the period April 1965 to December 1969 was specified as Rs. 175 per KVA per year, apparently to regularise the supplies made earlier at concessional rates. The Board stated (March 1979) that it was in continuous correspondence with the firm from the very beginning, but due to various reasons such as inclusion of certain clauses in the agreement, periodic revision of tariff, etc. about which the firm had approached the

Government, actual execution of the agreement was possible only in April 1975.

15.01.5. *Short assessment of revenue*

(a) An agreement was executed (June 1973) by the Board with a private hospital at Ernakulam for supply of power. Even though the Board had prescribed in 1972 the conditions of supply of electrical energy, to be effective from 1st October 1972, necessary provision for its application was not made in the agreement. According to the conditions of supply of electrical energy, the consumer was to be charged at the highest of the (i) maximum demand established during the month, (ii) 75 *per cent* of the contract demand and (iii) 50 KVA. The consumer was, however, charged on the basis of average monthly maximum demand. In April 1975, the Board detected the mistake and assessed the consumer according to the conditions of suppy but the consumer declined (April 1975) to make payment on the ground that there was no provision in the agreement for such an assessment. In July 1975, the agreement was revised incorporating the prescribed conditions of supply. Failure of the Board to make necessary provision in the agreement executed in June 1973 to enable it to invoice the consumer according to the conditions of supply (which came into force in October 1972) resulted in a short-assessment of Rs. 0.56 lakh (including electricity duty of Rs. 0.09 lakh) for the period from June 1973 to February 1975.

(b) In terms of an agreement (August 1973) executed by a company at Feroke, it was to take energy up to a total of 2,000 KVA from the Board and was to be charged according to the conditions of supply of electrical energy laid down in 1972. Till April 1975, the company was, by mistake, assessed on the basis of the maximum demand established during each month (which ranged between 50 and 220 KVA) instead of 75 *per cent* of the contract demand (2,000 KVA) which was higher. In June 1975, the Board detected the mistake and revised the assessment for the period from August 1973 to April 1975. The consumer represented (July 1975) against this, contending that there was no contract demand (which was not a fact) and also challenged (August 1975) the revised assessment in the High Court. The service was disconnected in May 1976 at the request

221
KVI

of the consumer. As the Board offered (September 1977) to consider the representation of the consumer, the case was dismissed by the Court (September 1977). Following this, the Board withdrew, without stating any reason, the additional demand which was intended to make good the short assessment of Rs. 3.25 lakhs (including duty of Rs. 0.54 lakh) for the period from August 1973 to April 1975. The additional demand for the subsequent period was not raised. A sum of Rs. 1.44 lakhs including duty of Rs. 0.31 lakh was due from the consumer even on the basis of recorded demand for the period from May 1975 to April 1976. The Board stated (December 1978) that action under the Kerala Revenue Recovery Act, 1968 to realise the arrears was in progress.

Withdrawal of the additional demand for the period from August 1973 to April 1975 and failure to raise the additional demand for the subsequent period resulted in an extra contractual benefit to the firm amounting to Rs. 4.12 lakhs (including duty of Rs. 0.74 lakh).

15.01.6. *Short billing due to wrong connection of meter*

In July 1977, the Board detected that the connections given in January 1972, at the meter terminal blocks of The Plantation Corporation of Kerala Limited, a State Government Company, were wrongly done, with the result that the consumption indicated by the meter represented only one-third of the actual consumption. The defect was rectified in July 1977. Under Indian Electricity Rules, 1956 and notification issued by the State Government thereunder in September 1968, it was the duty of the Board to examine, test and regulate all meters, maximum demand indicators and other apparatus required for ascertaining the amount of energy supplied, before their first installation at the consumer's premises and thereafter every two years (in the case of L.T. Power consumers). No such examination either before first installation or thereafter (till July 1977) was done in this case.

According to the Board (August 1977), the actual consumption for the period from January 1972 to July 1977 would be 12.91 lakh units as against 4.30 lakh units recorded by the meter. The assessment of the energy charges for the period January 1972 to July 1974 was not revised on the ground that revision of assessments for prior period of more than three years was not permissible. Failure of the Board in detecting the defective connection in time has resulted in a loss of Rs. 0.31 lakh (including duty of Rs. 0.03 lakh) to the Board. For the period August 1974 to July 1977 the Board revised the assessment and raised an additional demand (October 1977) for Rs. 1.01 lakhs (including duty of Rs. 0.09 lakh). The consumer rejected (November 1977) the demand stating that it was "illegal" since it was the duty of the Board to keep the meter correct and to check it from time to time. However, subsequently the consumer paid Rs. 0.21 lakh in March 1979 and agreed to pay the balance amount in four monthly instalments of Rs. 0.20 lakh each.

15.01.7. *Assessment, collection and arrears*

(1) Details regarding the assessment and collection of revenue and the balance outstanding (at the beginning and at the end of the year) for each of the four years up to 1977-78 are given in the table below:—

	1974-75	1975-76	1976-77	1977-78
		(Rupees in lakhs)		
Balance outstanding at the beginning of the year	954.29	1,006.63	1,263.04	1,601.78
Revenue assessed during the year	2,330.51	2,525.21	3,532.46	5,175.89
Total due for collection	3,284.80	3,531.84	4,795.50	6,777.67
Amount collected during the year	2,278.17	2,268.80	3,193.72	4,598.79
Percentage of collection	69.35	64.24	66.60	67.85
Balance outstanding at the end of the year	1,006.63	1,263.04	1,601.78	2,178.88
Average monthly demand	194.21	210.43	294.37	431.32
Balance at the end of the year expressed in terms of months' demand	5.2	6.0	5.4	5.1

The balance outstanding at the end of 1972-73 and 1973-74 was about 4.1 months' demand during the respective years. The figures given in the table above would indicate that the position has worsened.

Year-wise and party-wise details of outstandings have not been prepared and reconciled with the amount shown as outstanding under sundry debtors. In the absence of these particulars, the correctness of the balances under sundry debtors (Rs. 2,178.88 lakhs as at the end of March 1978) was not verifiable.

At the end of March 1978, the reserve for bad and doubtful debts stood at Rs. 108.94 lakhs which worked out to 5 *per cent* of the balance outstanding under sundry debtors. The outstanding debts have not been analysed as good, bad and doubtful and hence the adequacy of the reserve provided for could not be verified.

An instance where the outstandings under sundry debtors were heavy and remain so due to delay in taking a decision is mentioned below:—

Cominco Binani Zinc Limited

In December 1968, Government exempted the consumers of newly started industrial units from the levy of surcharge under the Surcharge Order, 1968 for certain periods. The company claimed exemption from the levy of surcharge, although according to the Board the unit was not eligible for exemption, as it was in existence at the time of promulgation of the Surcharge Order. The company did not pay the surcharge and duty thereon; the amount defaulted from June 1968 to November 1976 worked out to Rs. 49.32 lakhs (including duty of Rs. 8.74 lakhs). The matter was reported to Government by the Board in September 1976. No action has been taken to realise the dues as a decision is yet (March 1979) to be taken by Government.

299/KVI

(2) *Staggering system*

In August 1963, a system called 'staggering system' for billing energy was introduced by the Board as an experimental

measure in the Ernakulam Billing Unit. Under the system, reading of meters was to be done once in a year in certain cases like supply to domestic and non-commercial purposes and once in two months in other cases. A fixed amount was to be paid C103
monthly by the consumers and adjustments based on actual energy consumption were to be made on receipt of meter readings KV:VI
annually or bi-monthly. Necessary rules for the accountal of demand and collection under the system were framed only in May 1964 and consequently the entire posting in the central ledgers fell into arrears. The system was discontinued in September 1965 because of its failure. According to information furnished by the billing unit to the Special Officer (Revenue) of the Board in July 1977, an amount of Rs. 17.54 lakhs was still outstanding in respect of demand raised by the unit for the period up to September 1965 under the staggering system. The Board did not have year-wise or consumer-wise particulars of the arrears. The Board had earlier stated (July 1977) that the prospect of collection of these arrears was very remote. In December 1978, 293
the Board stated that with four changes in the accounting system DP I
between July 1963 and October 1966, the collection made after September 1967 could not be correctly earmarked against the demands relating to various periods. The Board further stated that after adjusting the collection during August 1967 to November 1974 the arrears relating to the staggering system at the end of November 1974 amounted to Rs. 16.27 lakhs.

(3) *Old arrears*

The amount outstanding for recovery at the end of March 1978 included Rs. 33.20 lakhs due from consumers in Ernakulam Billing Unit for the period prior to introduction of the staggering system referred to in the preceding paragraph. As the demand relates to very old periods, chances of its recovery are very remote for reasons such as claims becoming time-barred, loss of records, etc.

(4) *Minimum guarantee schemes*

(a) The Board takes up extension of distribution lines on the basis of agreements executed by the beneficiaries guaranteeing a minimum return of 10 *per cent* per annum on the capital cost of the work. The agreements thus executed require that the guarantors should apply for connection within two months of intimation from the Board of its readiness to supply energy. In case the guarantors fail to apply for service connection or discontinue the supply during the guaranteed period, they are liable to pay the guaranteed amount every month from the date of expiry of two months or from the date of discontinuance of supply. According to information furnished (September 1978) by 5 out of 37 revenue billing units under the Board, the number of unconnected minimum guarantors who failed to apply for connections within the specified period and the amounts due from them were as shown in the following table:—

KV II

	Name of billing unit	*Position as at the end of March 1978*	
		Number of unconnected minimum guarantee consumers	*Amount due (Rupees in lakhs)*
P.29	Attingal	406*	1.14*
p.103	Trichur	514	2.37
p.181	Ernakulam	273	1.76
p.243	Kottayam	164	0.83
P.329	Pathanamthitta	212	0.49

Information regarding year-wise analysis of arrears and action taken to realise the dues is awaited (May 1979) from all but one (Pathanamthitta) unit. In the case of Pathanamthitta unit, revenue recovery proceedings were stated to have been initiated in 46 cases (amount: Rs. 0.07 lakh); in other cases, action is yet to be initiated (May 1979). The Board stated (December 1978) that the necessity for speedy action to recover the balance had been pointed out to all billing units and Superintending Engineers (Electrical Distribution Division) and that the matter was being pursued.

(b) The amount guaranteed under the minimum guarantee agreement executed by prospective consumers, initially fixed on the basis of estimated cost of the work, is liable to variation

*Position at the end of December 1977.

if the actual cost of the work exceeds the estimated cost. It was, however, seen during test check that the actual expenditure on works was not ascertained in any case by the billing units nor any action taken to revise the guaranteed amount. The Board stated (December 1978) that instructions had been issued to close all the pending minimum guarantee works accounts and that the matter was being pursued. 295/DPI

According to the information furnished by two revenue billing units (Attingal and Kottayam), in 132 cases the actual expenditure (Rs. 5.38 lakhs) was more than the estimated cost of the works (Rs. 4.50 lakhs); the extra revenue realisable in these cases was Rs. 0.10 lakh per annum.

15.01.8. *Other points of interest*

The assessment and collection of revenue are attended to by the revenue billing units based on the meter readings and other data furnished by the electrical sections. A test check (September 1978) of 5 billing units (Attingal, Ernakulam, Kottayam, Pathanamthitta and Trichur) out of 37 billing units under the Board revealed the following:—

(a) According to the Revenue Accounting Rules, five *per cent* of the meter readings taken by the meter readers are to be test-checked by the Assistant Engineers and two *per cent* by the Assistant Executive Engineers, every month. The results of the test readings are to be intimated by them to the billing units. However, test reading statements were not being regularly received in any of the units. 51/197/239

In the case of Pathanamthitta billing unit, only eight check reading statements were received during 1977-78, out of 156 such statements due from ten Assistant Engineers and three Assistant Executive Engineers.

The Board stated (December 1978) that suitable instructions had been issued to all Superintending Engineers in this regard and that the matter was being pursued. 295/DPI

102|9267|MC

(b) Under the accounting rules of the Board, each revenue billing unit is to prepare a treasury/bank reconciliation statement and furnish it to the Financial Adviser and Chief Accounts Officer of the Board, on 15th of the month following the month of account. The reconciliation was in heavy arrears. In certain cases, even though amounts were shown in the accounts of the unit as remitted into bank/treasury, they did not figure in the accounts of the bank/treasury. The position in the five units in September 1978, subjected to test check, was as follows:—

Name of the electrical revenue billing unit	*Period up to which reconciliation statements have been forwarded to Financial Adviser and Chief Accounts Officer*		*Remittance as per the accounts of the unit not included in the accounts of* *	
	Treasury	*Bank*	*Treasury*	*Bank*
			(*Rupees*)	
Attingal	May 1971	March 1974	Not available	47,833
Trichur	March 1978	March 1978	35,188	Nil
Ernakulam	March 1972	January 1978	10,620	3,896
Kottayam	June 1978	November 1976	3,13,223	28,466
Pathanamthitta	July 1973	January 1978	Nil	35,812

The Board stated (December 1978) that the concerned units had been directed to forward the remaining statements expeditiously.

Summing up

Even after upward revision of tariff between July 1974 and January 1977, revenue earned by the Electricity Board is not adequate to carry on its operations without incurring loss. Delay in execution of agreements with the consumers, non-application of tariff rates even in the absence of agreements for supply at lower rates, short-billing due to failure to check the correctness of the meters and absence of periodical inspection had affected the revenue interest of the Board. Short-assessment of electricity charges has resulted in considerable loss of revenue. Failure of

* Net figures.

the Board to review minimum guarantee agreements to revise the guaranteed amount with reference to actual cost of works had also resulted in short realisation of revenue. Non-collection of the dues in time has led to accumulation of heavy balance under sundry debtors. There were delays/arrears in bank reconciliation on the revenue billing units.

Government to whom the matter was reported in October 1978 endorsed (January 1979) the views of the Board incorporated in the various paragraphs.

15.02. Defalcation

On a review of the accounts of Electrical Division, Trivandrum for September 1969, an instance of withdrawal of Rs. 7,000 towards compensation payable in respect of a deceased lineman was noticed. The authority quoted for the drawal was an order purported to have been issued by the Executive Engineer. Audit pointed out (April 1970) to the Board that the drawal was irregular as it was beyond the powers of the Executive Engineer and that the payment required the sanction of the Chief Engineer. In reply to the observation, the Executive Engineer stated that the concerned file had been transferred to Rural Division, Nedumangad. While forwarding (November 1970) this reply to Audit, the Board did not cause any enquiry to be made into the point raised in the audit observation.

In August 1973, on a scrutiny of the monthly accounts for March 1973 rendered by the division, the Internal Audit Organisation pointed out that two vouchers for Rs. 32,124 were missing. The Divisional Accountant of the division (there was a change in the incumbency of the post of Divisional Accountant in October 1973) reported (March 1974) to the Executive Engineer that the vouchers in question were not available with the office copies either. He further stated that according to the entries in the cash book, the drawal of the amount was by a self cheque and was made to appear as for advance payment to suppliers and that the purchase orders quoted appeared to be fictitious. The Executive Engineer reported (March 1974) to the Superintending Engineer and the Chief Engineer that the proceeds of the self cheque in question were collected from the bank by the then Divisional Accountant himself. The suspected case of defalcation was reported (March 1974) by the Chief Engineer to the Board. The Executive Engineer and the Divisional Accountant, who were in charge of the division in March 1973 were suspended (March 1974) by the Board. The Executive Engineer was reinstated in service in July 1974 without prejudice to further disciplinary action against him.

The Board ordered (April 1974) a special audit of the accounts of the division for the entire period of incumbency of the delinquent Divisional Accountant (June 1968 to October 1973). The special audit conducted (April 1974 to November 1974) by the Board indicated that the drawal of Rs. 7,000 in September 1969 (objected to by Audit in April 1970) was an instance of defalcation. During the course of special audit, it transpired that there was no such fatal accident warranting payment of compensation and that there was no payment to the Commissioner for Workmen's Compensation against the drawal. Besides the above two cases, the following instances of defalcation were also brought to light during special audit:—

Month of drawal	*Amount (Rupees)*	*Nature of claim*	*Remarks*
January 1970	15,537	Towards wages to workers	Two cheques for the same amount were drawn. The original entries made in the cash book relating to one of them were erased and new entries interpolated. There were also overwritings in the cash book. There was no document evidencing payment. According to the Commercial Accounts Manual of the Board, payment of wages to workers was to be made by opening a temporary advance in favour of the disbursing officer and sending

Month of drawal	*Amount (Rupees)*	*Nature of claim*	*Remarks*
			the cheque to him. No temporary advance in favour of any disbursing officer was opened in this case.
March 1971 C 105 DP 17/78-79/I	14,620	Advance for payment to supplier firms for clearing goods stated to have been consigned	No purchase orders were quoted in the voucher and no goods cleared. Two bills for drawal of the claim were written by the Divisional Accountant himself. The proceeds of the cheque drawn for payment against the two bills were collected by him personally. No investigation was done by the Executive Engineer to ascertain the reasons for the non-receipt of the consignments. According to the Commercial Accounts Manual of the Board the Internal Audit Organisation of the Board was to review the ledgers by rotation so as to cover all the ledgers including that relating to sundry debtors once in each half year. No systematic review of the outstandings under 'sundry debtors' was, however, done by it with the result that the case was not detected by it till it was brought to light during special audit.

The special audit revealed that the defalcations (Rs. 69,281) were rendered possible on account of failure of successive Executive Engineers in charge of the division to ensure compliance with codal provisions regarding handling of cash, payment to workers and suppliers and maintenance of cash books and other relevant registers. According to the provisions of the State Works Accounts Code, which the Board follows, the Divisional Accountant should have no hand either in preparing bills or in making cash payments as such duties will impair his usefulness as examiner of claims and payments. However, in the cases mentioned above, the Divisional Accountant was allowed to prepare bills and to handle cash in disregard of the codal provisions and this deviation from the prescribed procedure made the defalcation possible.

C 173,175

Two civil suits (filed in May 1976 and August 1976) for recovery of the defalcated amount (Rs. 69,281) with interest had been decreed (April 1978 and October 1976) in favour of the Board and execution of the decrees for realisation of the amount from the Divisional Accountant was pending (May 1979) as the latter filed an appeal in the High Court.

Had the circumstances leading to the drawal of Rs. 7,000 in September 1969 been investigated by the Board/Executive Engineer in April 1970 when the infirmity in the sanction was pointed out by Audit, there was a chance of detection/prevention of the defalcations.

The Board stated (February 1979) that the documents connected with the case were with investigating officers and that on their receipt back, action would be taken to fix up responsibility for allowing the Divisional Accountant to prepare bills and to handle cash in disregard to codal provisions. The Board further stated (February 1979) that the circumstances under which the infirmity in the sanction was not investigated by the Executive Engineer even after it was pointed out by Audit in April 1970 would also be enquired into on receipt back of the documents.

15.03. Surplus stores

The Rural Electrification Construction Corporation (R.E.C.C.) Division, Chalakudy received 115.67 tonnes of sheet piling joists (cost: Rs. 0.76 lakh) in August 1972 against an indent placed with Civil Branch Central Stores Division, Pallom in July 1972. The estimated requirements of the division at the time of making the indent could not be verified in audit as the relevant records were not readily available. Of the 115.67 tonnes received, 8.26 tonnes were sold (amount fetched: Rs. 0.09 lakh) to a private party and 5.81 tonnes were transferred to Electrical Division, Ernakulam in September 1972. The Executive Engineer, Ernakulam Division stated (December 1978) that the material transferred to that division was not shown as receipt in his office records and that "the full quantity might have been used" in the works directly.

In December 1972, the balance quantity of 101.60 tonnes of joists were declared as surplus, of which 21.50 tonnes were sold (amount fetched: Rs. 0.46 lakh) to a private firm between January 1973 and May 1973.

On abolition of R.E.C.C. Division, Chalakudy in July 1974, all the store items including the balance of 80.10 tonnes of joists were transferred to Electrical Division, Irinjalakuda. Before its abolition, the R.E.C.C. Division Chalakudy had invited tenders for disposal of 25 tonnes of joists. No time limit for acceptance of tenders was specified in the tender conditions. The highest rate (Rs. 2,956 per tonne) was offered (June 1974) by a firm of Coimbatore. The firm remitted Rs. 35,450 towards 50 *per cent* of the sale price in June 1974 itself as telegraphically instructed by the Executive Engineer, R.E.C.C. Division, Chalakudy. Though it requested (September 1974 and November 1974) for delivery of the materials, its offer was accepted by the Board only in January 1975. In the meantime, the firm backed out (December 1974) on account of the delay in acceptance of its offer and asked for refund of its earnest money (Rs. 1,500) and 50 *per cent* of sale price remitted in advance (Rs. 35,450) besides interest at 15 *per cent* and damages (Rs. 12,500). As the Board did not refund the amount, the firm filed a suit (June 1975) in Sub-court, Irinjalakuda. The case was decided by the Court in October 1978. According to the decree (October 1978) passed by the Court, the Board was to pay the firm Rs. 36,950 (earnest money and 50 *per cent* advance) with interest at 15 *per cent* for the period of the pendency of the suit and at 6 *per cent* from the date of decree to the date of payment. The amount has not yet been paid (March 1979). The Board e/139 stated (February 1979) that it had decided to prefer an appeal against the decision of the Sub-Court.

No further action has been taken (March 1979) by the Board for disposal of the remaining quantity of 55.10 tonnes NS of surplus joists (book value: Rs. 0.36 lakh; estimated market value in June 1974 with reference to the rate obtained then: Rs. 1.63 lakhs) apart from the quantity of 25 tonnes under dispute. The Board stated (February 1979) that the entire balance quantity of joists had become unserviceable and were not usable e/139 and that action was being taken for their disposal.

Government to whom the matter was reported in August e/205 1978 and Febuary 1979, endorsed (April 1979) the views of the Board.

15.04. Avoidable payment of interest

Sec: 194C

According to the Income Tax Act, 1961, as amended by the Finance Act 1972, income tax at two *per cent* is to be deducted at the source from payments made to works contractors from 1st June 1972. Tax so deducted is to be paid to the credit of the Government of India within one week from the date of deduction. In case of failure to deduct tax or to pay the tax deducted within the prescribed time limit, the officer making payment to the contractor is liable to pay simple interest at 12 *per cent* per annum on the amount for the period of delay, i.e. from the date on which tax was deductible to the date on which it is actually paid.

Belated recovery of income tax deductible at source and delay in paying the deducted tax had resulted in avoidable payment of interest to the Government of India in two cases as given below:—

(i) In Power Tunnel Division, Kulamavu, tax due (Rs. 8,164) on a payment of Rs. 4,08,238 made in July 1972 was deducted only from a subsequent payment made in April 1973 and the tax so deducted was remitted in June 1973.

(ii) In Power House Division, Moolamattom, tax aggregating Rs. 1,01,648 deductible at source from payments to contractors between March 1973 and December 1974 was remitted in January 1975. Of this, only a sum of Rs. 13,242 had been deducted by the division till then. The balance (Rs. 88,406) representing tax due (on advance payments made to a contractor) but not deducted at source was remitted by the division from the Board's funds, debiting it to the personal account of the contractor. Against this, a sum of Rs. 51,608 was recovered between June 1976 and March 1978. The balance amount of Rs. 36,798 is yet to be recovered (March 1979).

Since the deduction and payment of tax were not made within the prescribed time in the above two cases, Income Tax Department demanded (January/February 1978) Rs. 0.12 lakh as interest. This was paid by the Board in February 1978.

At the instance of the Chief Engineer, an enquiry into the causes of the delay was conducted (March-June 1978) by the Superintending Engineer, Idukki Accounts Closing Unit. The enquiry revealed (June 1978) that till November 1974, deduction of tax was not made by the Power House Division, Moolamattom from advance payments made to contractors.

The Board stated (February 1979) that due to some misunderstanding, the Power House Division did not recover income tax from advance payments made to the contractors till November 1974. The Board further stated (February 1979) that, as far as Power Tunnel Division was concerned, it was being examined whether the interest levied by the Income Tax Officer could be recovered from the contractor. Government endorsed (February 1979) the views of the Board.

15.05. Extra expenditure

Delay in fixation of site of construction, failure to ensure timely supply of materials to contractors, modifications in design after commencement of the work, etc. have prolonged the construction period of several works leading to termintion of contracts/grant of enhanced rates to contractors and causing extra expenditure to the Board. Two such instances are given below:—

(*i*) *Construction of a club-cum-garage building*

Tenders for construction of a club-*cum*-garage building in the power house premises at Ernakulam (estimated cost: Rs. 1.70 lakhs) were invited in May 1972 and awarded to the lowest tenderer for Rs. 1.37 lakhs in September 1972. According to the agreement executed in October 1972, the work was to be completed by June 1973, i.e. within nine months from the date of award of the work. The Board was to supply to the contractor cement (at Rs. 220 per tonne) and mild steel rods (at Rs. 130 per quintal) required for the work, subject to availability. The site for the work was to be made available to the contractor after dismantling an existing garage and a transformer plinth where 65 defective transformers were kept. The demolition of the transformer plinth was delayed till April 1973 (when the transformers were transferred to M.R.T. Division, Shoranur) and that of garage till May 1974 and consequently the site could be made available to the contractor partly in April 1973 and partly in May 1974. The contractor commenced the work in April 1973, but discontinued it in September 1973, on the ground that mild steel rods of required size were not supplied by the Board. The work was resumed in December 1973 on the supply of mild steel rods by the Board, but again stopped in January 1974 on account of delay in handing over the remaining part of the site. Only 10 *per cent* of the work had been executed till then. When second part of the site was made available in May 1974, the contractor demanded higher rates for resuming the work. When legal advice on the contractor's demand was sought (October 1974) by the Superintending Engineer from the Board's counsel, the latter advised (November 1974) negotiation of the rates for the remaining 90 *per cent* work as the Board was at fault in not making the site available to the contractor in time as also in not making timely supply of steel rods. Accordingly, after negotiation with the contractor, the Board agreed (April 1975) to pay for the remaining work at revised rates arrived at with reference to the schedule of rates effective from July 1974. (There was no revision of the schedule of rates by the Board between October 1972, the date of the agreement and June 1974). The work was completed in July 1977. The failure of the Board to ensure timely supply of materials and to hand over the site in time resulted in an extra expenditure of Rs. 0.29 lakh (approximately).

The Board stated (December 1978) that shifting of the defective transfomers could not be done earlier than April 1973, that delay in dismantling the garage was due to delay in completing the formalities for its disposal in auction and for getting the consent of the staff (as it involved cutting away certain facilities enjoyed by them till then) and that delay in the issue of steel rods till December 1973 was on account of non-availability of the required size of rods at the Civil Branch Central Stores. However, the Board had not clarified why advance action could not be taken to (i) shift the defective transformers, (ii) get the consent of the employees to dismantle the garage and (iii) procure mild steel rods. There was delay in issuing orders for the transfer of the defective transformers to M.R.T. Division, Shoranur till January 1973 and even after the issue of the orders, there was delay in effecting the transfer till April 1973.

(*ii*) *Construction of transformer repairing room*

Approved drawings for the construction of a transformer repairing room at Nallalam were forwarded by the Chief Engineer to the Superintending Engineer, Transmission Circle, Trichur, in January 1965/March 1965 and the latter sanctioned the work in January 1967 at an estimated cost of Rs. 1.54 lakhs. When tenders for the work were invited in February 1967, there was no response. Lack of response was attributed by the Executive Engineer (December 1970) to low rates in the estimate. Hence, the estimate was revised to Rs. 1.80 lakhs in October 1968. Pending examination of a proposal for increasing the capacity of the repairing room, construction was postponed till December 1970 when the estimate was again revised to Rs. 2.48 lakhs. Work was re-tendered in May 1971 and awarded to the lowest tenderer for Rs. 2.12 lakhs in August 1971.

In terms of the agreement executed (August 1971) the work was to be completed by Feburary 1972. The contractor could commence the work only in February 1972 as the site of the construction was fixed by the Board only then owing to the probelm of water logging in the area. In March 1972, the Executive Engineer proposed some modifications to the design so as to facilitate repairs of higher capacity transformers inside the repairing room and also to provide for easier access to tractor trailers. The revised design was finalised by the Chief Engineer only in November 1973. The contractor had stopped the work for the periods from April 1972 to July 1972 and from February 1974 to April 1974 due to delay in the supply of cement and mild steel rods and from August 1972 to November 1973 due to non-finalisation of design. In March 1974, the contractor demanded a compensation of Rs. 0.79 lakh for the loss suffered by him due to damage to scaffolding materials by hot sun, increase in the cost of labour and materials, etc. In June 1974, the Superintending Engineer reported to the Chief Engineer that he was not in favour of recommending any compensation for damage to scaffolding materials. Though the contractor resumed the work in April 1974, pending a decision on his demand, he stopped the work again in September 1974 demanding higher rates. For resuming the work, the contractor demanded (August 1975) higher rates as the Public Works Department schedule of rates (followed by the Board) had been revised with effect from July 1974. When the Superintending Engineer sought (October 1975) instructions on the contractor's demand, the Chief Engineer ordered (February 1976) to terminate the contract and to re-arrange the balance work without risk or loss to the original contractor. Accordingly, the contract was terminated in February 1976. The value of work done by the contractor till then was Rs. 1.52 lakhs. In November 1976, the estimate of the work was revised to Rs. 3.50 lakhs of which a sum of Rs. 0.12 lakh was for extra items occasioned as a result of the revision of the design. The balance work was entrusted, after invitation of tenders, to another contractor in August 1977 for Rs. 1.47 lakhs. The work has not yet been completed (Marh 1979).

In spite of a delay of over two years from October 1968 in finalising the proposal for expansion-*cum*-upgradation of the Nallalam Station and in revising the estimate, the Board failed to foresee the need for revising the design of the room to facilitate repair of higher capacity transformers and also to provide easy access to tractor trailers. Consequently, the Board had to revise the design of the building during the course of construction. A decision on the modifications proposed by the Executive Engineer in March 1972 was taken by the Chief Engineer only in November 1973, i.e. after a period of about 20 months. As a result of these, the construction of the transformer repairing room, the estimate of which was originally sanctioned in January 1967, is still to be completed (March 1979). Further, the delay in fixing the site of construction, revision of the design and delay in its finalisation after award of the contract and failure to ensure timely supply of materials to the contractor as per agreement resulted in an estimated extra expenditure of Rs. 0.85 lakh (including that on extra items).

Pending sanction to the construction of building, the Board purchased an electric overhead travelling crane (cost: Rs. 1.18 lakhs) in 1966. It has not yet been erected and put to use (March 1979) on account of the delay in construction of the building. The investment on the crane had remained idle for over twelve years. A sum of Rs. 0.06 lakh was spent on its repairs, as parts of the crane (wire rope and slings) were found defective on testing (December 1973 and January 1974) and had to be replaced, the guarantee period had expired in 1968. The Board admitted (March 1979) that there was delay in construction on account of foundation problems, non-availability of materials like cement and steel and revision of design.

59B

SECTION XVI

KERALA STATE ROAD TRANSPORT CORPORATION

C 27/Vol II

16.01. Operation of a luxury coach

In April 1976, the Corporation commissioned a luxury coach (terraplane) built at a cost of Rs. 2.19 lakhs (chassis: Rs. 1.04 lakhs; body: Rs. 1.15 lakhs). The vehicle was operated in

Ernakulam-Kozhikode-Cannanore route (305 km.) from April 1976 to October 1976 and in Ernakulam-Kozhikode route (211 km.) from November 1976 to November 1977. Based on a representation (May 1977) requesting for operation of a service from Palai to Velankanni (a pilgrim centre in Tamil Nadu), the Corporation decided (May 1977) to divert the 'terraplane' for the purpose. Accordingly, the vehicle was withdrawn from service (November 1977), converted (March 1978) into a contract carriage (conversion cost: Rs. 0.16 lakh) and operated as a contract carriage from Palai between March and June 1978 and from Kottayam thereafter. During the four months prior to its conversion into a contract carriage, i.e. from August 1977 to November 1977 when it was operated as a 'terraplane', the vehicle covered a total distance of 49,517 km. and earned a total revenue of Rs. 1.12 lakhs ; the average earnings per kilometre being 226 paise. The vehicle was idle from December 1977 to February 1978 when it was garaged for conversion from a 'terraplane' into a contract carriage. During the subsequent four months from March 1978 to June 1978, it plied as a contract carriage for 820 km. and earned a revenue of Rs. 2,247 only, the average earnings per kilometre being 274 paise. The vehicle did not perform even a single trip to Velankanni till June 1978.

The vehicle was again converted into a deluxe express (conversion cost: Rs. 0.06 lakh) in August 1978. Compared to the cost (Rs. 0.79 lakh in October 1976) of building a body directly for deluxe express bus, the building of the body for 'terraplane' first, its conversion into a contract carriage and then into a deluxe express bus resulted in a total expenditure of Rs. 1.37 lakhs, i.e. an additional expenditure of Rs. 0.58 lakh.

Thus, the decision to convert it first into a contract carriage (without assessing the traffic potential of the contract service) and then into a deluxe express resulted in an additional expenditure of Rs. 0.58 lakh on remodelling the bus body and loss of 245 vehicle days between December 1977 and August 1978.

Government stated (June 1979) that in the absence of inter-State agreement, service in Palai-Velankanni route would have to be operated only on payment of double tax which would not have been economical and therefore, the Corporation decided to operate a contract service in the route. It was also stated that as there was no demand for the contract carriage, to avoid idling of the vehicle, the Corporation decided to convert the contract carriage into a deluxe bus.

16.02. Idle wages

In August 1977, the Corporation promoted ten Station Masters Grade II (scale:Rs. 175-13-240-14-338) to the post of Station Masters Grade I (scale:Rs. 195-15-270-16-366) and again to the post of Assistant Transport Inspectors (Vehicles) (scale: Rs. 210-16-258-18-420). The second promotion was given effect to from the date following the date of their joining duty as Station Masters Grade I. Though it was specified in the order of promotion (August 1977) that their duties and responsibilities as Assistant Transport Inspectors would be defined in due course, no work was assigned to them till August 1978 when the General Manager ordered them to be attached to special squads which were being constituted by the Motor Vehicles Department in the districts for checking speeding by drivers. The idle wages paid to them for the period August 1977 to July 1978 amounted to Rs. 1.04 lakhs (approximately). The ten posts of Station Masters Grade II vacated by the promotees have been filled by promotion from other feeder cadres. Government stated (November 1978) that though specific duties were not assigned to the ten Assistant Transport Inspectors (Vehicles) till August 1978, their services were being utilised for "miscellaneous items of work." However, in reports furnished (June 1978 to August 1978) to Audit/the Corporation, the District Transport Officers had stated that the Assistant Transport Inspectors (Vehicles) were not performing any duty.

16.03. Loss of revenue

The Public Accounts Committee in its Third Report (1967-68) recommended that the right to conduct business in the stalls in the bus stations of the Corporation should be auctioned annually. In January 1972, Government reported to the

Committee that the Corporation had, after considering the recommendation and the practical difficulties in conducting annual auctions, decided to fix the period of letting out of stalls as two years at a time. However, this has not been implemented by the Corporation (May 1979). An instance in point where there was no attempt to review the letting out arrangement for over a number of years is given below:—

On the basis of offers received in response to a tender call in October 1968, licences to run five stalls in Ernakulam Bus Station, for a period of three years from November 1968, were granted to five tenderers who offered the highest licence fee (Rs. 1,183 in aggregate per month). Immediately on occupation of the stalls (licensed area: 860 square feet or 79.894 square metres) from 1st November 1968, the licensees encroached upon additional area (310 square feet or 27.870 square metres) earmarked for other purposes. Instructions issued (April 1969) by the Corporation to vacate the encroachment was not complied with by the licensees. In September 1969, the Corporation demanded from the licensees additional fee aggregating Rs. 394 per month from November 1968 for the encroached area. This was paid by all the licensees except one. The Corporation, however, did not take any action against the defaulter to realise the additional licence fee (Rs. 171 per month). The additional licence fee for the period up to February 1979 outstanding for recovery from him, amounted to Rs. 0.21 lakh.

When the Corporation invited tenders in September 1971, to make fresh licensing arrangements from November 1971, the existing licensees obtained (December 1971) from Court a permanent prohibitory injunction against eviction, except by due process of law. Though notices were issued by the standing counsel of the Corporation to the licensees in December 1971 and November 1976 for vacation of the stalls, this was not followed up by instituting civil suits for evicting the licensees on the expiry of the notice period. According to Government (September 1978), the standing counsel of the Corporation did not file the suit on one pretext or other and action was being taken to evict the "squatters" and to realise the additional licence fee from the defaulters. Had arrangement for letting out the stalls been reviewed from time to time, the failure to institute suits against the "squatters" could have been detected much earlier by the Corporation.

Computed with reference to the highest offers received in September 1971, the loss to the Corporation resulting from the continued occupation of the stalls by the existing licensees, after the expiry of their contract period, amounted to Rs. 1.82 lakhs up to February 1979.

16.04. Overpayments

The claims relating to pay and allowances, bonus, overtime allowances, etc. of the employees of the Coroporation are pre-audited cent *per cent* by the Corporation's Internal Audit Wing before disbursement. A test check of these payments by Audit disclosed overpayments in several cases as given below:—

(a) Irregularities in 2,518 cases involving overpayment of Rs. 0.34 lakh towards pay and allowances during 1976-77 and 1977-78 were noticed. The overpayments were mainly due to—

(i) preparation of pay bills without reference to half-pay leave, leave without allowances, etc. availed of by the employees,

(ii) incorrect calculation of variable dearness allowances,

(iii) irregular grant of house rent allowance, good attendance allowance, washing allowance, etc. and

(iv) irregular grant of pay and allowances for periods declared as *dies non*.

On this being pointed out (between November 1976 and October 1978), the Corporation initiated steps to recover the amount overpaid; the amount recovered up to February 1979 was Rs. 0.14 lakh.

(b) Overpayment of Rs. 0.12 lakh (1,127 cases) on account of incorrect computation of emoluments for the purpose of payment of bonus (including non-application of the salary/wage limits prescribed in Section 12 of the Payment of Bonus Act, 1965, which requires that any salary or wage above Rs. 750 per month should be ignored for the computation of bonus) and irregular payment of bonus to stipendiaries during 1975-76 and 1976-77 was noticed. Of this, the Corporation recovered Rs. 0.09 lakh up to February 1979; information whether the balance amount has been recovered or not is awaited (March 1979).

(c) It was seen in audit that duration of overtime duty for repairing certain vehicles and for which overtime wages were paid during 1975-76, 1976-77 and 1977-78 included periods long after the departure of the repaired vehicles on regular service. This was reported to the Management in March 1978; reply is awaited (March 1979).

The overpayments at (a), (b) and (c) above were mainly attributed (November 1978) by Government to inadequacy of ministerial staff and the pressure of work on those present. According to Government, finalisation of internal audit in haste on certain occasions due to delay in regularisation of absence of employees and completion of attendance registers sometimes led to clerical errors and overpayments. Government further stated (November 1978) that stringent instructions had been issued by the Corporation to all unit officers to avoid excess drawal and consequent overpayments by all means and that arrangements had been made to recover the balance of overpaid amounts as early as possible.

16.05. Delay in preparation of annual accounts

According to the Kerala State Road Transport Corporation Rules, 1965, the annual accounts of the Corporation are to be drawn up within six months of the close of each financial year. The accounts of the Corporation have not, however, been drawn up in time and the delay in this regard for the four years up to 1976-77 ranged from 3 months to 12 months as indicated below:—

Year of accounts	*Due date*	*Actual date of approval of accounts by the Corporation*	*Extent of delay (in months)*
1973-74	30th September 1974	2nd January 1975	3
1974-75	30th September 1975	13th March 1976	5
1975-76	30th September 1976	22nd July 1977	9
1976-77	30th September 1977	26th October 1978	12

The accounts for 1977-78 have not been finalised (March 1979). The matter was brought to the notice of Government in July 1978 and again in February 1979.

The Corporation introduced commercial system of accounting and decentralised the accounts with effect from 1st April 1975. The table shows that after introduction of the new system, the delay has increased considerably.

Trivandrum,
The 23rd AUGUST 1979

(S. SETHURAMAN)
Accountant General, Kerala.

Countersigned

New Delhi,
The 4th SEPTEMBER 1979

(GIAN PRAKASH)
Comptroller and Auditor General of India.

ANNEXURES

ANNEXURE—A

(Referred to in paragraph 4 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

Sl. No.	*Name of the company*	*Total investment up to* 1977-78 (*Rupees*)
1	Punalur Paper Mills Limited	13,26,767
2	The Travancore Rayons Limited	35,62,500
3	The Indian Aluminium Company Limited	21,20,008
4	Premier Tyres Limited	60,00,000
5	Parry and Company Limited	13,50,000
6	Madura Coats Limited	19,94,677
7	Apollo Tyres Limited	50,00,000
8	The Travancore Cements Limited	25,14,343

102|9267|MC

ANNEXURE

Summarised financial results of

(*Referred to in paragraph* 1.01.3.

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	30-4-1978	51.50
2	Forest Industries (Travancore) Limited	Industries	10-8-1946	31-3-1978	25.47
3	Travancore Titanium Products Limited	Industries	18-12-1946	31-12-1977	796.34
4	United Electrical Industries Limited	Industries	3-10-1950	31-12-1977	109.42
5	The Travancore-Cochin Chemicals Limited	Industries	8-11-1951	31-3-1978	1739.77
6	Pallathra Bricks and Tiles Limited	Industries	21-12-1957	31-3-1978	24.97
7	Traco Cable Company Limited	Industries	5-2-1960	31-3-1978	206.59
8	Kerala State Industrial Development Corporation Limited	Industries	21-7-1961	31-3-1978	..
9	The Kerala Premo Pipe Factory Limited	Local Administration and Social Welfare	12-9-1961	31-3-1977	44.04
10	The Plantation Corporation of Kerala Limited	Agriculture	12-11-1962	31-3-1978	913.28
11	Trivandrum Rubber Works Limited	Industries	1-11-1963	31-3-1978	235.15
12	Travancore Plywood Industries Limited	Industries	1-11-1963	31-3-1978	96.84
13	The Kerala Ceramics Limited	Industries	1-11-1963	31-3-1978	222.72
14	Kerala Soaps and Oils Limited	Industries	1-11-1963	31-3-1978	265.31
15	Trivandrum Spinning Mills Limited	Industries	1-11-1963	31-3-1978	167.90

—B

Government Companies

of Section I)

(Figures in columns 6 to 10, 12 and 13 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)*	*Percentage of total return on capital invested*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(—) 7.34	2.79	..	(—) 7.34	..	89.95	(—) 4.55	..
(+) 0.28	..	..	(+) 0.28	1.10	30.41	(+) 0.28	0.92
(+) 98.08	36.31	35.65	(+)133.73	16.79	936.49	(+)134.39	14.35
(—) 17.25	(D) 14.01	5.28	(—) 11.97	..	112.51	(—) 3.24	..
(—)258.68	155.45	133.45	(—)125.23	..	1126.90	(—)103.23	..
(—) 4.21	1.07	1.07	(—) 3.14	..	(—)0.96	(—) 3.14	..
(+) 18.28	9.61	7.44	(+) 25.72	12.45	251.30	(+) 27.89	11.10
(+) 40.17	46.28	46.27	..	..	(C) 1303.72	(+) 86.45	6.63
(+) 9.14	3.05	1.07	(+) 10.21	23.18	34.72	(+) 12.19	35.11
(+) 5.70	37.60	34.81	(+) 40.51	4.44	907.33	(+) 43.30	4.77
(—) 59.19	12.09	12.09	(—) 47.10	..	44.15	(—) 47.10	..
(—) 10.69	8.95	5.54	(—) 5.15	..	77.73	(—) 1.74	..
(—) 53.52	(D) 19.51	12.23	(—) 41.29	..	113.62	(—) 34.01	..
(—) 16.26	13.48	7.51	(—) 8.75	..	159.03	(—) 2.78	..
(—) 14.24	2 03	0.68	(—) 13.56	..	30.27	(—) 12.21	..

ANNEXURE

Summarised financial results of

(*Referred to in paragraph* 1.01.3.

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	Kerala Electrical and Allied Engineering Company Limited	Industries	5-6-1964	31-3-1978	245.89
17	Kerala Tourism Development Corporation Limited	General Administration (Political)	29-12-1965	31-3-1978	135.83
18	The Kerala Fisheries Corporation Limited	Development (Fisheries)	12-4-1966	31-3-1977	432.30
19	The Kerala Agro-Industries Corporation Limited	Agriculture	22-3-1968	31-3-1978	350.06
20	The Kerala Handloom Finance and Trading Corporation Limited	Industries	24-6-1968	31-3-1978	153.77
21	The Chalakudy Refractories Limited	Industries	15-3-1969	31-3-1978	42.38
22	The Kerala State Financial Enterprises Limited	Taxes	6-11-1969	31-3-1978	..
23	Kerala Urban Development Finance Corporation Limited	Local Administration and Social Welfare	28-1-1970	31-3-1978	..
24	Kerala State Bamboo Corporation Limited	Industries	10-3-1971	31-3-1978	25.31
25	Kerala State Drugs and Pharmaceuticals Limited	Industries	23-12-1971	31-3-1978	75.56
26	The Kerala Minerals and Metals Limited	Industries	16-2-1972	31-3-1978	639.60
27	Kerala State Electronics Development Corporation Limited	Industries	29-9-1972	31-3-1978	799.02
28	The Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	Development	7-12-1972	31-3-1978	..

—B (*Contd.*)

Government Companies

of Section I)

(Figures in columns 6 to 10, 12 and 13 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)*	*Percentage of total return on capital invested*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(—) 46.81	(D) 23.52	23.52	(—) 23.29	..	195.58	(—) 23.29	..
(+) 0.15	0.73	0.11	(+) 0.26	0.19	78.00	(+) 0.88	1.13
(—) 63.39	(D) 39.84	39.84	(—) 23.55	..	56.10	(—) 23.55	..
(—) 18.48	2.51	..	(—) 18.48	..	197.87	(—) 15.97	..
(+) 0.41	0.24	0.24	(+) 0.65	0.42	143.19	(+) 0.65	0.45
(—) 8.22	1.71	1.26	(—) 6.96	..	11.11	(—) 6.51	..
(+) 24.28	3.92	3.92	..	..	(C) 93.86	(+) 28.20	30.04
(—) 0.16	46.63	46.63	..	..	(C) 759.01	(+) 46.47	6.12
(+) 1.16	1.55	0.93	(+) 2.09	8.26	34.35	(+) 2.71	7.89
(+) 23.71	15.06	4.75	(+) 28.46	37.67	162.87	(+) 38.77	23.80
(+) 15.70	..	..	(+) 15.70	2.45	396.18	(+) 15.70	3.96
(+) 5.12	(E) 39.00	39.00	(+) 44.12	5.52	703.76	(+) 44.12	6.27
(—) 4.68	15.17	15.17	..	..	(C) 218.81	(+) 10.49	4.79

102|9267|MC

ANNEXUR

Summarised financial results o

(*Referred to in paragraph* 1.01.3

Sl.No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital investe (A)*
(1)	(2)	(3)	(4)	(5)	(6)
29	Kerala Land Development Corporation Limited	Agriculture	15-12-1972	31-3-1978	..
30	Kerala State Industrial Enterprises Limited	Industries	25-1-1973	31-3-1978	..
31	Kerala Shipping Corporation Limited	Public Works	25-5-1974	31-3-1978	725.50
32	The Kerala State Civil Supplies Corporation Limited	Food	25-6-1974	31-3-1978	21.00
33	Sitaram Textiles Limited	Industries	14-2-1975	31-3-1978	400.83
5 34	Kerala State Construction Corporation Limited	Public Works	25-3-1975	31-3-1978	35.60
35	Kerala State Film Development Corporation Limited	Public	23-7-1975	31-3-1978	117.13
36	Kerala State Coconut Development Corporation Limited	Agriculture	10-10-1975	31-3-1978	37.00
37	Kerala State Small Industries Development and Employment Corporation Limited	Industries	6-11-1975	31-3-1977	488.81
38	Kerala Inland Navigation Corporation Limited	Public Works	29-12-1975	31-3-1978	17.0
39	Kerala State Industrial Products Trading Corporation Limited	Industries	4-8-1976	31-3-1978	5.3
40	Scooters Kerala Limited	Industries	15-11-1976	31-3-1978	50.0
41	Overseas Development and Employment Promotion Consultants Limited	Labour	20-12-1977	31-3-1978	7.0

The Co: stated over phone that reln is 20.10.1977

Government Companies

of Section I)

(Figures in columns 6 to 10, 12 and 13 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)*	*Percentage of total return on capital invested*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital employed*	
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	
(—) 10.81	28.02	28.02	..	..	(C) 462.90	(+) 17.21	3.72	(29
(+) 0.10	7.06	7.06	..	..	(C) 423.98	(+) 7.16	1.69	(30
(—) 33.89	38.60	38.60	(+) 4.71	0.65	642.68	(+) 4.71	0.73	(31
(—)134.39	95.22	..	(—)134.39	..	472.80	(—) 39.17	..	(32
(+) 0.66	..	..	(+) 0.66	0.16	94.53	(+) 0.66	0.70	(33
(+) 2.76	0.12	..	(+) 2.76	7.75	121.05	(+) 2.88	2.38	(34
(—) 1.86	..	..	(—) 1.86	..	94.37	(—) 1.86	..	(35
(—) 0.33	..	..	(—) 0.33	..	25.18	(—) 0.33	..	(36
(—) 1.99	(E) 0.74	0.74	(—) 1.25	..	508.92	(—) 1.25	..	(37
(—) 1.12	..	..	(—) 1.12	..	15.69	(—) 1.12	..	(38
(—) 0.92	..	..	(—) 0.92	..	4.02	(—) 0.92	..	(39
(—) 1.40	..	..	(—) 1.40	..	48.23	(—) 1.40	..	(40
(—) 1.23	..	..	(—) 1.23	..	5.58	(—) 1.23	..	(41

ANNEXURE—

Summarised financial results of

(*Referred to in paragraph* 1.01.3.

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
	Companies which did not commence commercial operation				
42	Steel Industrials Kerala Limited	Industries	3-1-1975	31-3-1978	41.82
43	Kerala Forest Development Corporation Limited	Agriculture	24-1-1975	30-6-1978	245.74
44	The Rehabilitation Plantations Limited	Agriculture	5-5-1976	31-3-1978	190.64
	Subsidiary Companies				
45	Keltron Counters Limited	Industries	21-7-1964	31-3-1978	62.13
46	Kerala State Textile Corporation Limited	Industries	8-3-1972	31-3-1978	..
47	Meat Products of India Limited	Agriculture	13-3-1973	31-3-1978	25.35
48	Kerala Agro-Machinery Corporation Limited	Agriculture	24-3-1973	31-3-1978	200.10
49	Dielectro Magnetics Limited	Industries	23-4-1974	31-3-1978	48.08
50	Keltron crystals Limited	Industries	8-10-1974	31-3-1978	64.01
51	Keltron Magnetics Limited	Industries	1-3-1975	31-3-1978	45.01
52	Keltron Rectifiers Limited	Industries	22-3-1976	31-3-1978	15.75
53	Kerala State Detergents and Chemicals Limited	Industries	10-6-1976	31-3-1978	71.00
54	Oil Palm India Limited	Agriculture	21-11-1977	31-3-1978	98.04

Notes:—(A) Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves

(B) Except in the cases of financial institutions, capital employed represents net

(C) Capital employed represents the mean of the aggregates of opening and closing

(D) Includes bank charges also.

(E) Includes interest on short-term loans also.

(F) Includes interest on overdrafts also.

B- [illegible])

G[illegible]ment Companies

o[illegible] [illegible] I)

(Figures in columns 6 to 10, 12 and 13 indicate lakhs of Rupees)

[illegible]	Total interest charged to profit and loss account	Interest on long-term loans	Total return on capital invested (Columns 7+9)	Percentage of total return on capital invested	Capital employed (B)	Total return on capital employed (Columns 7+8)	Percentage of total return on capital employed
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
[illegible].06	(D) 19.24	2.20	(—) 17.86	..	92.31	(—) 0.82	..
[illegible].97	4.55	4.44	(+) 10.41	..	(C) 80.24	(+) 10.52	13.11
3.00	..	..	(—) 3.00	..	10.92	(—) 3.00	..
[illegible]8.37	8.95	8.95	(—) 9.42	..	196.27	(—) 9.42	..
[illegible]ame a Government Company on 26-5-1977. Commercial operation not commenced							
(—) 5.94	(E) 6.10	6.10	(+) 0.16	0.25	58.74	(+) 0.16	0.27
[illegible]mmercial operation not commenced							
[illegible]ame a Government Company on 12-8-1977. Commercial operation not commenced							
[illegible]mmercial operation not commenced							
(—) 5.32	..	..	(—) 5.32	..	(—)29.99	(—) 5.32	..

[illegible]t the close of the year.

fixed assets (excluding capital works-in-progress) *plus* working capital.

balances of paid-up capital, reserves and borrowings.

ANNEXURE—

Summarised financial results

(Referred to in paragraph

Sl. No.	*Name of the Corporation/ Board*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
	(i) KERALA STATE ELECTRICITY BOARD				
1	Kerala State Electricity Board	Public Works and Electriciy	1-4-1957	31-3-1978	3027-.44
	(ii) OTHER STATUTORY CORPORATIONS				
2	The Kerala Financial Corporation	Finance	1-12-1953	31-3-1978	.
3	Kerala State Warehousing Corporation	Agriculture	20-2-1959	31-3-1978	17_.93
4	Kerala State Road Transport Corporation	Water and Transport	15-3-1965	31-3-1978	2433.56

Notes:—(A) Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves

(B) Except in the case of The Kerala Financial Corporation, capital employed

(C) This represents contribution to General Reserve in terms of Section 67 (viii)

(D) Capital employed represents the mean of the aggregates of opening and closing

C

of Statutory Corporations

13.01 *of Section XIII*)

(Figures in columns 6 to 10, 12 and 13 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)*	*Percentage of total return on capital invested*	*Capital employed (B)*	*Total return on capital employed (Columns (7+8)*	*Percentage of total return on capital employed*	*Remarks*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(C) (+)154.13	1885.47	1885.47	(+)2039.60	6.74	29148.78	(+)2039.60	7.00	
(+) 62.52	163.65	..	..	..	(D) 2882.75	(+)226.17	7.85	
(+) 1.18	1.78	1.51	(+) 2.69	1.56	172.23	(+) 2.96	1.72	
(—)347.22	150.99	137.87	(—)209.35	..	602.61	(—)196.23	..	Figures are provisional

at the close of the year.

represents net fixed assets (excluding works-in-progress) *plus* working capital.

of the Electricity (Supply) Act, 1948.

balances of paid-up capital, bonds and debentures, borrowings and deposits.

PRINTED BY THE S. G. P. AT THE GOVERNMENT PRESS,
TRIVANDRUM, 1979