

तारीख.....को
विधान मण्डल को पत्र किया
Presented to the Legislature

on - 6 MAR 1996



**REPORT
OF
THE COMPTROLLER
AND
AUDITOR GENERAL OF INDIA**

FOR THE YEAR ENDED 31 MARCH 1995

No.2

(COMMERCIAL)

GOVERNMENT OF KERALA

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PREFACE

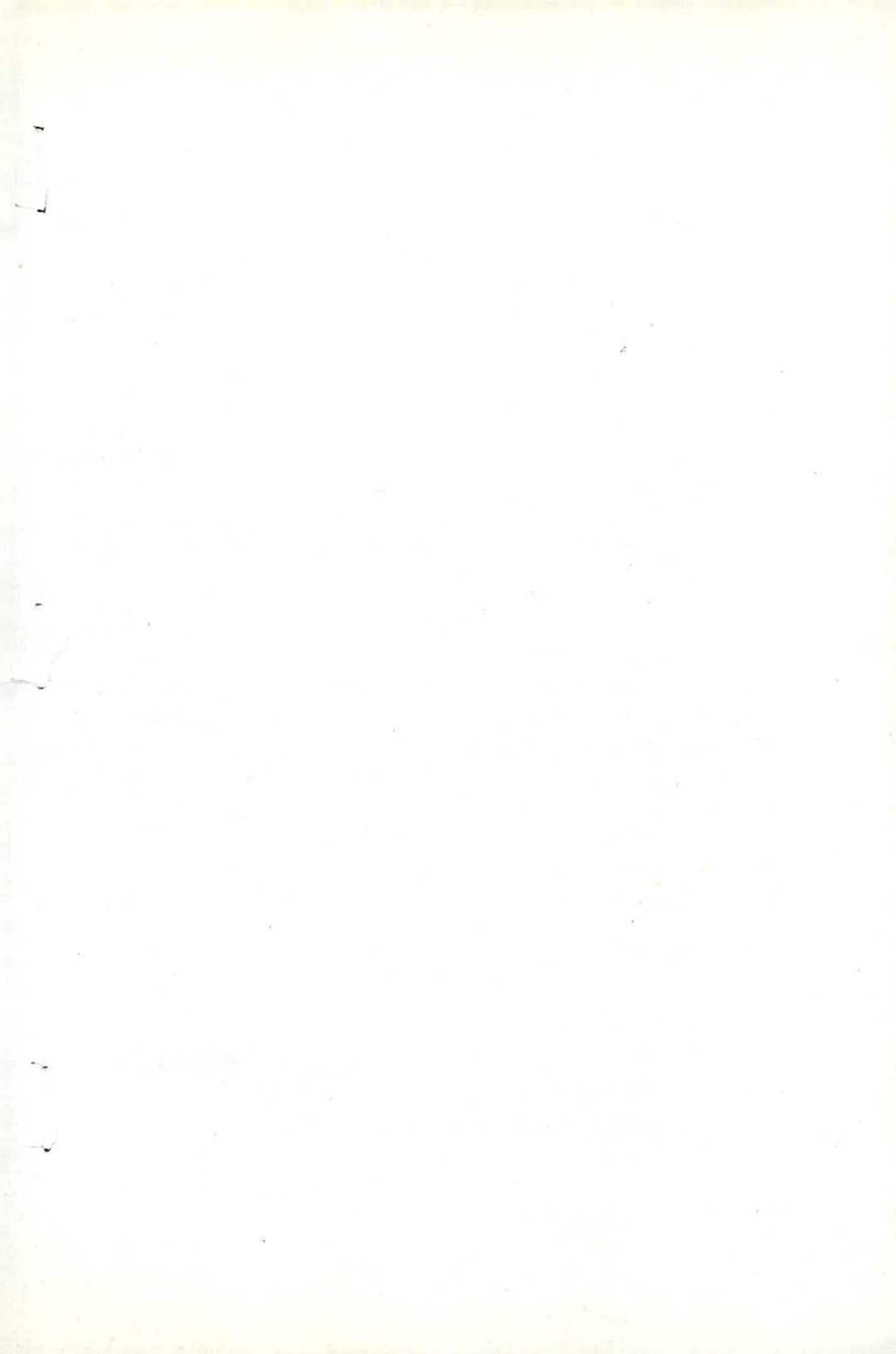
Government commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General of India, fall under the following categories:

*Government companies,
Statutory Corporations; and
Departmentally managed commercial undertakings.*

2. *This Report deals with the results of audit of Government companies and Statutory corporations including Kerala State Electricity Board and has been prepared for submission to the Government of Kerala for presentation to the Legislature under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time. The results of audit relating to departmentally managed commercial undertakings are contained in the Report of the Comptroller and Auditor General of India (Civil) - Government of Kerala.*

3. *There are, however, certain companies which in spite of Government investment, are not subject to audit by the Comptroller and Auditor General of India as Government or Government owned/controlled companies/corporations hold less than 51 per cent of the shares. A list of such undertakings in which Government investment was more than Rs10 lakhs as on 31 March 1995 is given in Paragraph 1.2.10.*

4. *The cases mentioned in this Report are those which came to notice in the course of audit of accounts during the year 1994-95 as well as those which came to the notice in earlier years but could not be dealt with in the previous Reports. Matters relating to the period subsequent to 1994-95 have also been included, wherever considered necessary.*



OVERVIEW

1. The State had 99 Government companies (including 24 subsidiaries), 3 companies under the purview of Section 619B of the Companies Act, 1956 and 5 Statutory corporations as on 31 March 1995, of which 6 companies (including one Section 619B company) were under liquidation, 2 companies were being amalgamated and 18 sick companies had been referred to BIFR. Besides, there were 7 companies in which Government had invested Rs10 lakhs or more and which were not subject to audit by the Comptroller and Auditor General of India.

(Paragraphs 1.2.1, 1.2.6.7, 1.2.6.8, 1.2.6.9, 1.2.9, 1.2.10 and 1.3.1)

The aggregate paid-up capital of the 99 Government companies as on 31 March 1995 was Rs704.82 crores, of which Rs601.14 crores were invested by the State Government, Rs20.38 crores by the Central Government, Rs63.85 crores by holding companies and Rs19.45 crores by others. Loans to the extent of Rs788.81 crores (State Government:Rs246.92 crores and others:Rs541.89 crores) were outstanding as on 31 March 1995. The State Government had guaranteed the repayment of loans and payment of interest thereon; the amount outstanding thereagainst as on 31 March 1995 was Rs841.85 crores. The payment of guarantee commission was in arrears to the extent of Rs21.06 crores from 46 companies.

(Paragraphs 1.2.1, 1.2.3 and 1.2.4)

Only 9 companies had finalised their accounts for the year 1994-95 before 30 September 1995 and the accounts of the remaining 90 companies were in arrears for periods ranging from 1 year to 12 years. Out of 9 companies which finalised their accounts for 1994-95, 6 earned profit aggregating Rs49.41 crores. The dividend declared by 7 companies since last Report was Rs3.84 crores. According to the latest available accounts, the accumulated loss of Rs549.53 crores incurred by 45 companies had far exceeded their paid-up capital of Rs187.78 crores.

(Paragraphs 1.2.5 and 1.2.6)

While Kerala State Electricity Board, Kerala State Road Transport Corporation, Kerala Industrial Infrastructure Development Corporation and Kerala Financial Corporation had finalised their accounts up to 1994-95, Kerala State Warehousing Corporation finalised their accounts only up to 1992-93.

(Paragraph 1.3.1.1)

While Kerala State Electricity Board, Kerala State Road Transport Corporation and Kerala Financial Corporation showed surplus of Rs21.88 crores, Rs0.10 crore and Rs1.88 crores respectively during the year 1994-95, Kerala State Warehousing Corporation suffered a loss of Rs0.76 crore during 1992-93. Kerala Industrial Infrastructure Development Corporation has not commenced commercial activities.

(Paragraphs 1.3.2.3, 1.3.3.4, 1.3.4.3 and 1.3.5.3)

2. The activities of The Kerala Ceramics Limited, Traco Cable Company Limited, The Kerala Agro Industries Corporation Limited and the purchase of land at Mylom by Kerala State Industrial Development Corporation Limited were reviewed in Audit.

2A. The Kerala Ceramics Limited incorporated in November 1963 is engaged in the production and sale of kaolex and china clay products. The Company had been incurring loss since its inception and the accumulated loss as at the end of 1986-87 (up to which accounts were finalised) was Rs10.50 crores which exceeded the paid-up capital of Rs1.91 crores by five times.

(Paragraphs 2A.1, 2A.4.3 and 2A.4.5.)

As a part of rehabilitation of the Company, the State Government granted several concessions in October 1987, such as concessional rate for electricity, deferment of payment of electricity duty for three years, postponement of payment of sales tax and keeping in abeyance the payment of dues to the Government departments. Despite these concessions, the performance of the Company did not improve and the turnover ranged between Rs1.74 crores and Rs3.39 crores only against the envisaged annual turnover of Rs4.12 crores.

(Paragraph 2A.4.3)

The Company suffered a loss of Rs1.80 crores during the three years up to 1994-95 on account of shortfall in production of kaolex due to controllable factors, viz., shortage of raw clay on account of failure of mining contractor, shortage of water, want of chemicals, etc.

(Paragraph 2A.6.2.1.1)

Due to prolonged storage of 7862 tonnes of inferior quality clay (refined clay) over four years in the open yard without reprocessing

and consequent contamination, the Company suffered a loss of revenue of Rs0.31 crore.

(Paragraph 2A.6.2.1.3)

The excess breakages in the processing from green goods stage to glost firing stage during the three years ended March 1994 was 6.53 lakh pieces costing Rs0.66 crore.

(Paragraph 2A.6.2.2.3)

After take over of the Speciality Clay Division in November 1983, the Company installed additional equipment and made structural additions at a cost of Rs0.50 crore during 1984-85 and 1985-86. Due to low level of production and high cost, the Division suffered a loss of Rs2.26 crores till it was closed down in November 1990, leaving a stock of finished and semi-finished goods valued at Rs0.31 crore.

(Paragraph 2A.6.2.3.1)

Contrary to the provisions in the agreement with the agents for sale of porcelain ware, the Company allowed credit to all the agents without obtaining the bank guarantee or cash security with the result that the debts pending realisation as at the end of June 1993 aggregated Rs0.39 crore.

(Paragraph 2A.7.3.1)

As at the end of 1993-94, the accumulation of finished goods was to the tune of Rs2.44 crores (including non-moving stock of Rs1.13 crores) representing six months sales, resulting in unnecessary locking up the working capital.

(Paragraph 2A.8.1 and 2A.8.2)

Consequent on the low productivity in the clays and mineral Division and procelain Division the unproductive wages paid during the five years up to 1994-95 was Rs0.42 crore when compared to the work norms fixed.

(Paragraph 2A.9.1)

2B. Traco Cable Company Limited incorporated in February 1960 is engaged in the manufacture of various types of conductors used for electrical transmission and distribution system in its Power Cable Division at Irimpanam and Jelly filled telephone cables used for communication systems in its Telephone Cable Division at Thiruvalla. The capacity utilisation in its Telephone Cable Division for the last three years up to 1993-94 ranged between 20.4 and 48.6 *per cent* of its installed capacity of 10.95 lakh core kilometres (ckm).

(Paragraphs 2B.1. and 2B.5.1)

During the four years up to 1993-94, there was excess consumption of raw materials valued at Rs0.40 crore in the Power Cable Division of which Rs0.28 crore represented value of copper consumed in excess while in the Telephone Cable Division, the excess consumption of major raw materials, viz., polyester tape, copper steel tape, etc., after providing for the normal wastage worked out to Rs0.70 crore during the two years up to 1993-94.

(Paragraphs 2B.7.1.2 and 2B.7.1.3)

The failure of the Company to buy copper rods when it was offered at lower rates and its subsequent purchase within two months from the same supplier at a higher rate resulted in an extra expenditure of Rs0.13 crore.

(Paragraph 2B.8.1.3)

The Company incurred an extra expenditure of Rs0.15 crore due to change in the terms of a purchase contract from the normal condition that the price payable for copper based on the base price of Hindustan Copper Limited prevailing at the time of supply into base price prevailing at the time of opening the letter of credit.

(Paragraph 2B.8.1.4)

Owing to its failure to adhere to the delivery schedule for supply of conductors to Kerala State Electricity Board (KSEB), the Company had to pay Rs0.47 crore towards liquidated damages during the three years up to 1993-94 apart from becoming ineligible to claim price escalation of Rs0.49 crore.

(Paragraph 2B.9.1.2)

Due to production and sale of short length cables during the four years up to 1993-94, the Company suffered a loss of Rs0.53 crore on account of price reduction for such short length cables.

(Paragraph 2B.9.2.2)

The Company had not reconciled/investigated the reasons for the shortages of finished goods to the tune of Rs2.23 crores when compared to the book stock during the three years up to 1993-94.

(Paragraph 2B.9.3)

During the period from March 1990 to 1993-94, the Company sustained a net loss of Rs1.11 crores on account of rejection of 228.334 LKM of jelly filled telephone cables by Department of

Telecommunications (DOT) as the item could not get through the water penetration test.

(Paragraph 2B.9.4)

2C. The Kerala Agro Industries Corporation Limited incorporated in March 1968 is engaged in the production and trading in agricultural machines, implements and spare parts, hiring of tractors, tillers and bulldozers as well as providing workshop facilities and manufacture and sale of fruit products.

(Paragraph 2C.1)

Five out of six regional workshops-cum-service stations test checked in Audit were not self-supporting. While one unit at Athani made a marginal profit of Rs0.04 crore, the remaining five units suffered a total loss of Rs0.41 crore during the five years up to 1993-94.

(Paragraph 2C.5.1)

Out of 3866 cases of hire purchase sales involving Rs1.14 crores pending settlement as at end of March 1994, 1035 cases for Rs0.46 crore were pending over ten years. In 98 cases dating back from 1970-71 involving Rs0.20 crore, even the first instalment was not received from the buyers.

(Paragraph 2C.8.1)

Though there was enabling provision in the hire purchase agreements, the Company did not revise the claim of interest based on the lending rates fixed by banks from time to time on the cash credit it availed. As a result, the Company suffered loss of Rs0.49 crore in respect of 74 cases test checked in Audit as it had to bear the additional burden of interest on the funds locked up.

(Paragraph 2C.8.2)

Kerala Agro Fruit Products, a unit of the Company engaged in the production of juice, jams, etc., was incurring losses continuously during the period from 1989-90 to 1992-93 and the accumulated loss was Rs1.50 crores as at the end of March 1993.

(Paragraph 2C.10.2)

On account of unscientific/defective storage, 247.66 tonnes of mango pulp and 34.31 tonnes of pineapple pulp valued at Rs0.06 crore were spoiled during the period from August 1990 to March 1995.

(Paragraph 2C.10.7)

The unilateral decision of the State Government in July 1985 to terminate the subsidiary status of Kerala Agro Machinery Corporation Limited (KAMCO) and Meat Products of India Limited (MPI) in which the Company had invested Rs1.17 crores and Rs0.35 crore respectively, for Re. 1 each was objected to by the Government of India which held 34.9 *per cent* shares in the Company. However, the Company transferred the shares held by it in those companies to the State Government in January/June 1986.

(Paragraph 2C.14.1)

Owing to the purchase of 2757 cage wheels from KAMCO during the five years up to 1994-95 at rates higher than the cost of purchase from other sources/fabrication, the Company incurred an extra expenditure of Rs0.17 crore.

(Paragraph 2C.14.2)

2D. On an assurance given on behalf of Kerala State Industrial Development Corporation Limited that one member of each family of the land owners, who voluntarily gave the land for the Nylon Filament Yarn

Project, would be provided job in the Company, the land owners parted with their land at the rate of Rs1000 to 1200 per cent, whereas according to the land records of the neighbouring lands, prices at that time were Rs1000 to Rs2000 per cent. The proposed project did not come up and hence the land owners were deprived of a reasonable price for the land and the job assured.

(Paragraph 2D.3)

The Company failed to protect its interest as no charge was created on the land in its favour before paying Rs0.21 crore for the land.

(Paragraph 2D.3)

The disposal of the land to a firm engaged in the construction of residential buildings at a price of Rs1726 per cent, against the prevailing rate of Rs4500 per cent for residential plots in the area resulted in a loss of Rs0.44 crore.

(Paragraph 2D.5)

3. The implementation of Kakkad Hydro-electric Project by Kerala State Electricity Board was also reviewed in Audit.

3A. The Kakkad Hydro-Electric Project approved by the Planning Commission in 1976 was originally scheduled to be completed at a cost of Rs18.60 crores in 1985. The project is lagging far behind the schedule. According to the estimation of 1993, the Project would be commissioned only in December 1996 at a cost of Rs98.69 crores. Apart from the cost over-run of Rs80.09 crores, the delay in completion of the project by over ten years would entail a loss of revenue of Rs155.71 crores.

(Paragraphs 3A.1, 3A.5 and 3A.8)

On account of the delay in the supply of drawings and providing facilities to the contractor, there was delay of over 30 months in the

completion of the dams at Moozhiair and Veluthodu necessitating payment of escalation of Rs0.27 crore to the contractor. The Board also suffered a loss of Rs0.52 crore by way of interest due to delay in the commencement of recovery of the ad-hoc advance given to the contractor.

(Paragraph 3A.6.1)

By agreeing to compensate the contractors for wage revision granted by them to their labourers and rate revisions which were outside the scope of the agreement, the Board had to incur avoidable payment aggregating Rs1.52 crores in respect of inter-connecting(IC) tunnel and Rs1.79 crores in respect of power tunnel.

[Paragraphs 3A.6.2.2 and 3A.6.3.1(a)]

Though the expenditure on providing sidings in the tunnel for parking tipping wagons was to be borne by the contractors, the Board allowed the same as extra item involving an additional expenditure of Rs0.20 crore up to December 1994.

[Paragraphs 3A.6.2.2(c)(iii) and 3A.6.3.1(b)(iv)]

On account of waiver of interest on advances paid to the contractors of IC tunnel and power tunnel, the Board suffered a loss of Rs0.79 crore up to December 1994.

[Paragraphs 3A.6.2.2(d) and 6.3.1(b)]

The extra expenditure to the Board due to granting cost escalations for the period of delay in completion of the power tunnel, amounted to Rs0.91 crore up to December 1994.

[Paragraph 3A.6.3.1 (b) (v)]

The action of the Board in taking away a portion of the work -(485 metres) of driving and concreting the power tunnel from a contractor and entrusting it to another contractor necessitated payment of enhancement in rates involving an extra expenditure of Rs0.37 crore.

[Paragraph 3A.6.3.1 (c)]

The Board without inviting tenders awarded the work of lining the portion of power tunnel which was left out of the main work of lining and concreting the power tunnel to a contractor who was doing the work of lining of surge shaft and pressure shaft as an extra item at higher rates resulting in extension of undue benefit of Rs0.43 crore to the contractor.

(Paragraph 3A.6.4)

The contractor for the work of concrete lining to the surge shaft and pressure shaft was granted an increase in the agreed rates, amounting to Rs2.66 crores up to December 1994 for various items of work, which was beyond the terms of the contract.

(Paragraph 3A.6.5.2.2)

4. Besides the reviews mentioned above, a test check of the records of Government companies and Statutory corporations disclosed cases of avoidable and extra expenditure, losses, etc., as under :

Sale of 436 cents of land at Rs1000 per cent against the market rate of Rs3000 per cent resulted in a loss of Rs0.09 crore to Steel and Industrial Forgings Limited.

(Paragraph 4.1.2.1)

Transformers and Electricals Kerala Limited sustained a loss of Rs1.60 crores on the supply of a transformer to Damodar Valley Corporation. As against the sales realisation of Rs0.69 crore, the cost of production was Rs2.29 crores due to cost over-run on account of delay of over 8 years in the production.

(Paragraph 4.1.5)

The rejection of the acceptable offers without any valid grounds and awarding the civil works for improvement of canals at higher rates on retender to one of the same tenderers who quoted earlier resulted in an avoidable extra commitment of Rs0.38 crore to Kerala Land Development Corporation Limited.

(Paragraph 4.1.7)

Failure of Travancore Plywood Industries Limited to include phenol and formalin as inputs, in the declaration filed with the Central Excise Authority, deprived the Company of the benefit under MODVAT to the extent of Rs0.10 crore.

(Paragraph 4.1.10)

Against the margin of Rs0.22 crore available in respect of an order received from a Bombay firm, Keltron Component Complex Limited granted an additional discount of Rs1.23 crores to the buyer resulting in a loss of Rs1.01 crores.

(Paragraph 4.1.13)

Kerala State Electricity Board had to pay penal interest of Rs0.14 crore to the State Bank of Travancore due to its failure to furnish quarterly statements, as contemplated in the guidelines issued by the Reserve Bank of India to enable the banks to fix cash credit limit.

(Paragraph 4.2.1.3)

On account of purchase of 302.419 cubic metres of logs under direct selection method, Kerala State Road Transport Corporation incurred an extra expenditure of Rs0.23 crore when compared to the maximum rates payable for purchases through participation in auction.

(Paragraph 4.2.2.1)

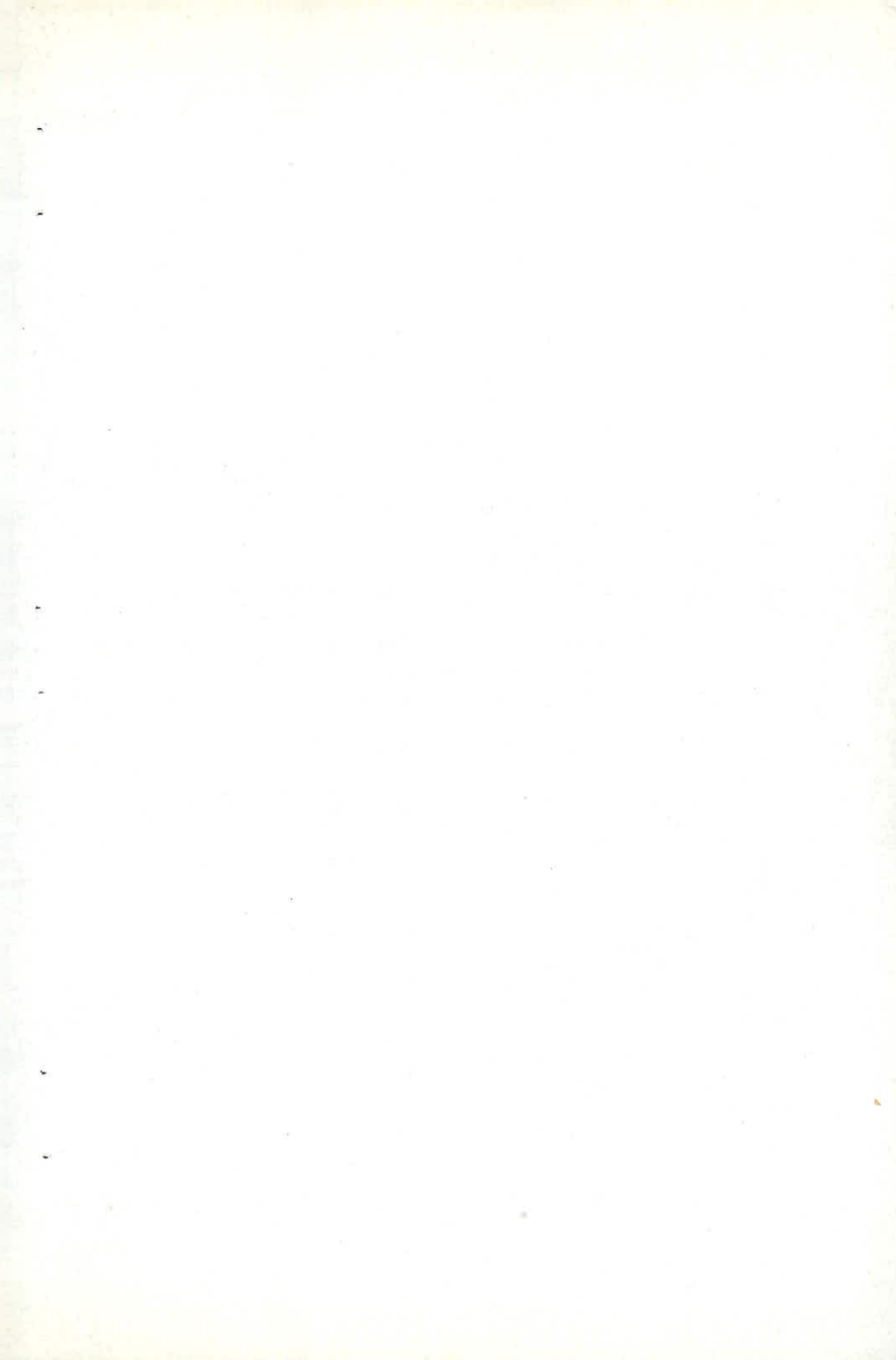
Chapter - 1

GENERAL VIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS



**GENERAL VIEW OF GOVERNMENT COMPANIES INCLUDING
DEEMED GOVERNMENT COMPANIES AND STATUTORY
CORPORATIONS**

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GENERAL VIEWS OF GOVERNMENT COMPANIES INCLUDING DEEMED GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

1.1. INTRODUCTION

The accounts of the Government companies and deemed Government companies (as defined in Section 619B of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Central Government on the advice of the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act. These accounts are also subject to supplementary audit conducted by the CAG as per the provisions of Section 619(4) of the Companies Act.

Of the Statutory corporations, the accounts of Kerala State Electricity Board, Kerala State Road Transport Corporation and Kerala Industrial Infrastructure Development Corporation are audited solely by CAG under their respective Acts. The accounts of Kerala Financial Corporation and Kerala State Warehousing Corporation are audited by the Chartered Accountants appointed by the State Government in consultation with the CAG who also undertakes supplementary audit of these Corporations separately in terms of the respective acts of these corporations. Audit Reports/ Comments on the accounts of all the Statutory corporations are issued by the CAG to the respective organisations/State Government.

1.2. GOVERNMENT COMPANIES - GENERAL VIEW

1.2.1. As on 31 March 1995, there were 99 Government companies (including 24 subsidiaries) with total investment of Rs1493.63 crores (equity:Rs704.82 crores and long-term loans:Rs788.81 crores) as against an equal number of companies (including 24 subsidiaries) with a total investment of Rs1398.85 crores as on 31 March 1994 (equity:Rs654.74 crores and long-term loans:Rs744.11 crores). While five of these companies (referred to in paragraph 1.2.6.7) were under liquidation, two companies (Malabar Steel Re-rolling Mill Limited and Steel Complex Limited) were being amalgamated (referred to in paragraph 1.2.6.8)

1.2.2. The financial position and the particulars of working results in respect of all the Government companies, based on the latest available accounts are given in Annexures 1 and 2 respectively.

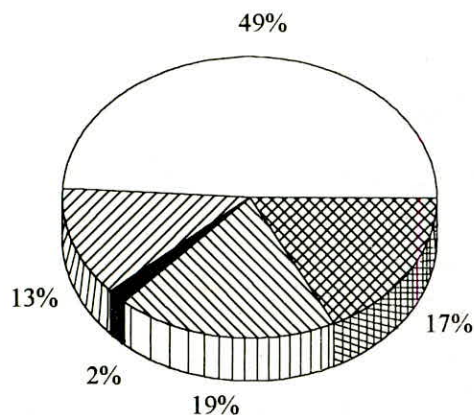
1.2.3. Investments

1.2.3.1. The investment by the State Government, Central Government, holding companies and others in these Government companies by way of share capital as at the end of 1994-95 and the long-term loans outstanding as on that date is given below :

Sector	No. of Comp- anies	Share Capital					Loans					Debt equity ratio
		State Govt.	Central Govt.	Hold- ing Cos.	Others	Total	State Govt.	Central Govt.	Hold- ing Cos.	Others	Total	
		(Rupees in crores)										
Industrial	52	295.00	...	59.55	16.85	371.40	82.80	0.95	59.56	276.50	419.81	1.1:1
Agricultural	17	75.90	8.77	...	1.89	86.56	40.08	...	6.85	6.03	52.96	0.6:1
Trading	3	9.81	...	...	...	9.81	68.59	0.67	...	...	69.26	7.1:1
Financing	4	114.59	...	...	0.41	115.00	3.00	...	...	118.82	121.82	1.1:1
Welfare, Developmental and others	23	105.84	11.61	4.30	0.30	122.05	52.45	...	...	72.51	124.96	1.0:1
TOTAL :	99	601.14	20.38	63.85	19.45	704.82	246.92	1.62	66.41	473.86	788.81	1.1:1

Sector-wise investment of the State Government by way of paid-up capital as at the end of 1994-95 is given in Figure - 1

**SECTOR-WISE INVESTMENT BY
STATE GOVERNMENT BY WAY OF
PAID-UP CAPITAL**



Sector	No. of companies	Amount invested (Rs. in crores)
Industrial	52	295.00
Agricultural	17	75.90
Trading	3	9.81
Financing	4	114.59
Welfare, Developmental & others	23	105.84
	99	601.14

Figure - 1
(Refer paragraph 1.2.3.1)

1.2.3.2. The sub-sector wise investment of the State Government in these companies by way of share capital and long-term loans is as below :

Sector	No. of Compa- nies	As at the end of			
		1994-95		1993-94	
		Capital (Rupees in crores)	Loan	Capital (Rupees in crores)	Loan
A. INDUSTRIAL					
1 Electrical	4	43.03	21.15	42.92	21.79
2 Electronics	10	84.91	1.05	82.22	1.05
3 Engineering	16	51.25	25.96	47.14	15.98
4 Textiles	5	26.60	15.63	21.77	22.11
5 Chemicals	7	16.54	13.04	16.49	9.63
6 Minerals	3	32.87	1.00	32.87	1.00
7 Cements, Clays and Refractories	7	39.80	4.97	39.80	5.79
TOTAL - A	52	295.00	82.50	283.21	77.35
B. AGRICULTURAL					
1 Plantations	5	26.73	0.42	26.73	1.02
2 Agro-based industries	8	44.24	37.93	43.94	14.12
3 Wood-based industries	4	4.93	1.73	4.88	2.25
TOTAL - B	17	75.90	40.08	75.55	17.39
C. TRADING	3	9.81	68.59	9.81	50.84
D. FINANCING	4	114.59	3.00	90.48	NIL
E. OTHERS					
1 Welfare	10	24.94	3.24	32.41	12.41
2 Developmental	6	46.41	45.26	46.12	23.37
3 Tourism, Fisheries, etc.	7	34.49	3.95	32.05	3.83
TOTAL-(C+D+E)	30	230.24	124.04	210.87	90.45
GRAND TOTAL	99	601.14*	246.92*	569.63	185.19

The equity and loan for the year 1992-93 were Rs513 crores and 153 crores respectively.

* The figures are yet to be reconciled with the figures as per the Finance Accounts as the latter is still under finalisation (September 1995).

1.2.3.3. Budgetary outgo

(i) The outgo from the State Government to 40 Government companies during the years 1992-93 to 1994-95 in the form of equity capital, loans and subsidy is as detailed below:

	1992-93	1993-94	1994-95
(Rupees in crores)			
1. Equity capital	29.68	39.05	33.39
2. Loans	25.36	31.58	68.90
3. Subsidy	2.33	1.59	4.47
Total outgo	57.37	72.22	106.76

The company-wise details are given in Annexure - 1.

1.2.4. Guarantees

The guarantees given by the State Government against loans and credits given by banks, etc., to the Government companies for the preceding three years up to 1994-95 and outstanding as on 31 March 1995 are shown in the table below :

Sl. No.	Guarantees	Amount guaranteed during			Guaranteed amount outstanding as on 31.3.1995
		1992-93	1993-94	1994-95	
(Rupees in crores)					
1.	Cash credit from State Bank of India and other nationalised banks	163.99	165.80	110.02	204.72
2.	Loans from other sources				
	(a) Principal	244.96	233.08	182.04	554.15
	(b) Interest	11.93	11.25	14.54	44.98
3.	Letters of credits opened by S.B.I. in respect of imports.	46.31	38.00	38.00	38.00
4.	Payment obligation under agreements with foreign consultants or contracts	NIL	NIL	NIL	NIL
Total :		467.19	448.13	344.60	841.85@

@ The guaranteed outstanding for 1992-93 and 1993-94 were Rs753 crores and Rs763 crores respectively.

The company-wise details are given in Annexure - 3

In respect of Kerala State Coconut Development Corporation Limited, where the State Government had stood guarantee to the banks for the loans aggregating Rs455 lakhs and interest thereon, the guarantees were invoked by the bankers in February 1993. The matter is pending before the Court.

The guarantee commission payable to the State Government by 46 companies as at the end of 1994-95 was Rs21.06 crores.

A bar chart indicating the comparative position of the investment of the State Government by way of paid-up capital and loans and guarantees outstanding as at the end of the three years upto 1994-95 is given in Figure - 2.

1.2.5. Finalisation of accounts

Accountability of the Government companies to the Legislature is to be achieved through the submission of audited annual accounts within the prescribed time schedule to the Legislature. Of 99 Government companies, the accounts of 90 companies were in arrears for periods ranging from 1 year to 12 years (as on 30 September 1995).

STAKE OF STATE GOVERNMENT IN GOVERNMENT COMPANIES

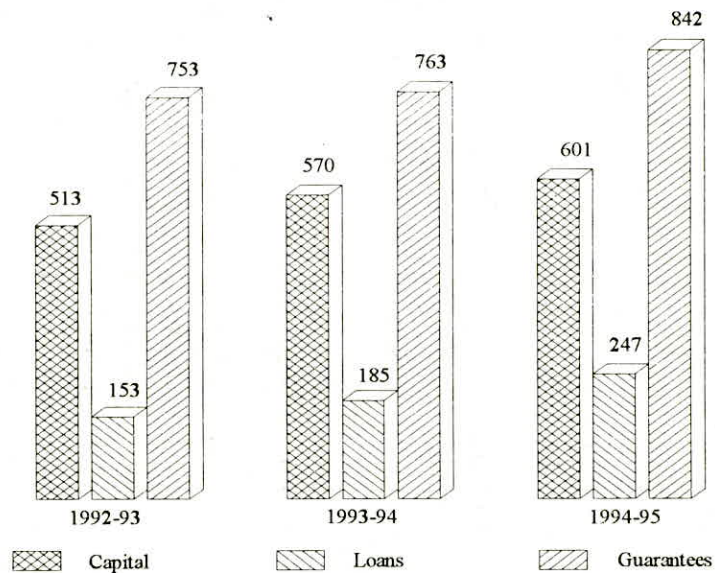


Figure - 2
(Refer paragraphs 1.2.3 and 1.2.4)

A list of 27 companies, the accounts of which are in arrears over 5 years is given below :

Sl. No.	Name of company	Arrears from
1.	Kerala Fishermen's Welfare Corporation Ltd.	1983-84
2.	Kerala Premo Pipe Factory Ltd	1985-86
3.	The Kerala Fisheries Corporation Ltd.	- do -
4.	Kerala Asbestos Cement Pipe Factory Ltd.	- do -
5.	The Kerala Ceramics Ltd.	1987-88
6.	Kerala State Handloom Development Corporation Ltd.	- do -
7.	Kerala State Coir Corporation Ltd.	- do -
8.	Kerala State Development Corporation for SC s & STs Ltd	- do -
9.	Scooters Kerala Ltd.	- do -
10.	Kerala State Handicapped Persons' Welfare Corporation Ltd.	- do -
11.	Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Ltd.	- do -
12.	Trivandrum Rubber Works Ltd.	1988-89
13.	Astral Watches Ltd.	- do -
14.	Foam Matting (India) Ltd.	- do -
15.	Kerala State Wood Industries Ltd.	- do -
16.	Kerala Construction Components Ltd.	1989-90
17.	The Chalakudy Refractories Ltd.	- do -
18.	Kerala State Cashew Development Corporation Ltd.	- do -
19.	Kerala Forest Development Corporation Ltd.	- do -
20.	Kerala State Coconut Development Corporation Ltd.	- do -
21.	Kerala Livestock Development Board Ltd.	- do -
22.	Kerala Inland Fisheries Development Corporation Ltd.	- do -
23.	Kerala State Salicylates and Chemicals Ltd.	- do -
24.	Kerala State Textile Corporation Ltd.	1990-91
25.	The Kerala State Civil Supplies Corporation Ltd.	- do -
26.	Kerala Artisans' Development Corporation Ltd.	- do -
27.	Kerala School Teachers and Non-teaching staff Welfare Corporation Ltd.	- do -

According to the latest finalised accounts of the 90 companies which are in arrears, 25 companies earned profit of Rs.36.68 crores, 60 companies had incurred losses of Rs.77.25

crores and 5 companies had not commenced commercial activities as indicated in the table given below:

Sl. No.	Total No. of companies	Year upto which accounts were finalised	Profit		Loss		No. of companies which had not commenced commercial activities
			No. of companies	Amount (Rs. in crores)	No. of companies	Amount (Rs. in crores)	
1.	1	1982-83	Nil	Nil	1	0.32	Nil
2.	Nil	1983-84	Nil	Nil	Nil	Nil	Nil
3.	3	1984-85	Nil	Nil	2	0.98	1
4.	Nil	1985-86	Nil	Nil	Nil	Nil	Nil
5.	7	1986-87	1	0.30	6	2.69	Nil
6.	4	1987-88	Nil	Nil	4	2.34	Nil
7.	8	1988-89	Nil	Nil	7	15.91	1
8.	4	1989-90	1	0.10	3	1.68	Nil
9.	4	1990-91	Nil	Nil	4	2.63	Nil
10.	12	1991-92	1	0.92	10	13.85	1
11.	13	1992-93	4	3.58	7	3.01	2
12.	34	1993-94	18	31.78	16	33.84	Nil
Total: 90			25	36.68	60	77.25	5

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the companies in the annual general meetings within the time schedule prescribed in the Companies Act, 1956. Though the administrative departments concerned and officials of the Government were appraised by Audit of the position of arrears quarterly and the Public Undertakings

Committee convened a special meeting in August 1995 with the chief executives of 22 companies alongwith the Secretaries of the departments concerned to emphasize the need for prompt finalisation of accounts, no effective measures had been taken by the Government in this direction. As these companies did not adhere to the time schedule, the investment made in these companies remained outside the purview of audit and their accountability could not be ensured.

1.2.6. Working results

1.2.6.1. Profit earning companies

During the period from October 1994 to September 1995, 63 companies finalised 72 accounts for 1994-95 or previous years. Of these, 21 companies earned profit of Rs75 crores (including 19 companies which earned profit for two successive years or more) and 7 companies declared dividend. Free reserves and surpluses amounting to Rs21.87 crores were built up in 14 companies.

1.2.6.2. Profit and dividend

Out of 9 companies which finalised their accounts for 1994-95 by September 1995, six companies earned profit of Rs49.41 crores on total share capital of Rs120.65 crores. Four of these profit

making companies declared dividend amounting to Rs3.27 crores as given below:

Sl. No.	Name of Company	Profit earned	Dividend declared	
			Amount	<i>Per cent to share capital</i>
(Rupees in crores)				
1.	Travancore Titanium Products Ltd.	0.97	0.35	20
2.	The Travancore-Cochin Chemicals Ltd.	13.14	2.13	16
3.	The Rehabilitation Plantations Ltd.	11.19	0.68	20
4.	Kerala Clays and Ceramic Products Ltd.	0.24	0.11	8
TOTAL :		25.54	3.27	

The remaining two companies which earned an aggregate profit of Rs23.87 crores did not declare any dividend. On the total equity capital, the return worked out to 0.5 *per cent*.

Similarly, out of 54 companies which finalised their accounts for earlier years, 15 companies earned profit aggregating Rs25.79

crores. Of these, three companies declared dividend of Rs0.57 crore for the year 1993-94 as shown below :

Sl. No.	Name of Company	Profit earned	Dividend declared	
			Amount	Per cent to share capital
(Rupees in crores)				
1.	The Travancore Cements Limited	1.25	0.10	20
2.	Kerala Shipping and Inland Navigation Corporation Ltd.	0.53	0.27	4.4
3.	Kerala State Beverages (Manufacturing & Marketing) Corporation Ltd.	1.34	0.20	20
TOTAL :		3.12	0.57	

1.2.6.3. Loss incurring companies

Out of 63 companies which finalised 72 accounts during the period from October 1994 to September 1995, 41 companies (47 accounts) incurred losses aggregating Rs80.83 crores, vide details in Annexures 2-A and 2-B.

According to the latest available accounts, the accumulated loss of Rs549.53 crores in respect of 45 companies exceeded the

paid-up capital of Rs187.78 crores by 192 *per cent*, vide details in Annexures 2-A, 2-B and 2-C.

1.2.6.4. Return on capital invested

As the capital structure differs from company to company and rates of interest charged on long-term loans given to the companies are not uniform, it may be unrealistic to compare profit of the companies wholly on the basis of profit and loss as reflected in these accounts. To study the results on a uniform basis, therefore, the capital was taken into account consisting of the total paid-up capital, long-term loans and free reserves at the close of the financial year. Similarly, the return was taken not only as the profit or loss (before tax and prior period adjustments) as disclosed in the accounts but also the interest paid on long-term loans. On this basis, based on the latest available accounts, the return on total investment of Rs1448.65 crores in 99 companies amounted to Rs104.28 crores (before Tax and prior period adjustments) which come to 7.2 *per cent* (vide details in Annexures 2-A, 2-B and 2-C) compared to Rs30.87 crores (2.4 *per cent*) based on the position depicted in the last Report. The return on capital invested in different sectors was as under :

Sector	No. of Comp- anies	Capital invested	Return on capital invested	Percentage of return on capital invested
(Rupees in crores)				
1. Industrial	52	841.96	50.89	6.0
2. Agricultural	17	145.57	13.85	9.5
3. Trading	3	20.97	1.46	7.0
4. Financing	4	274.51	37.50	13.7
5. Welfare, Deve- lopmental and Others	23	165.64	0.58	0.3
TOTAL :	99	1448.65	104.28	7.2

1.2.6.5. Return on capital employed

Capital employed has been taken as net fixed assets (excluding capital work-in- progress) plus working capital. Interest on borrowed funds is added/subtracted to the net profit/loss as disclosed in the profit and loss account to arrive at the return. Thus, based on the latest available accounts, the total capital employed worked out to Rs925.47 crores in 99 companies and the return thereon amounted to Rs264.25 crores which is 28.6 *per cent* (vide details in Annexures 2-A, 2-B and 2-C) as compared to return of Rs64.38 crores (7.7 *per cent*) based on the position depicted in the last Report.

Sector-wise details of the return on capital employed was as under :

Sector	No.of Comp- anies	Capital employed	Return on capital employed	Percentage of return on capital employed
(Rupees in crores)				
1. Industrial	52	388.93	201.60	51.8
2. Agricultural	17	125.59	18.88	15.0
3. Trading	3	30.62	4.94	16.1
4. Financing	4	265.83	38.04	14.3
5. Welfare, Deve- lopmental and Others	23	114.50	0.79	0.7
TOTAL :	99	925.47	264.25	28.6

1.2.6.6. Disinvestment

In pursuance of the Industrial policy of the Central Government to disinvest the shareholding in Public Sector Undertakings, the State Government also decided in April, 1992 to partially disinvest its holding in ten selected Government companies. However, no tangible steps have been taken in that direction so far.

1.2.6.7. ^{mult}Government companies under liquidation

As at the end of 1994-95, five wholly owned Government companies in which the State Government had invested Rs5.90 crores were under liquidation. Their position of accounts and the extent of accumulated loss sustained by them are given below:

Sl. No.	Name of Company	Date of Government order sanctioning the liquidation	Period up to which the accounts were finalised	Paid-up capital	Accumulated loss
(Rupees in lakhs)					
1.	The Kerala Fisheries Corporation Limited	27.1.1984	1984-85	484.75	1104.60
2.	Kerala Fishermen's Welfare Corporation Limited	27.1.1984	1982-83	42.00	100.39
3.	Kerala Inland Fisheries Development Corporation Limited	27.1.1984	1988-89	16.44	16.44
4.	Kerala State Engineering Works Limited	13.9.1985	1991-92	45.64	150.92
5.	The Kerala Asbestos Cement Pipe Factory Limited	28.3.1987	1984-85	6.09	NIL
TOTAL				594.92	1372.35

Though the winding up of the company at Sl.No.4 was completed in May 1994, its dissolution is pending (September 1995).

1.2.6.8. Companies under amalgamation

In January 1994, Government of India sanctioned amalgamation of Malabar Steel Re-rolling Mill Limited. and Steel Complex Limited with retrospective effect from 31 March 1991. As a petition for change of the effective date as 31 March 1986 is pending, the assets and liabilities of the dissolved company (Malabar Steel Re-rolling Mill Limited.) has not yet been incorporated in the accounts of the Steel Complex Limited (September 1995).

1.2.6.9. Out of 93 working companies, 18 companies (Sl.Nos.5, 7, 12, 13, 14, 18, 24, 25, 27, 39, 45, 48, 52, 55, 56, 58, 61 and 68 of Annexure -1) which were sick have been referred to Board of Industrial Finance and Reconstruction (BIFR).

1.2.6.10. Defunct Companies

It was noticed in Audit that the following Government companies remained closed down from the dates mentioned against each :

Sl. No.	Name of Company	Date from which defunct	Reason
1.	SIDECO Mohan Kerala Ltd.	1984	Failure of main object
2.	The Chalakudy Refractories Limited	Jan. 1992	Not available
3.	Kerala Soaps and Oils Ltd.	April 1992	- do -
4.	Steel Complex Ltd.	March 1993	Poor performance
5.	Kerala State Wood Industries Ltd.	June 1993	Lock out
6.	The Kerala Premo Pipe Factory Ltd.	Nov. 1993	Lack of orders
7.	SIDKEL Televisions Ltd.	March 1994	Neglect by promoters/ Government
8.	Kerala State Salicylates and Chemicals Ltd.	April 1994	Shortage of working capital
9.	Kerala State Detergents and Chemicals Ltd.	April 1994	Not available

1.2.7. Some of the important points made by the Statutory Auditors and the Comptroller & Auditor General of India in respect of the companies whose annual accounts were audited during the year are indicated below:

1.2.7.1. The Companies Act, 1956 empowers the Comptroller & Auditor General of India to issue directions to the Statutory Auditors of Government companies in regard to performance of their functions. In pursuance of the directives so issued, special reports of the Statutory Auditors on the accounts of 21 companies were received during the period from October 1994 to September 1995. The important points noticed in the reports are summarised below:

Sl. No.	Nature of defect	No. of companies in which defect was noticed	Reference to Sl.No. of companies as per Annexure - 1
1	Absence of records for auditing in depth	2	33, 97
2	Lack of effective system for periodic reconciliation of books of accounts	5	2, 3, 20, 33, 84
3	Non-maintenance of fixed assets registers up to date	7	7, 15, 28, 32, 46, 83, 97
4	Internal control not commensurate with size and nature of business	5	20, 33, 46, 83, 84
5	Absence of effective internal audit system	9	2, 20, 33, 39, 46, 84, 91, 93, 97
6	Absence of regular costing system	5	6, 7, 9, 10, 15
7	Absence of system for ascertaining idle time for labour and machinery	8	6, 7, 9, 10, 28, 39, 56, 97
8	Absence of effective system for obtaining confirmation from debtors	9	2, 7, 15, 28, 32, 33, 56, 84, 91
9	Absence of distinct accounting policies	4	2, 28, 39, 83
10	Absence of norms for manpower utilisation	7	2, 28, 33, 39, 56, 83, 91

1.2.7.2. Under Section 619(4) of the Companies Act, 1956, the Comptroller and Auditor General of India has the right to comment upon or supplement the audit reports of the Statutory Auditors. Under this provision, the review of annual accounts of Government companies is being conducted in selected cases. 58 accounts relating to 51 companies were selected for such review during the period from October 1994 to September 1995. The effect of the important comments as a result of the review was as follows :

	No. of Companies	Monetary effect (Rupees in lakhs)
Decrease in profit	4	101.08
Increase in loss	7	40.13
Decrease in loss	1	5.77
Non-disclosure of material facts	9	81.20

Certain major errors/omissions noticed in the course of review of annual accounts of some of these companies, not pointed out by the Statutory Auditors were as under :

1. The Kerala State Civil Supplies Corporation Limited (1988-89)

Loss for the year (Rs293.09 lakhs) was understated by Rs26.27 lakhs due to non-accountal of purchases, though included in stock (Rs23.05 lakhs); reckoning the value of closing stock of sugar twice (Rs3.55 lakhs); non-adjustment of excess amount treated as recoverable (Rs1.67 lakhs) and net understatement of sales due to clerical error (Rs2.00 lakhs).

2. Kerala State Drugs and Pharmaceuticals Limited (1990-91)

Loss for the year (Rs388.79 lakhs) was overstated by Rs37.34 lakhs due to excess provision of interest on loans.

3. Kerala State Construction Corporation Limited (1991-92)

Loss for the year (Rs70.08 lakhs) was understated by Rs15.38 lakhs due to non-provision of penal interest.

4. Kerala State Electronics Development Corporation Limited (1992-93)

Profit for the year (Rs113.45 lakhs) was overstated by Rs13.80 lakhs on account of non-accountal of purchases (Rs10.77 lakhs); mistake in accounting sales (Rs4.74 lakhs); non-provision of depreciation (Rs3.34 lakhs) and undervaluation of work-in-progress/finished goods (Rs5.05 lakhs).

5. The Pharmaceutical Corporation (Indian Medicines) Kerala Limited (1992-93)

Loss for the year (Rs27.90 lakhs) was understated by Rs6.76 lakhs due to non-provision of liability towards arrears of dearness allowance payable to employees.

6. Kerala State Industrial Enterprises Limited (1992-93)

Profit for the year (Rs0.81 lakh) would turn out as loss of Rs0.56 lakh due to non-accountal of court fees of Rs1.37 lakhs which was incorrectly included under loans and advances.

7. United Electrical Industries Limited (1993-94)

Due to non-provision of interest/penal interest, the profit (Rs87.56 lakhs) for the year was overstated by Rs51.54 lakhs.

8. Kerala State Industrial Development Corporation Limited (1993-94)

Profit for the year (Rs211.96 lakhs) was overstated by Rs20.96 lakhs due to treating interest relating to previous years, as income of the current year, which had already been accounted as income in the previous years on accrual basis resulting in double accounting of income.

1.2.8. Capacity utilisation

The percentage of utilisation of the installed capacity of 10 manufacturing companies are given in Annexure-4. The installed capacity is often up-rated or down-rated depending upon the condition of plant and machinery, manpower constraints, number of shifts worked, etc., leading to revision of rated capacity. The figures computed by the companies have not been presented in terms of a standard man-hour unit of capacity or production. There is a need for monitoring capacity utilisation in terms of standard man-hours of production feasible, targeted and achieved.

1.2.9. 619B Companies

There were three companies covered under Section 619B of the Companies Act, 1956. The table below indicates the details

of paid-up capital and working results of these companies based on the latest available accounts :

Sl. No	Name of company	Accounts for the year ended	Paid-up capital	Investment by				Profit(+)/ Loss(-) during the year	Accumulated loss
				State Government	Government companies	Corporations	Others		
(Rupees in lakhs)									
1.	Vanjinad Leathers Limited (Under liquidation)	31.3.1987	59.94	..	17.59	19.64	22.71	(-)64.74	401.12
2.	Kunnathara Textiles Limited	31.3.1989	70.00	22.00	24.00	..	24.00	(-)95.67	449.23
3.	Penninsula Polymers Limited	31.3.1995	175.00	..	95.50	..	79.50	(+)54.76	76.05
Total/Overall			304.94	22.00	137.09	19.64	126.21	(-)105.65	926.40

1.2.10. Other investments

The State Government has invested Rs2.82 crores in seven other companies. Though the Government has invested Rs10 lakhs and above in these companies, they are not subject to Audit by the Comptroller & Auditor General. The details of Government investment, working results, etc., based on the latest available accounts in respect of these companies is given below :

Sl. No.	Name of Company	Accounts for the year ended 31st March	Paid-up capital	Investment by State Government at cost	Profit(+)/ Loss(-)	Percentage of investment by Government to total paid up capital	Dividend receivable by State Government	Accumulated loss
(Rupees in lakhs)								
1	Premier Tyres Limited	1993	323.77	60.00	(-)290.31	18.5	-	1466.30
2	Apollo Tyres Limited	1993	2786.39	50.00	2320.19	1.8	17.50	-
3	The Travancore Rayons Limited	1994	381.50	105.63	473.96	27.7	-	3046.02
4	Madura Coats Limited	1993	3286.37	22.67	2839.96	0.7	7.48	-
5	Travancore Electro Chemical Industries Limited	1992	233.40	14.00	24.64	6.0	-	-
6	Punalur Paper Mills Limited	The company is under lock-out			13.27			
7	The Indian Aluminium Company Limited	1991	4149.67	16.83	7644.01	0.4	4.02	-
Total			11161.10	282.40			29.00	

1.3. STATUTORY CORPORATIONS

1.3.1. General aspects

1.3.1.1. There were five Statutory corporations in the State as on 31 March 1995. Audit arrangement of these Corporations is shown below:

Name of the Corporation	Statute under which constituted	Date of formation	Audit arrangement	Years upto which accounts finalised	Separate Audit Report/ Comments placed in Legislature upto the year	Authority under the statute for audit by C&AG of India
1. Kerala State Electricity Board	Section 5(i) of the Electricity (Supply) Act, 1948	1st April 1957	C&AG of India is the sole Auditor	Up to 1994-95 Audit on the accounts for 1993-94 and 1994-95 is in various stages of finalisation	1992-93	Section 69(2) of Electricity (Supply) Act, 1948
2. Kerala State Road Transport Corporation	Section 3 of the Road Transport Corporations Act, 1950	15th March 1965	- do -	Up to 1994-95 Audit on the accounts for 1993-94 and 1994-95 is in various stages of finalisation	1992-93	Section 33(2) of Road Transport Corporations Act, 1950
3. Kerala Industrial Infrastructure Development Corporation	Section 4 of the Kerala Industrial Infrastructure Development Act, 1993	23rd February 1993	- do -	Up to 1994-95 Audit on the accounts for 1993-94 and 1994-95 and is in various stages of completion	-	Section 20(2) of Kerala Industrial Infrastructure Development Act, 1993
4. Kerala Financial Corporation	Section 3(i) of the State Financial Corporations Act 1951	1st December 1953	Audit by Chartered Accountants appointed by the State Government and supplementary audit by the C&AG of India	Up to 1994-95. Supplementary audit on 1993-94 and 1994-95 accounts is in various stages of completion	1992-93	Section 37(6) of the State Financial Corporations Act, 1951
5. Kerala State Warehousing Corporation	Warehousing Corporations Act, 1962.	20th February 1959	- do -	Up to 1992-93. Supplementary audit is in progress on the accounts for 1992-93	1991-92	Section 31(8) of Warehousing Corporations Act, 1962

1.3.1.2. Investment

The total investment (including loans and grants) of the State Government in these Corporations based on the latest available accounts was Rs912.75 crores.

1.3.1.3. Working results

The working results of these Statutory corporations for the years since previous Report are summarised in Annexure-5

Salient points on the accounts and physical performance of these Corporations (except Kerala Industrial Infrastructure Development Corporation) are given in paragraphs 1.3.2. to 1.3.5.

1.3.2. Kerala State Electricity Board

1.3.2.1. Finance and resources

The capital requirements of the Board are met by loans obtained from State Government, public, banks and other financial institutions.

The aggregate of the term loans outstanding as at the end of three years up to 1994-95 was Rs1151.79 crores, Rs1296.96 crores and Rs1548.10 crores respectively. Particulars of loans outstanding at the close of each of the three years up to 1994-95 are as follows:

Sources		1992-93	1993-94*	1994-95*
(Rupees in crores)				
1	State Government	538.27	622.58	690.05 [#]
2	KSE Bonds	230.72	241.18	241.18
3	Non-SLR Bonds	—	—	117.50
4	Others	382.80	433.20	499.37
Total		1151.79	1296.96	1548.10

* Figures are provisional

The figure as the Finance Accounts could not be reconciled as the same was under finalisation

The Government had guaranteed the repayment of loans obtained by the Board to the extent of Rs937.93 crores and the payment of interest thereon. The amount outstanding thereagainst as on 31 March 1995 was Rs421.15 crores.

1.3.2.2. Financial position

The table below gives the financial position of the Board at the close of each of the three years up to 1994-95:

Particulars	1992-93	1993-94*	1994-95*
(Rupees in crores)			
A Liabilities			
1 Long-term loans from:			
(i) Government	538.27	622.58	690.05
(ii) Other sources	613.52	674.38	858.05
2 Reserves and surplus	194.26	284.21	368.22
3 Current liabilities and provisions	718.46	916.68	1123.39
Total - A	2064.51	2497.85	3039.71
B Assets:			
1 Gross fixed assets	1087.04	1218.75	1351.78
2 Less: depreciation	278.98	317.01	364.18
3 Net fixed assets	808.06	901.74	987.60
4 Capital expenditure-in-progress	613.52	719.81	908.71
5 Assets not in use	0.64	0.88	0.88
6 Current assets	562.97	775.92	1040.97
7 Deferred costs	79.32	99.50	101.55
Total - B	2064.51	2497.85	3039.71
C Capital employed**	652.57	760.98	905.18
D Capital invested***	1160.04	1305.21	1556.35

* Figures are provisional

** Capital employed represents net fixed assets plus working capital.

*** Capital invested represents paid-up capital plus long-term loans and free reserves.

1.3.2.3. Working results

The working results of the Board for each of the three years up to 1994-95 are summarised below:

Particulars	1992-93	1993-94*	1994-95*
(Rupees in crores)			
A Revenue receipts:			
(a) Revenue from sale of power	438.75	530.88	633.15
(b) Revenue subsidies and grants	0.02	..	8.56
(c) Other income	5.87	6.86	10.90
Total - A	444.64	537.74	652.61
B Revenue expenditure including depreciation on fixed assets	268.42	401.83	478.26
C Gross surplus (A-B)	176.22	135.91	174.35
D Transfer from depreciation reserve/net prior period adjustments	(-)38.18	15.39	7.24
Total	138.04	151.30	181.59
E Appropriations:			
(a) Interest on Government loans	55.06	58.90	69.90
(b) Interest on other loans and bonds	64.56	68.28	89.81
Total-E	119.62	127.18	159.71
F Net surplus	18.42	24.12	21.88
G Total return on:			
(a) Capital employed	138.04	151.30	181.59
(b) Capital invested	138.04	151.30	181.59
H Percentage of total return on :			
(a) Capital employed	21.2	19.9	20.1
(b) Capital invested	11.9	11.6	11.7

* Figures are provisional

1.3.2.4. Operational performance

The table below indicates the operational performance of the Board during each of the three years up to 1994-95 :

Particulars	1992-93	1993-94*	1994-95*
1 Installed capacity :			
Hydel (mW)	1477	1484	1504
2 Normal maximum demand:		(mW)	
(a) Restricted	1265	1235	1330
(b) Unrestricted	1309	2181	2356
3 Power generated:		(mkWh)	
Hydel	6189	5822	6572
Less:auxiliary consumption	31	26	25
4 Net power generated	6158	5796	6547
5 Power purchased	1233	2020	2247
6 Total power available for sale	7391	7816	8794
7 Power sold	5839	6234	7028
8 Transmission and distribution loss(6-7)	1552	1582	1766
		(per cent)	
9 Load factor	48	54	56
10 Transmission and distribution loss to power available for sale	21	20	20
11 Number of units generated per kW of installed capacity	4190	(kWh) 3923	4371

* Figures are provisional

The following table gives other details about the Board as at the end of each of the three years up to 1994-95 :

Particulars	1992-93	1993-94	1994-95*
1 Villages electrified (Numbers)	1219	1384	1384
2 Pumpsets/wells energised (lakh numbers)	2.65	2.76	2.90
3 Number of substations	146	152	158
4 Transmission/distribution lines (lakh km)			
(a) High/medium voltage	0.22	0.23	0.25
(b) Low voltage	1.13	1.15	1.25
5 Connected load (mW)	6576	4933	5397
6 Consumers(lakh numbers)	39.30	41.54	44.17
7 Employees (numbers)	25765	25815	25236

The following table gives the details of power sold, revenue, expenditure and profit per kWh sold during each of the three years up to 1994-95 :

Particulars	1992-93	1993-94*	1994-95 *
	(mkWh)		
1 Units sold :			
(a) Agriculture	235	236	271
(b) Industrial	2617	2734	3141
(c) Commercial	706	858	954
(d) Domestic	1841	2069	2301
(e) Others	440	337	361
Total	5839	6234	7028

* Figures are provisional

Particulars	1992-93	1993-94*	1994-95 *
	(Paise)		
(a) Revenue/kWh	75	86	90
(b) Expenditure/kWh	46	64	68
(c) Profit/kWh	29	22	22

1.3.3. Kerala State Road Transport Corporation

1.3.3.1. Finance and resources

Under Section 23(1) of the Road Transport Corporations Act, 1950, the State and the Central Governments had agreed to contribute to the capital in the ratio of 4:1 which was revised during 1969 to 3:1 for the contributions made up to March 1969 and 2:1 thereafter. The capital contribution of the Central and State Governments along with interest payable thereon at 6.5 *per cent* up to 31 March 1992 has been converted into equity share capital with effect from April 1994 and July 1995 respectively, according to the directions issued by the respective Governments in this respect.

In April 1965, the Corporation took over from the erstwhile Government Transport Department, the Road Transport Section and the Water Transport Section operating ferry services around Cochin Harbour. Though the Water Transport Section so taken over has since been delinked from the Corporation and handed over to the State Water Transport Department with effect from 1 July 1994, adjustments to this effect in the accounts are pending.

1.3.3.2. The share capital of the Corporation as at the end of 1994-95 stood at Rs101.20 crores (Rs77.99 crores contributed by the State Government and Rs23.21 crores by the Central

Government) as against the capital contribution of Rs72.92 crores as on 31 March 1994.

In addition, as on 31 March 1995, the Corporation obtained loans of Rs105.12 crores (State Government: Rs68.65 crores, Life Insurance Corporation of India : Rs5.68 crores, Kerala Transport Development Finance Corporation Limited : Rs21.34 crores and Debentures : Rs9.45 crores). The State Government had also given guarantees for the repayment of loans raised by the Corporation by way of debentures and payment of interest thereon and also for the IDBI loan for the purchase of chassis (Rs25.79 crores). Guarantee commission due for payment to the State Government in these cases up to 1994-95 worked out to Rs2.36 crores.

1.3.3.3. Financial position

The financial position of the Corporation as at the end of the three years up to 1994-95 is given below:

Particulars	1992-93	1993-94*	1994-95 *
(Rupees in crores)			
A Liabilities :			
a) Capital contribution/ Share Capital	72.92	72.92	101.20
b) Reserve, provisions and insurance fund	25.80	37.88	53.13
c) Long term loans	88.94	94.64	105.12
d) Trade dues and current liabilities (including provisions)	180.38	197.87	155.62
Total A	368.04	403.31	415.07

* Figures are provisional

Particulars	1992-93	1993-94*	1994-95*
B Assets :			
a) Gross block	152.34	171.66	185.42
<i>Less : depreciation</i>	93.01	103.93	107.07
b) Net fixed assets	59.33	67.73	78.35
c) Civil work-in-progress including workshop suspense	5.98	6.61	6.71
d) Current assets, loans and advances	48.07	45.50	54.96
e) Accumulated loss**	254.66	283.47	275.05
Total B	368.04	403.31	415.07
C Capital employed***	(-)72.98	(-)84.64	(-)22.31
D Capital invested****	161.86	167.56	206.32

* Figures are provisional

** The accumulated loss was arrived at after setting off Rs83.50 crores written off by the State Government from the dues payable to them and writing back the interest of Rs9.22 crores for 1992-93 and 1993-94 payable to the State and Central Governments consequent to the conversion of the capital contribution into equity share capital.

*** Capital employed represents net fixed assets plus working capital

**** Capital invested represents capital contribution/share capital plus long-term loans

1.3.3.4. Working results

The working results of the Corporation for the three years - up to 1994-95 are summarised below:

Particulars	1992-93	1993-94*	1994-95*
(Rupees in crores)			
1 Operating :			
a) Revenue	225.85	245.16	280.34
b) Expenditure	235.40	254.60	265.09
c) Deficit(-)/ Surplus(+)	(-) 9.55	(-) 9.44	(+)15.25
2 Non-operating :			
a) Revenue	4.62	5.72	8.01
b) Expenditure	23.88	25.23	23.16
c) Deficit	19.26	19.51	15.15
3 Total :			
a) Revenue	230.47	250.88	288.35
b) Expenditure	259.28	279.83	288.25
c) Net loss(-)/ profit(+) for the year	(-) 28.81	(-) 28.95	(+) 0.10
4 Interest on capital and loans **	23.88	25.23	23.17
5 Total return on :			
a) Capital employed	(-) 4.93	(-) 3.72	23.27
b) Capital invested	(-) 4.93	(-) 3.72	23.27

* Figures are provisional

** Includes debt service charges of Rs19.32 crores in 1992-93, Rs20.67 crores in 1993-94 and Rs23.17 crores in 1994-95

1.3.3.5. Operational performance

The table below indicates the operational performance of the Road Transport Section of the Corporation for the three years up to 1994-95 :

Particulars		1992-93	1993-94*	1994-95*
1	Average number of vehicles held	3464	3495	3498
2	Average number of vehicles on road	2813	2743	2764
3	Percentage of utilisation	81.2	78.5	79
4	Kilometres covered:	(in lakhs)		
a)	Gross	3070	3119	3206
b)	Effective	3058	3106	3198
c)	Dead	12	13	8
5	Percentage of dead kilometres to gross kilometres	0.4	0.4	0.3
6	Average effective kilometres covered per bus per day	298	310	332
7	Average operating revenue per kilometre (paise)	737	783	901
8	Average operating expenditure per kilometre (paise)	766	811	900
9	Profit(+)/Loss(-) per kilometre (paise)	(-)29	(-)28	(+)1
10	Route kilometres(in lakhs)	1.77	1.78	1.78
11	Number of operating depots (including operating centres)	66	66	65

* Figures are provisional

Particulars	1992-93	1993-94*	1994-95*
12 Average number of breakdown per lakh kilometres	11.4	10.6	11.8
13 Average number of accidents per lakh kilometres	1.5	1.4	0.41
14 Passenger kilometres scheduled (in crores)	1678	1692	1681
15 Passenger kilometres operated (in crores)	1461	1471	1468
16 Occupancy ratio	87.1	86.7	87

1.3.4. Kerala Financial Corporation

1.3.4.1. Finance and resources

The paid-up capital of the Corporation as at 31 March 1995 was Rs56 crores (including advance towards share capital of Rs22.60 crores) as against Rs46 crores as on 31 March 1994. Particulars of share capital obtained from the State Government and other sources as at the end of two years up to 1994-95 are as follows :

Source	Amount as on 31st March	
	1994	1995
	(Rupees in crores)	
i) Government of Kerala	30.93	40.93
ii) Industrial Development Bank of India	14.83	14.83
iii) Others	0.24	0.24
Total	46.00	56.00

The State Government had guaranteed the repayment of share capital of Rs32.29 crores (excluding the special share capital of Rs0.55 crore) under section 6(1) of State Financial Corporations Act, 1951 and payment of minimum dividend thereon at 3.5 *per cent*. Subvention paid by the Government towards the guaranteed dividend outstanding for repayment as on 31 March 1995 was Rs2.52 crores.

The Government had also guaranteed repayment of loans raised by the Corporation through bonds and fixed deposits. Amount of principal outstanding thereagainst as on 31 March 1995 was Rs172.60 crores and 0.54 crore respectively. The guarantee commission payable to the State Government as on 31 March 1995 worked out to Rs4.24 crores.

1.3.4.2. Financial position

The table below summarises the financial position of the Corporation under broad headings at the end of each of the three years up to 1994-95 :

Particulars	1992-93	1993-94	1994-95*
(Rupees in crores)			
A Liabilities :			
1 Paid-up capital (including advance)	38.50	46.00	56.00
2 Reserve fund including other reserves and surplus	9.51	4.00	5.13

* Figures are provisional

Particulars		1992-93	1993-94	1994-95*
		(Rupees in crores)		
3	Long-term loans:			
	i) Bonds	127.60	150.10	172.60
	ii) Deposits	0.73	0.56	0.54
	iii) Others	140.07	133.44	128.50
4	Subvention paid by the State Government for payment of dividend	2.52	2.52	2.52
5	Other liabilities and provisions	4.27	2.90	3.87
Total - A		323.20	339.52	369.16
B Assets :				
1	Cash and bank balances	19.98	18.55	22.19
2	Loans and advances	293.70	311.47	333.28
3	Shares	0.10	0.10	0.10
4	Net fixed assets	0.50	0.62	0.75
5	Dividend deficit	4.89	4.91	6.68
6	Other assets	3.52	3.87	6.16
7	Accumulated loss	0.51	-	-
Total - B		323.20	339.52	369.16
C	Capital employed**	292.83	318.53	344.21
D	Capital invested***	306.90	330.15	358.27

** Capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, long-term loans and free reserves

*** Capital invested represents paid-up capital plus free reserve plus long-term loans

1.3.4.3. Working results

The Corporation switched over to cash system of accounting with effect from April 1982. The following table gives the summary of working results of the Corporation for each of the three years up to 1994-95 :

Particulars	1992-93	1993-94	1994-95*
(Rupees in crores)			
1 Income :			
a) Interest on loans and advances	33.63	38.46	47.78
b) Other income	1.33	1.67	1.35
Total - 1	34.96	40.13	49.13
2 Expenditure :			
a) Interest on long-term loans	27.05	31.92	34.80
b) Other expenses	6.50	6.79	12.45
Total - 2	33.55	38.71	47.25
3 Profit (1-2)	1.41	1.42	1.88
4 Total return on :			
a) Capital employed	28.46	33.34	36.68
b) Capital invested	28.46	33.34	36.68
5 Percentage of return on:			
a) Capital employed	9.7	10.5	10.7
b) Capital invested	9.3	10.1	10.2

* Figures are provisional

It was pointed out in the Separate Audit Report on the accounts of the Corporation for the year 1992-93 that the profit for the year (Rs1.41 crores) was overstated by Rs1.22 crores due to non-provision of guarantee commission (Rs0.84 crore); non-provision of collection charges payable to State Government (Rs0.34 crore) and non-accountal of loss incurred in the disposal of a loanee's property (Rs0.04 crore).

1.3.4.4. Operational performance

The following table indicates the details of loans disbursed and outstanding as at the end of the three years up to 1994-95.

Particulars	1992-93	1993-94	1994-95*
	(Rupees in crores)		
1. Loans disbursed	453.89	522.31	597.70
2. Loans outstanding at the close of the year	293.47	317.96	346.53
3. Amount overdue for recovery at the close of the year:			
a) Principal	70.01	76.25	85.31
b) Interest	67.04	79.56	101.60
Total (a + b)	137.05	155.81	186.91
4. Percentage of default to total loans outstanding	46.7	49.0	53.9

* Figures are provisional

1.3.5. Kerala State Warehousing Corporation

1.3.5.1. Finance and resources

The paid-up capital of the Corporation was Rs430 lakhs (Government of Kerala : Rs225 lakhs and Central Warehousing Corporation : Rs205 lakhs) as on 31 March 1993 as against Rs395 lakhs as on 31 March 1992.

1.3.5.2. Financial position

The table below summarises the financial position of the Corporation as at the end of the three years up to 1992-93 :

Particulars	1990-91	1991-92	1992-93*
(Rupees in lakhs)			
A Liabilities :			
a) Paid-up capital	360.80	395.00	430.00
b) Reserve and surplus	136.84	132.76	142.76
c) Long-term loans	276.00	275.00	275.00
d) Trade dues and other current liabilities (including provisions)	461.43	500.85	525.17
Total - A	1235.07	1303.61	1372.93
B Assets :			
a) Gross block	1030.11	1073.95	1079.32
b) Less: depreciation	152.31	175.35	197.10
c) Net fixed assets	877.80	898.60	882.22
d) Capital work-in-progress	52.62	28.17	40.27
e) Current assets, loans and advances	304.65	313.48	316.87
f) Accumulated loss	—	63.36	133.57
Total - B	1235.07	1303.61	1372.93
C Capital employed **	606.77	586.98	539.67
D Capital invested ***	659.34	670.00	705.00

* Figures are provisional

** Capital employed represents net fixed assets plus working capital

*** Capital invested represents paid-up capital plus long-term loans and free reserves

1.3.5.3. Working results

The Corporation has finalised its accounts up to 1992-93 only. The table below indicates the working results of the Corporation for the three years up to 1992-93:

Particulars	1990-91	1991-92	1992-93*
(Rupees in lakhs)			
1. Income			
i) Warehousing receipts	138.72	173.70	196.61
ii) Handling and transportation receipts	113.54	147.96	138.26
iii) Other income (including net income from trading activity)	13.28	6.17	11.17
Total - 1	265.54	327.83	346.04
2. Expenses			
i) Handling and transportation expenses	80.38	100.43	96.85
ii) Interest	32.33	36.84	39.01
iii) Other expenses	239.75	266.08	286.18
Total 2	352.46	403.35	422.04
3. Net loss	86.92	75.52	76.00
4. Appropriations	1.03	1.92	(-) 5.79
5. Total return on capital employed	(-)54.59	(-)38.68	(-)36.99
6. Total return on capital invested	(-)54.59	(-)38.68	(-)36.99

* Figures are provisional

1.3.5.4. Operational Performance

The following table gives details of storage capacity created, capacity utilised and other information about the performance of the Corporation for the three years up to 1992-93 :

Particulars	1990-91	1991-92	1992-93*
1. Number of warehouses	62	63	63
2. Storage capacity created up to the end of the year (in thousand tonnes):			
a) Owned	140.6	143.4	143.4
b) Hired	26.2	32.6	31.1
Total	166.8	176.0	174.5
3. Effective capacity	121.8	128.5	127.4
4. Capacity utilised during the year	79.7	130.5	115.8
5. Percentage of utilisation	65	102	91
6. Average revenue per tonne (Rupees)	333.37	251.20	298.86
7. Average expenses per tonne (Rupees)	442.49	309.06	364.50

* Figures are provisional

1.3.6. Kerala Industrial Infrastructure Development Corporation

The Corporation was constituted in February 1993 for establishing industrial growth centres and for provision of infrastructure facilities to the industries.

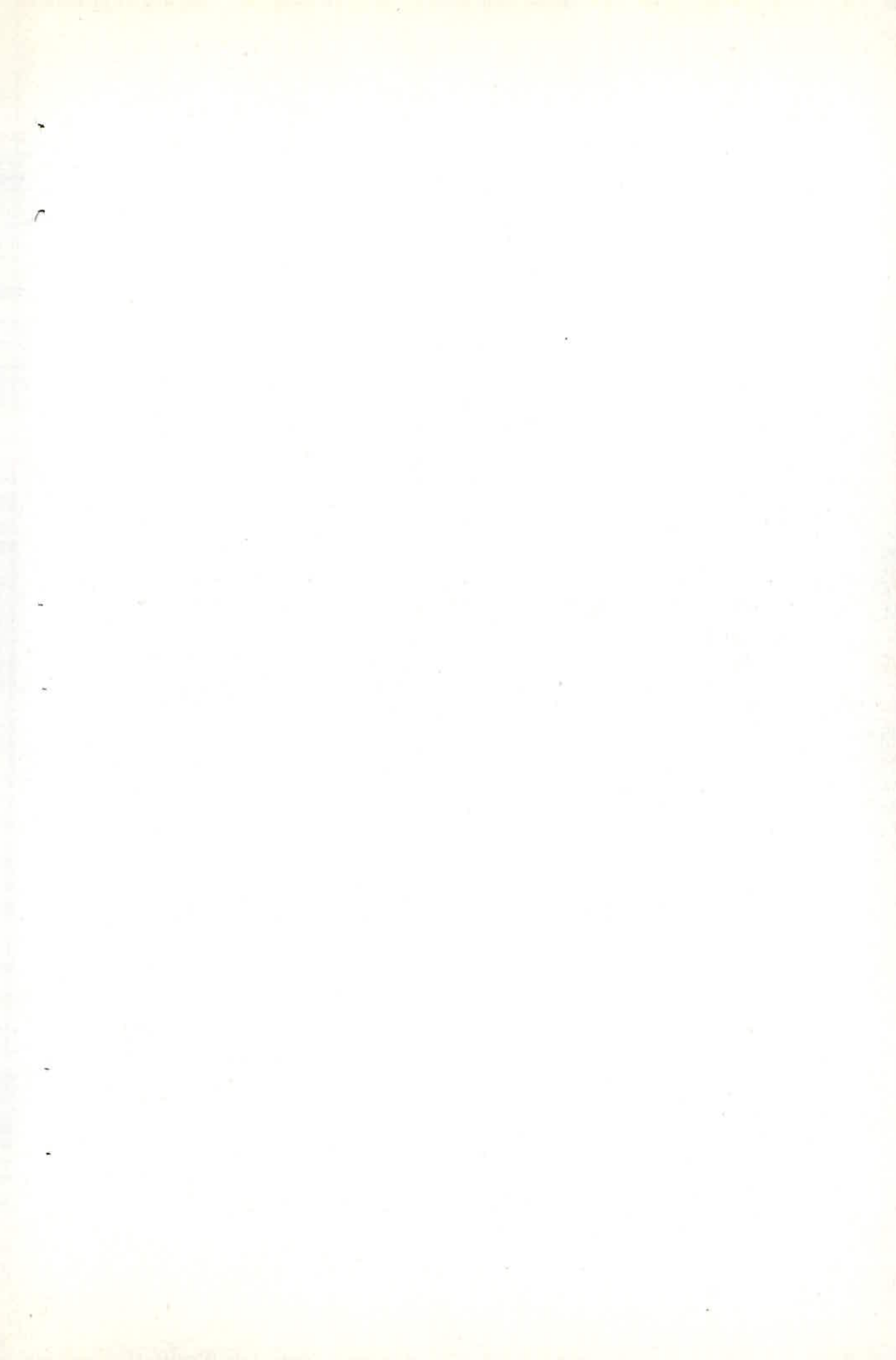
The capital requirements of the Corporation are met by way of grants received from the State Government and the grants so received up to March 1995 was Rs32.88 crores. The Corporation has not commenced commercial activities (March 1995).

Chapter - II

REVIEWS RELATING TO GOVERNMENT COMPANIES

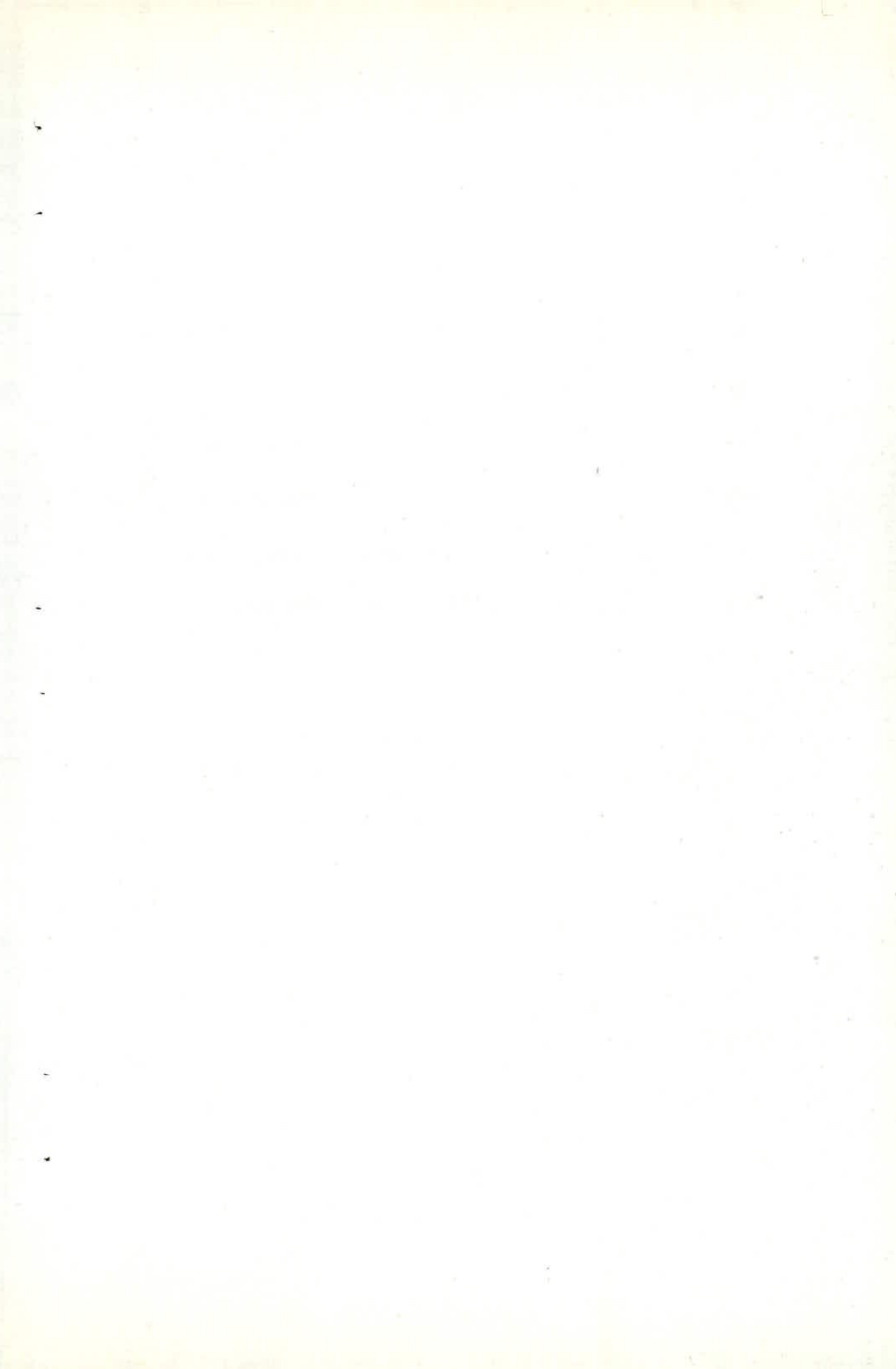
This chapter contains four reviews as indicated below:

- 2A. The Kerala Ceramics Limited
- 2B. Traco Cable Company Limited
- 2C. The Kerala Agro Industries Corporation Limited
- 2D. Kerala State Industrial Development Corporation Limited-
Purchase of land for the establishment of Nylon Filament yarn
project at Mylom



2A. THE KERALA CERAMICS LIMITED

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THE KERALA CERAMICS LIMITED

Highlights

The Company incorporated in November 1963 is engaged in the production and sale of kaolex (brand name of fine refined clay in powder form) and china clay products.

(Paragraph 2A.1)

The Company had been incurring loss since its inception and the accumulated loss as at the end of 1986-87 (up to which accounts were finalised) was Rs1049.74 lakhs which exceeded the paid up capital of Rs190.58 lakhs by five times.

(Paragraphs 2A.4.3 and 2A.4.5)

As a part of rehabilitation of the Company, the State Government granted several concessions in October 1987 such as concessional rate for electricity, deferment of payment of electricity duty for three years, postponement of payment of sales tax and keeping in abeyance the payment of dues to the Government departments. Despite these concessions the performance of the Company did not improve and the turnover ranged between Rs174.47 lakhs and Rs338.51 lakhs only against the envisaged annual turnover of Rs412 lakhs.

(Paragraph 2A.4.3)

The acquisition of additional mining area of 4.22 hectares and its subsequent non-utilisation for over 10 years resulted in unfruitful investment of Rs18 lakhs.

(Paragraph 2A.5.3)

The Company suffered a loss of Rs180.32 lakhs during the three years up to 1994-95 on account of shortfall in production of Kaollex due to controllable factors viz. shortage of raw clay on account of failure of the mining contractor, shortage of water, want of chemicals, etc.

(Paragraph 2A.6.2.1.1)

Due to prolonged storage of 7862 tonnes of inferior quality clay (refined clay) over four years in the open yard without reprocessing and consequent contamination on account of oxidation of iron, the Company suffered a loss of revenue of Rs31.45 lakhs.

(Paragraph 2A.6.2.1.3)

Excess consumption of electricity due to the failure of the Company in providing heating elements costing around Rs7.46 lakhs in the kiln resulted in an additional expenditure of Rs22.42 lakhs during the period of four years up to 1994-95.

(Paragraph 2A.6.2.2.2)

The excess breakages in the processing from green goods stage to glost firing stage during the three years ended March 1994 was 6.53 lakh pieces costing Rs66.03 lakhs.

(Paragraph 2A.6.2.2.3)

Investment of Rs125 lakhs between October 1992 and February 1994 by the Company in a joint venture did not yield the desired advantages of obtaining the latest technology in bone china tableware manufacture free of cost and giving the Company an exposure to international market for its porcelain products, etc., rendering the investment remaining unfruitful.

(Paragraph 2A.6.2.2.5)

After take over of the speciality clay division in November 1983, the Company installed additional equipments and made structural additions for Rs49.80 lakhs during 1984-85 and 1985-86. Due to low level of production and high cost, the Division suffered a loss of Rs225.70 lakhs till it was closed down in November 1990, leaving a stock of finished and semi-finished goods valued at Rs30.96 lakhs.

(Paragraph 2A.6.2.3.1)

Contrary to the provisions in the agreement with the agents for sale of porcelain ware, the Company allowed credit to all the agents without obtaining the bank guarantee or cash security with the result that the debts pending realisation as at the end of June 1993 aggregated Rs38.99 lakhs.

(Paragraph 2A.7.3.1)

As at the end of 1993-94, the accumulation of finished goods was to the tune of Rs243.71 lakhs (including non-moving stock of Rs113.23 lakhs) representing six months sales resulting in locking up the working capital.

(Paragraphs 2A.8.1 and 2A.8.2)

The annual physical verification conducted by the Company as at the end of 1990-91 revealed shortages to the extent of Rs18.86 lakhs.

(Paragraph 2A.8.4)

Consequent on the low productivity in the clays and mineral division and porcelain division, the unproductive wages paid during the five years up to 1994-95 was Rs41.96 lakhs when compared to the work norms fixed. Despite low productivity in the above two divisions, the Company paid Rs17.90 lakhs as overtime allowance during the period from June 1991 to September 1994.

(Paragraphs 2A.9.1 and 2A.9.2)

2A.1. INTRODUCTION

The Kerala Ceramics Limited, was incorporated on 1st November 1963 to take over the erstwhile departmental undertakings of 'Government Ceramic concerns' and 'Kerala Government Ceramics'. In September 1973, it became a subsidiary of Kerala State Industrial Enterprises Limited (KSIE), another Government Company. It again became an independent Company in July 1990 on delinking from KSIE.

The activities of the Company are the production and sale of Kaolex and other China Clay products in the Clay and Mineral Division (previously known as Kaolin Division) using the raw clay mined from its clay mine in Kundara and porcelain items in its Porcelain Division.

The speciality clay division in Kollam engaged in the manufacture of Sanitaryware items, was closed down in November 1990 due to uneconomic working.

2A.2. ORGANISATIONAL SET-UP

The Management of the Company vests in a Board of Directors. As at the end of 1994-95, there were six directors, including the Managing Director, all of whom were appointed by the State Government. The Managing Director is the Chief Executive of the Company assisted by Managers in Finance, Production and Marketing departments for the respective divisions.

According to a Rehabilitation Report got prepared by a Consultant in July 1987, one of the reasons for the dismal performance of the Company was lack of continuity of top management. According to the Report, the minimum tenure of the Chief Executive should be five years. However, since then, there

were eight changes in the incumbency of the Chief Executive (out of which three were only holding additional charges) and their tenure ranged from one month to 35 months.

2A.3. AUDIT COVERAGE

The working of the Company was reviewed in the Report of the Comptroller & Auditor General of India for 1974-75. The recommendations of COPU thereon are contained in their 16th Report presented to the State Legislature in March 1979. The results of the present review on the working of the Company for the five years up to 1994-95 conducted between February and May 1995 are discussed in the succeeding paragraphs.

2A.4. FINANCE & RESOURCES

2A.4.1. Share capital

As against the authorised capital of Rs200 lakhs, the paid-up capital as at the end of 1986-87 stood at Rs190.58 lakhs subscribed by the State Government (Rs107.95 lakhs) and KSIE (Rs82.63 lakhs).

2A.4.2. Borrowings

Between February 1964 and November 1991, the Company obtained term loans aggregating Rs716.26 lakhs from the State Government (Rs184.77 lakhs) KSIE (Rs407.49 lakhs) and Travancore Titanium Products Limited (Rs124 lakhs). The loans had not been repaid and the interest overdue thereon upto 1993-94 was Rs584.29 lakhs.

In addition, the Company had availed overdraft facility to the extent of Rs449.56 lakhs as at the end of 1993-94 for working

capital from State Bank of Travancore and Indian Bank on Government guarantee.

2A.4.3. Rehabilitation

The Company had been incurring loss since its inception and it had to depend on borrowings from the holding Company viz. KSIE and Government for its existence. In May 1987, the State Government appointed a firm of consultants on a fee of Rs1.10 lakhs to give concrete proposals for the rehabilitation of the Company. According to the report submitted by the Consultants in July 1987, the major reasons for the poor performance of the Company were under-utilisation of capacity, high cost of production, heavy interest burden and lack of working capital.

The report, therefore, suggested waiver of interest, conversion of loans received from Government and KSIE into equity, deferment of sales tax payment, concessional rate for electrical energy, etc. The report also pointed out that by optimising the production capacity, controlling scrap and effective customer service, the Company would be able to achieve an annual turnover of Rs412 lakhs and thereby earn profit.

Based on the report, the State Government allowed (October 1987) concessional rate for electricity for 3 years (i.e. 22 ps. per unit), deferred payment of electricity duty for 3 years, postponed the payment of sales tax and kept in abeyance the payment of dues to Government department/agencies till 31 May 1988.

In addition, as decided by the State Government, Travancore Titanium Products Limited disbursed loan of Rs114 lakhs (Rs58 lakhs in November 1987 and Rs56 lakhs in May 1988). Even after

these concessions and receipt of additional funds, the Company could not optimise its production in all sections and the turnover of the Company ranged between Rs174.47 lakhs and Rs338.51 lakhs only during the period from 1988-89 to 1990-91, against the envisaged annual turnover of Rs412 lakhs.

2A.4.4. Position of accounts

The Company had finalised its accounts only up to 1986-87. For the finalisation of accounts for 1985-86 and 1986-87, the Company took more than eight years, despite entrusting (February 1990) the work relating to the accounts for the period from 1986-87 to 1989-90 to a firm of Chartered Accountants, on a remuneration of Rs10,000 for each year.

2A.4.5. The Company made an application to the Board for Financial and Industrial Reconstruction (BIFR) in May 1993 for declaring it as a sick unit under the provision of the Sick Industrial Companies (Special Provision) Act, 1985. As the sickness could be claimed only on the basis of the audited accounts for the year ended 1991-92, the application was rejected (September 1993) by BIFR. The Company was, however, given an option to approach BIFR again after complying with the above requirements. As the accounts for the years from 1987-88 onwards are yet to be finalised, the Company could not again approach the BIFR so far (May 1995).

According to the latest available certified accounts, the accumulated loss at the end of 1986-87 was Rs1049.74 lakhs which was more than five times its paid-up capital Rs190.58 lakhs.

2A.5. MINING ACTIVITY

2A.5.1. The Company had been granted mining lease of 16.558 hectares (ha) of the mining area for 20 years by the Government in July 1969. The period of lease which expired in July 1989 was extended for a further period of 10 years. The fresh lease deed had not, however, been executed by the Company so far (May 1995).

Raw clay required for processing into Kaolex and other clay products is obtained from this area at Kundara. Out of the total area of 16.558 hectares, raw clay has been extracted from an area of 13.558 hectares till March 1995. The reserves in the balance minable area of 3 hectares had been estimated at 3 lakh tonnes, sufficient to meet the production requirements of next five years.

The standard percentage of recovery of kaolex from the clay mined had been fixed by the Company at 20 *per cent* up to 1989-90 and thereafter at 16 *per cent* as against 30 *per cent* recovery according to pilot plant studies at the time of designing the plant.

2A.5.2. Mining operation

2A.5.2.1. Mining of raw clay, including removal of overburden from the mine, is mainly got done by contractors using their earthmoving equipment. According to the agreement with the Contractors, the Company provides specified number of hours of work for the equipment in each month and the monthly outturn fixed is binding on the contractor. In case of shortfall in hourly output, proportionate deduction is made from the bills of the contractors.

2A.5.2.2. A review of the mining operation during the five years up to 1994-95 revealed that in none of these years, the raw clay

mined was adequate to meet the budgeted production of Kaolex as shown below :

Year	Budgeted production of Kaolex	Raw clay required at 16 per cent recovery	Actual quantity mined	Shortfall
(In tonnes)				
1990-91	11000	68750	55181	13569
1991-92	11900	74345	56044	18301
1992-93	13150	82188	63795	18393
1993-94	11000	68750	59658	9092
1994-95	7000	43750	42541	1209

Against the installed capacity of 18000 tonnes of Kaolex per annum, the budgeted production was low in all the five years and ranged between 7000 tonnes and 13150 tonnes. Management stated (May 1995) that obsolete machinery, shortage of raw clay and lack of funds were the reasons for fixing the budgeted production at a lower level. The shortfall in production of the raw clay was mainly on account of the failure of the mining contractors. Consequent on the shortfall in the mining operation the Company could not produce 9831 tonnes of Kaolex valued at Rs339.21 lakhs during the five years ending March 1995.

2A.5.2.3. The contract for mining overburden and raw clay was awarded in July 1993 to MD George & Company, Edathala on the basis of competitive tenders for two years at an hourly rate of Rs898 per excavator and at Rs150 per tipper. The performance of the

equipment provided by the Contractor was not satisfactory from the very beginning and failed to supply the guaranteed hourly output of 200 tonnes. As the equipment completely went out of order in April 1994, the Company entrusted the balance work with the next lowest tenderer viz. Jayvee Sales & Services (P) Ltd., Calcutta in May, 1994 at an hourly rate of Rs900 per excavator and Rs150 per tipper. On account of the failure of the original contractor to mine the guaranteed output, the Company suffered a loss of Rs7.50 lakhs up to March 1995 towards extra rate paid (Rs2.06 lakhs) to the alternate contractor and idle wages to the workers (Rs5.44 lakhs) for want of raw clay. In the absence of any provision for levy of liquidated damages and for awarding the work at the risk and cost of the defaulted contractor, the Company could not make good the loss from the original contractor.

2A.5.2.4. The contractors for mining overburden and raw clay engaged their earthmoving equipment for 1587 hours during the five years up to March 1995 for other miscellaneous works such as roadwork, trenching, drainage, removal of blunger sand, etc. and were paid Rs14.13 lakhs at the rates agreed for mining operation (except for the year 1992-93). During 1992-93, when separate rates were obtained, the rate for the miscellaneous work was less by Rs75 per hour. Reckoned at this rate, the loss due to payment of mining rates for other miscellaneous works for 1201 hours (excluding 386 hours in 1992-93), was Rs0.90 lakh.

2A.5.2.5. It was further observed that for removal of the sand accumulated in the blunger plant, the Company used the excavator of the contractor twice i.e. initially for removing the sand from the plant and dumping in a dry place and again for loading to their tippers to transport to a lead of one km. This could have been avoided in case the blunger sand removed with the excavator was

loaded directly to the tippers thereby avoiding the extra expenditure of Rs5.60 lakhs during the period of five years up to March 1995, on this account.

2A.5.2.6. While the earthmoving equipment of the contractors were utilised for miscellaneous work at an exorbitantly high rate ranging between Rs850 and Rs925 per hour, the Company's own earthmoving equipment (Bulldozer, Track Shovel, etc.) were lying under-utilised. The bulldozer of the Company was put to use only for 1683 hours during the five years up to 1994-95, the average utilisation being only 42 days an year. Similarly, the track shovel was utilised only for 1229 hours during this period. The reasons attributed for keeping the own earthmoving equipments idle, were delay in procuring the spares and their repairing. Had the Company taken prompt action regarding preventive maintenance and procuring spares to its own equipment, it could have avoided hiring of earthmoving equipment and payment of the entire hire charges of Rs14.13 lakhs (as mentioned in paragraph 2A 5.2.4 supra).

2A.5.3. Acquisition of land for development of mines

One of the reasons attributed by the Management for low production of Kaollex in the initial years of the working of the plant was the shortage of raw clay from the existing mine of the Company. In order to tide over the shortage of raw clay, action was initiated by the Company during 1975-77 to acquire an area of 7.5 hectares of land from private land owners in Mulavana Village, where deposits of good quality clay in adequate quantity with lesser percentage of overburden was available. Pending finalisation of land acquisition proceedings, possession of 2.13 acres was taken in advance by the Company in May 1978. The land acquisition proceeding was completed in 1984-85 and an area of 4.22 hectares.

was taken into possession after paying a total compensation of Rs18 lakhs and claims for additional compensation to the extent of Rs60 lakhs were pending (May 1995). Though the mining lease was executed in November 1983 and mining operation started in 1984, mining was carried out in this area only for a very short period and it was discontinued thereafter. The area has been lying unutilised since then.

As the existing mine had clay reserves to meet the production requirements up to March 2000 (as mentioned in paragraph 2A.5.1 supra), acquisition of additional mining area of 4.22 hectares and its subsequent non-utilisation for over the last 10 years resulted in unfruitful investment of Rs18 lakhs.

2A.6. PRODUCTION

2A.6.1. Production process

Raw clay obtained on mining operation is processed by blunging floatation, hydro-cycloning, separation of impurities, double stage bleaching, kneading with chemicals and drying. While a major portion of this naturally dried Kaolin (NDK) is spray dried to make spray dried Kaolin - (KAOLEX), the balance quantity is used to make porcelain body of various shapes by using moulds. The green body is then fired in the Kiln to make biscuitwares which are cleaned, glazed and glost fired to produce final plainware products. The plainwares are then decorated or painted before firing in muffle furnace to get the finished porcelain wares.

2A.6.2. Production performance

2A.6.2.1. Clays & Minerals Division

2A.6.2.1.1. Against the installed capacity of 18000 tonnes of Kaolex per annum, the actual production during the three years up to

1994-95 was only 10479 tonnes, 9740 tonnes and 6284 tonnes respectively. A diagrammatic representation of the sharp decline in the production is given in Figure-3

A review of the down time analysis during this period revealed that the shortfall in production was due to loss of production for 27,614 hours (37 per cent of the total available machine hours) on account of the following :

	1992-93	1993-94	1994-95
	(Hours lost)		
(i) Repairs of machinery/equipment	2950	3798	2465
(ii) Shortage of raw clay/slurry	1863	1814	8300
(iii) Shortage of water	823	456	179
(iv) Power failure	515	574	445
(v) Other reasons	740	453	2239
Total hours lost :	6891	7095	13628

The downtime during 1994-95 was on the higher side due to shortage of raw clay caused by the failure of the mining contractor (para 5.2.3 supra) and other reasons such as shortage of workers (614 hrs), declaration of additional holidays (912 hrs) and want of chemicals, oil, other materials, etc. (713 hrs).

Leaving the loss of production due to power failure for 1534 hours, the Company could have avoided the stoppage of work for the remaining 26080 hours (including 11977 hours on account of the failure of the mining contractors to supply raw clay) due to controllable factors by prompt preventive maintenance of equipment/pumphouse etc. Based on the average sales price, the loss of production due to controllable factors during the three years up to 1994-95 was Rs180.32 lakhs.

THE KERALA CERAMICS LIMITED

Installed capacity and production of Kaolex
CLAYS AND MINERALS DIVISION

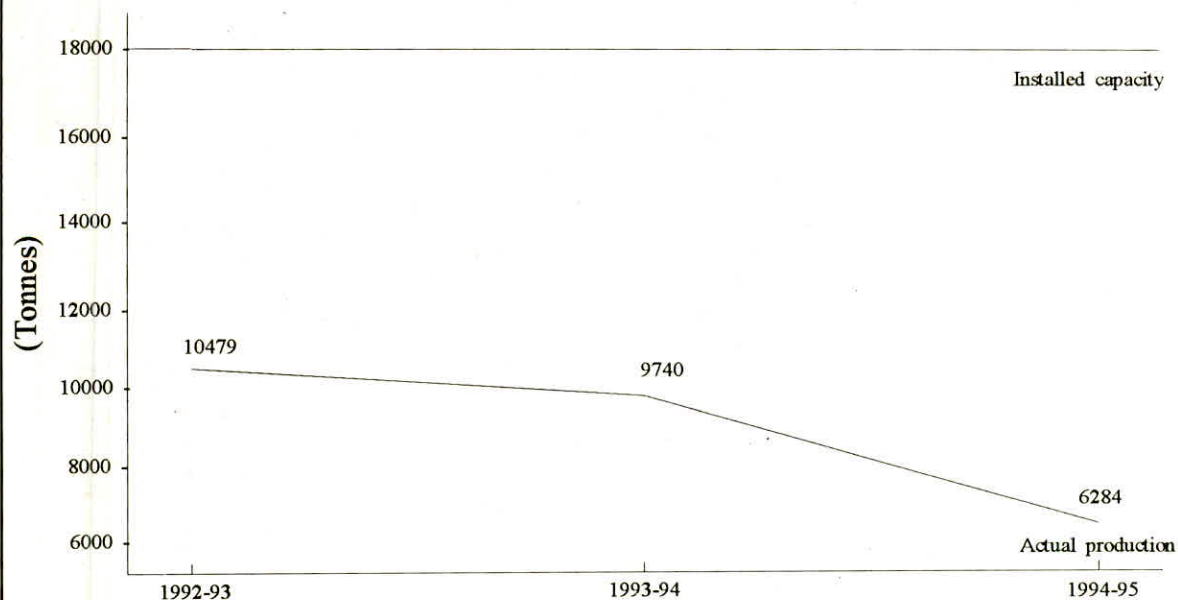


Figure - 3

(Refer paragraph 2A.6.2.1.1.)

2A.6.2.1.2. Against the aggregate licensed capacity of 54000 tonnes of Kaolex during the three years up to 1994-95, the budgeted production was only 31,150 tonnes. Even though the budgeted production was set below 60 percent of the capacity, the actual production during this period was only 26503 tonnes, the shortfall being 15 per cent.

2A.6.2.1.3. According to the proportion set by the Company there would be 9000 tonnes of inferior quality clay (refined clay) while producing 18000 tonnes of Kaolex. The entire quantity of refined clay produced every year was not being reprocessed for second grade qualities, such as, bluefill lump, ceramic grade powder and china clay powder. At the end of 1994-95, there was a stock of 7862 tonnes of refined clay, which was lying over four years in the open yard. Due to prolonged storage of the item, the entire quantity was contaminated on account of oxidation of iron. Based on the average sales realisation obtained on sale of bluefill lump, the loss of revenue to the Company due to allowing the clay to contaminate was Rs31.45 lakhs. Lack of drying yard and shortage of working personnel was attributed (May 1995) by the Management for the prolonged storage. As the drying season is between December and May, the Company should have created additional facilities for drying operation instead of allowing the raw clay to contaminate. Hence the reply is not tenable.

2A.6.2.1.4. Excess consumption of Tetra Sodium Pyro Phosphate

Tetra Sodium Pyro Phosphate (TSPP) is used as a dispersing agent in the production of Kaolex. The Company was procuring the materials from a Bombay firm and the rate of consumption was 4.1 kg per tonne of Kaolex based on laboratory test. A review in Audit revealed that there was excess consumption of 30726 kgs of TSPP valued at Rs9.64 lakhs during the three years up to 1993-94.

It was further noticed that the consumption of TSPP was the highest (6 kgs/tonne) during the year 1991-92, which was mainly due to consumption

of 10 tonnes of TSPP purchased from a firm of Madras which was inferior and hence rejected. However, the Company did not wait for replacement from the firm and due to urgency, the materials were consumed in order to avoid stoppage of production and the supplier was paid the full value of Rs2.29 lakhs for the inferior quality without effecting any corresponding reduction.

2A.6.2.2. Porcelain Division

2A.6.2.2.1. The capacity of the Kiln of the division is 730 tonnes per annum. However, the installed capacity was fixed at 594 tonnes taking into account the down time for repairs, maintenance and power failure etc. The kiln has two channels; one for firing the green goods initially i.e. biscuit firing and the other for final firing i.e. glost firing. Both the channels can accommodate 48 Kiln cars each at a time and the pushing interval of Kiln car was one hour up to November 1990. Thus 24 Kiln cars would be pushed out every day from each channel. The table below indicates the production performance of the Division with reference to installed capacity and budgeted production for the five years ended 31 March 1995:

Year	Installed capacity	Budgetted Production	Actual production	Percentage of actual production to	
				installed capacity	budgeted production
(Quantity in tonnes)					
1990-91	594	637	461	78	72
1991-92	594	540	537	90	99
1992-93	594	584	535	90	92
1993-94	594	541	513	86	95
1994-95	594	584	387	65	66

The decline in the production over the years is depicted in Figure-4.

THE KERALA CERAMICS LIMITED

Installed capacity and production

PORCELAIN DIVISION

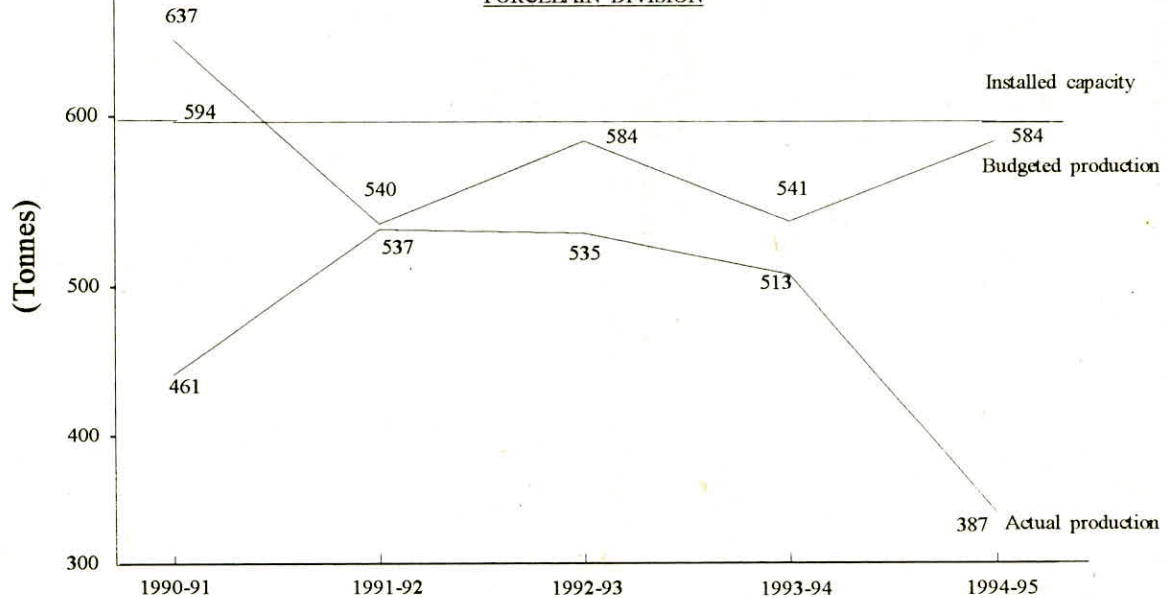


Figure - 4

(Refer paragraph 2A.6.2.2.1)

The reasons attributed for the shortfall in production were old and warped kiln slabs, shortage of glowbar and temperature variation in kiln.

According to the consultant (July 1987), better clay composition, reduction of rejection in greenware, adoption of suitable production mix and provision of heavier insulation of the kiln at a cost of Rs3.29 lakhs would enable the Company to get an annual production of 720 tonnes. As the Company did not take these measures, the capacity remained underutilised, resulting in short production of 2433 tonnes of porcelain valued at Rs152.98 lakhs during the five years up to 1994-95.

Against the Kiln capacity of 730 tonnes per annum, the capacity of the preparatory equipment (Cost: Rs8 lakhs) was 3000 tonnes. In order to overcome the imbalance, the Company entered into a technical collaboration Agreement (May 1972) with a Japanese firm after obtaining a Project Report (March 1970) from them for expansion of Porcelain plant. But this did not succeed owing to the unwillingness of the Collaborators to proceed further as the schemes had become uneconomic due to increase in oil prices and difficulty in competing with other manufacturers in the country. Though the Committee on Public Undertakings in its sixteenth report had recommended the implementation of the expansion scheme, no action was taken so far, with the result, the imbalance in capacity still continued to persist (May 1995).

2A.6.2.2.2. Consumption of electrical energy

Kiln of the division is electrically operated with the help of 36 numbers of imported glow bars apart from other heating elements in the zone. The main feature of this kiln is that it should be continuously operated as switching off would totally damage the

crookery inside it. Further, once switched off, it would take 15 days to regain the required temperature of 1280° C.

With a view to increase production and to reduce the consumption of electricity, the Company effected certain alterations in the body composition from December 1990 according to which the vitrification[@] temperature was brought down from 1280°C to 1220°C and the pushing interval of the Kiln car was reduced from one hour to 45 minutes. Even after these alterations, the Company could not reduce the consumption of energy by optimising production. Based on the electricity consumed during April 1992 in which the maximum production was obtained, the excess consumption of electricity due to underutilisation of capacity for the four years ended 31 March 1995 worked out to 29.59 lakhs units (kWh) costing Rs22.42 lakhs.

The main reason attributed for the excess consumption of energy was that the temperature in the Kiln could not be kept at the required level due to absence of glowbars. The Company had not, however, taken any steps for the purchase of heating elements costing around Rs7.46 lakhs with the result there was substantial reduction in production and consequent excess consumption of energy.

2A.6.2.2.3. Breakages

The Company had not fixed any norm for breakages at different stages so far (May 1995). The table below indicates the

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Firing temperature at which porcelain body will mature

percentages of breakage from green goods production stage to glost firing for three years up to 1993-94:

	1991-92	1992-93	1993-94
	(in lakh pieces)		
Green goods produced	20.23	18.77	17.72
Nos. loaded for glost firing	15.93	14.69	14.18
Breakages	4.30	4.08	3.54
Percentage of breakages	21.2	21.7	20.0

In their sixteenth Report (1977-79), the Committee on Public Undertakings had recommended that steps should be taken to bring down the level of breakages from the then existing level of 9.5 percent. In spite of the improvements made in the body composition (December 1990), as explained in paragraph 2A.6.2.2.2., the breakages, however increased and varied from 20.0 to 21.7 *per cent* during 1991-92 to 1993-94, due to uneven temperature in the kiln on account of non-availability of required number of heating elements (36 glow bars).

Reckoning the permissible breakages at 9.5 *per cent* the excess breakages during the three years ended 31 March 1994 was 6.53 lakh pieces, costing Rs66.03 lakhs.

The Company had fixed (July 1987) a norm of 5 *per cent* for rejections after glost firing. Against this, the percentage of rejection during the three years ended 31st March 1994 varied between 6.3 and 6.9. Based on this, the excess breakages worked out to 0.70 lakh pieces resulting in a loss of revenue of Rs7.07 lakhs.

2A.6.2.2.4. Quality of production

The finished porcelain wares are sorted and superior quality is treated as 'commercial quality' while the inferior ones as 'janatha quality'. No norms had been fixed for obtaining commercial quality. Though the Company could obtain 70 percent of the products as commercial quality during 1989, the percentage of this superior quality obtained during the three years up to 1993-94 was only 64, 60 and 56. This shortfall in obtaining the superior grade resulted in a revenue loss of Rs5.34 lakhs.

The reasons attributed (May 1995) by the Management for the excess production of inferior quality porcelain wares were the usage of old and warped kiln slabs, temperature variation in kiln due to shortage of heating elements, etc.

2A.6.2.2.5. Bone China Project- Unfruitful investment

With a view to increase production and to improve the turnover of porcelain division, the Company decided (January 1989) to venture into the manufacture of bone china wares which had heavy demand. For this purpose, the Company got an initial feasibility report prepared in January 1989 on a fee of Rs0.40 lakh.

The feasibility report suggested production of bone china initially with a capacity of 15 tonnes per month along with 30 tonnes stoneware and later increasing the capacity to 45 tonnes per month, discontinuing the production of stoneware altogether. As the proposal for discontinuing the stoneware, which still had a good market was not acceptable to the Company, it decided (April 1989) to start a bone china unit with foreign technical know-how. This proposal was accepted thereby rendering the expenditure of Rs0.40 lakh on preparation of feasibility report infructuous.

In the meantime a new body composition was developed by the Company for manufacture of bone china wares. In view of the export potential for bone china, it was decided (June 1990) to set up the plant in Cochin Export Processing Zone (CEPZ).

A feasibility study got conducted in July 1990 for the project revealed that manufacture of bone china with an annual capacity of 3500 tonnes was viable and the capital outlay required was Rs30 crores. In view of the heavy financial outlay involved it was decided (August 1990) to have the project under joint venture with Tata Oil Mills Company (TOMCO) and Advanced Project Technology Limited (APT) as the other participants. The major advantages to the Company in participating in the joint venture project were that it would get the latest technology in bone china tableware manufacture, free of cost, and that it would give the Company exposure to international market.

In May 1991, the proposal was accepted by the Government restricting the share participation to 10 percent of the total equity of Rs1250 lakhs.

The new Company was incorporated in March, 1991 with the name TATA Ceramics Kerala Limited subsequently renamed as TATA Ceramics Limited (TCL) in September 1993. A draft agreement for availing the services of the Company by TCL was received in October 1992. In view of certain disputes as to the rights and obligations of the Company in TCL and in the number of directors of the Company in the Board of Directors of TCL, the agreement had not been signed by the Company (May 1995). However, even before signing the agreement, the Company invested Rs125 lakhs in the project during the period between October 1992 and February 1994. The project is yet to be commissioned (May 1995).

Thus the Company could not achieve the desired objective of increased production of its porcelain division and obtaining latest technology free of cost and hence the investment of Rs125 lakhs remained unfruitful.

2A.6.2.3. Speciality Clay Division

2A.6.2.3.1. In April 1984, the Company formed the Speciality Clay Division for taking over the erstwhile Functional Industrial Estate for Ceramics (FIE) at Kollam according to the orders of the Government in November 1983. The FIE had been lying defunct since 1980, and the KSIE had initiated action to revive the unit by converting it into a unit for manufacture of Sanitaryware items. The Company, after take over, engaged (September 1984) SPB Consultants & Projects Pvt. Limited, Madras on a fee of Rs0.45 lakh for preparation of a feasibility report for manufacture of sanitaryware items. Based on the feasibility report of September 1984, a technical collaboration agreement was signed in October 1984 with the same firm for technical know-how on a fee of Rs5 lakhs.

The report, which was approved by the Government in June 1985, envisaged setting up of manufacturing capacity of 1250 tonnes per annum after modifying the unit at a cost of Rs53.56 lakhs. The modifications, viz., improvement of the muffle lining of the kiln, procurement of some additional equipments and furniture, civil structures, etc., were carried out during the years 1984-85 and 1985-86 at a cost of Rs49.80 lakhs and the production commenced in December 1985.

The envisaged production in the first two years of the working of the Unit was 1000 tonnes and 1100 tonnes respectively and thereafter 1200 tonnes. As against these projections, production during the four years up to 1988-89 was only 96 tonnes, 144 tonnes, 197 tonnes and 467 tonnes respectively.

Management attributed (May 1995) the shortfall in production to disparity in the capacity between glazing section and the kiln and damaged condition of the kiln due to which it could only be partially loaded.

Because of the low production and the consequent high cost, the Division had been suffering in heavy losses. With a view to reducing the loss, production of artware items was also taken up additionally from July 1989 onwards. Though it was decided in July 1989 to discontinue the manufacture of sanitaryware items, its production continued till July 1990 when manufacture of Kaocin was started. In November 1990, the unit was permanently closed down due to its uneconomic working. The accumulated loss of the Division up to 1990-91 was Rs225.70 lakhs mainly due to excess consumption of fuel (Rs58.45 lakhs). The value of stock of finished goods and semifinished items at the time of the closure of the Division was Rs28.39 lakhs and Rs2.57 lakhs respectively.

2A.6.2.3.2. The revival of the Division was found not feasible and therefore proposals were sent to the State Government for its disposal in December 1992. A decision was taken in a meeting held by the Government in September 1994 to reach one time settlement with Indian Bank to whom the division owed Rs259.62 lakhs up to December 1994 on working capital loan. The Company could not

arrive at a settlement with the Bank so far (May 1995). As a result, the incidence of interest has been mounting up, which, since the closure of the division in November 1990 amounted to Rs89.34 lakhs up to December 1994.

2A.6.3. Purchase of HDPE Bags

Spray Dried Kaolin produced in the Clay and Mineral Division of the Company was being packed in high density polyethylene (HDPE) bags of 50 kg capacity and the annual requirement was two lakh bags.

A review of the purchase of bags during the four years up to 1994-95 revealed that the suppliers failed to supply the ordered quantity and hence the Company had to incur extra expenditure on the purchase of the balance quantity at higher rates. The extra expenditure incurred on this account during the four years up to 1994-95 was Rs3.90 lakhs. Though the tender notifications stipulated that the successful tenderer should execute an agreement with the Company for satisfactory execution of the contract, the Company neither insisted on this condition nor obtained security deposit from the suppliers. Hence the Company could not recover the extra expenditure from the defaulted suppliers.

2A.7. SALES PERFORMANCE

2A.7.1. The Company had been preparing annual sales budgets to regulate the sales. The table below indicates the sales performance

of the Company for the five years up to 1994-95 in respect of Kaolex and porcelain wares :

Year	Kaolex		Porcelain ware		Shortfall	
	Budgeted	Actual	Budgeted	Actual	Kaolex	Porcelain
(Rupees in lakhs)						
1990-91	372	226	158	73	146	85
1991-92	392	299	217	116	93	101
1992-93	502	423	223	107	79	116
1993-94	510	403	237	102	107	135
1994-95	260	259	170	180	1	NIL

The shortfall in the sales of Kaolex despite favourable order position was attributed by the management to under-utilisation of capacity. The year end accumulation of pending orders was 741 tonnes, 2355 tonnes, 2150 tonnes, 820 tonnes, and 921 tonnes respectively during the five years up to 1993-94.

The shortfall in sales in respect of porcelain wares was attributed by the Management (May 1995) to stiff competition and high cost of production. The company could not evolve a suitable market strategy for the sale of the porcelain products with the result that there was accumulation of stock to the tune of Rs243.71 lakhs as at the end of 1993-94.

2A.7.2. Sale of Kaolex

2A.7.2.1. Major customers of Kaolex are manufacturers of paint, paper and soap. Till May 1991, the Company was marketing Kaolex under a single grade with a common selling rate (except for Hindustan Lever Limited who were given a reduced rate in view of bulk off take).

From June 1991, the Company graded Kaolex into three categories viz: Paint Grade, Paper Coating Grade and General Grade, and the price was fixed at Rs3,750, Rs3,300 and Rs3,000 per tonne respectively. The prices were revised periodically and according to the latest revision of October 1992, the rates were Rs5,000, Rs4,500 and Rs4,100 respectively.

In May 1994, due to accumulation of stock the Company reduced the price of paper coating grade from Rs.4,500 to Rs3,825 per tonne on the ground that there was lesser demand for the product as there was availability of the product in the market at lower rate. When the decision to reduce the price was taken, there were pending orders for 895 tonnes of the product and hence the reduction in price lacked justification. During the period from May 1994 to March 1995 the Company sold 4,837 tonnes of this grade at this reduced rate. Based on the cost of production of Rs4,015 for general grade as worked out by the Company, the loss due to sales below cost amounted to Rs9.19 lakhs.

2A.7.2.2. Sale of Natural Dried Kaolin

The Kaolex was being sold either on receipt of the payment in advance or by documents through bank.

However, it was noticed that the Company commenced (January 1994) supply of Natural Dried Kaolin (NDK) to a new customer viz., Montana International, Hyderabad without obtaining the full value of the consignments. Up to November 1994, the Company supplied 273.457 tonnes of NDK valued at Rs11.17 lakhs against which the payment received from the firm amounted to Rs5.29 lakhs only. The Company did not receive any orders thereafter. As the cheques for Rs4 lakhs received (November 1994) from the firm were dishonoured, the Company initiated (April 1995)

legal action against the firm as well as its two Officers under the relevant provisions of the Negotiable Instrument Act. But no action was taken for the recovery of balance amount of Rs1.88 lakhs.

Thus, due to despatch of material to the firm, with whom the Company had no previous experience, without receipt of the value in advance or collateral security, the Company could not realise Rs5.88 lakhs.

As the firm did not furnish the 'C' Form in respect of sales effected at 4 *per cent* CST, the additional liability to the Company to pay CST @10 *per cent* worked out to Rs0.64 lakh.

2A.7.3. Sale of Porcelain ware

2A.7.3.1. The porcelain ware items produced are sold mainly through agents appointed in various places based on agreements executed with them and through own sales points. Sales were also made against specific orders from hotels and other institutions.

The Company had 7 agents in 1992-93, 10 in 1993-94 and 8 in 1994-95. The agreements with the agents provided for termination of the agency in case of failure to achieve the targets set. During the years 1992-93 and 1993-94, none of the agents could achieve the targets and the shortfall varied from 18 to 93 *per cent*. In 1994-95, only 3 agents could achieve the target and the shortfall varied from 20 to 88 *per cent*. Even then no effective action was taken to terminate the agency. There was also no penal provision in the agreement in case the agents failed to achieve the target.

Contrary to the provisions in the agreement, the Company was allowing credit to all the agents without obtaining bank

guarantee or cash security, with the result that the debts pending realisation as at the end of June 1993 was Rs38.99 lakhs.

2A.7.3.2. Stock Point at Thiruvananthapuram

In January 1991, the Company hired a building at Thiruvananthapuram on a monthly rent of Rs2500 for a period of three years to open a stock point and a retail outlet at Thiruvananthapuram. The sales from this stock point during the two years 1991-92 and 1992-93 were Rs8.46 lakhs and Rs0.32 lakh respectively. Though the stock point ceased to function in August 1992 when the agency at Thiruvananthapuram was entrusted to KSIE, the Company retained the stock point till February 1995 without any transaction, enhancing the rent to Rs4500 per month from April 1994 of which KSIE reimbursed Rs2500 per month from January 1994. The Company also retained the service of a regular employee and a watchman till February 1995.

Thus the retention of the stock point from August 1992 to February 1995 without any business has resulted in a net extra expenditure of Rs1.58 lakhs (including idle wages of Rs0.93 lakh).

2A.7.4. Realisation of debts

2A.7.4.1. As the preparation of books of accounts was in arrears from April 1990, the position of dues pending realisation as on date was not ascertainable. However, the stock/receivable audit made by a firm of Chartered Accountants in January 1994 at the instance of financing institutions revealed that Rs38.99 lakhs were realisable by the porcelain division as on 30th June 1993 including Rs7.23 lakhs pending over three years.

2A.7.4.2. A review of the major cases of dues revealed the following:

2A.7.4.2.1 (i) The Company appointed Sehgal & Company as its sales agent for Maharashtra, Goa, Tamilnadu, Karnataka and Andhra initially for a period of one year from April 1989 which was later extended up to March 1992. Based on a discussion (July 1989) the Company and the agent conducted an exhibition called 'Cerafair' at Bangalore in July 1989 for which the Company sent goods worth Rs2.22 lakhs to the agent with direction to remit the sales proceeds to the Company every day and the value of balance goods in one month. But the agent remitted Rs0.54 lakh only so far (May 1995). In the absence of any security, the Company could not realise the balance amount of Rs1.68 lakhs.

(ii) Agency agreement with the firm provided for sending the goods against documents through bank. Instead, the Company had been sending the goods directly. Even in cases where the documents were sent through bank, the agent failed to honour the documents. Consequently the documents were returned by the bank. The cheques given by the agent were also dishonored on several occasions and hence Rs1.93 lakhs were pending realisation from this firm in respect of the period up to 1991-92.

Thus a sum of Rs3.61 lakhs was outstanding from this agent. The Company had not initiated any action to recover this amount from the firm so far (May 1995).

As the Company was working on borrowed funds, the loss of interest for the three years up to March 1995 on this locked up funds worked out to Rs1.95 lakhs.

2A.7.4.2.2. In January 1992, the Company despatched goods worth Rs2.20 lakhs to Best Glass, Secunderabad, its agent for Andhra Pradesh, and the documents were negotiated through bank. As there was no firm order from the agent, the consignment was not cleared

and hence the bank returned the documents to the Company. In January 1993, the Company directed the transporting contractor to deliver the goods to the agent and the Company paid the demurrage charges of Rs0.50 lakh. Though the agent issued cheques for Rs2.70 lakhs in December 1993 and January 1994 to cover the cost of the consignment and demurrage, the cheques were dishonored on presentation.

Management stated (May 1995) that a criminal case had been filed for realisation of the amount of the dishonoured cheques.

2A.7.4.2.3. In March 1991 the Company concluded (22 March 1991) an agreement with Madura Coats Workers Co-operative Society, Madurai appointing them as the authorised representative of the Company for the sale of porcelain wares in Madurai District for a period of one year, on a commission of 10 per cent. The sales proceeds were to be remitted weekly by demand draft after deducting the commission. The Company also obtained a Bank Guarantee for Rs5 lakhs from the Society towards security. Against goods worth Rs6.87 lakhs despatched during the period of two months up to April 1991, the Society remitted Rs1.70 lakhs only between April 1991 and July 1991 leaving a balance of Rs5.17 lakhs. The bank guarantee was not revalidated after March 1992. In April 1992, the Society informed their inability to sell the balance goods and asked the Company to take back the goods. However, the Company had not taken any action in this regard so far (May 1995).

Thus, failure to revalidate the bank guarantee resulted in non-realisation of Rs5.17 lakhs for the last four years.

2A.8. MATERIAL MANAGEMENT & INVENTORY CONTROL

2A.8.1. Accumulation of stock

The value of stock of finished products held by the Company as at the end of each of the four years up to 1993-94 increased from Rs158.32 lakhs in 1990-91 to Rs243.71 lakhs in 1993-94. The stock represented six months sales on an average. On account of holding stock in excess of one month's targeted sales, the Company's working capital was unnecessarily locked up resulting in a loss of Rs125.80 lakhs by way of interest.

2A.8.2. Slow moving/non-moving stock

As at the end of April 1994, the Company held 657 slow moving/non moving items of finished goods valued at Rs12.88 lakhs in porcelain division. This included 516 items (value: Rs5.89 lakhs) held for over three years without any issue.

An analysis of stock made by the Company in March 1995, at the instance of Audit, revealed that the value of slow moving/non moving items had increased to Rs17.91 lakhs.

However, according to the stock audit report (January 1994) furnished by Jampani & Kotela Chartered Accountants, Cochin (appointed by the bankers of the Company) the value of non-moving finished goods for over one year was Rs113.23 lakhs as on 30th September 1993.

Outdated design of body and decoration, printing of emblem of customers on the products (which prevented sale to the general public), poor quality of whiteness, heaviness of the items when compared to the items produced with latest technology etc. were the reasons for the accumulation of non/slow moving stock.

2A.8.3. The stock of slow/non moving raw materials in the Porcelain Division as at the end of September 1993 was Rs3.18 lakhs including 24 items of colouring materials costing Rs1.30 lakhs procured during 1974 to 1989.

Action had not been taken by the Company to dispose of the old raw materials (May 1995).

2A.8.4. Shortage of stock

The annual physical verification conducted by the Company as at the end of 1990-91 revealed shortages of 533 tonnes of Natural Dried Kaolin, 211 tonnes of Kaolex and 48 tonnes of Bluefil Grade Clay valued at Rs18.86 lakhs. The reasons for the shortages had not been investigated (May 1995).

2A.9. MAN POWER AND PRODUCTIVITY

2A.9.1. The strength of workers in the Clays & Minerals division and porcelain divisions almost remained static at 176 each during the five years up to 1994-95. The Company had not conducted any work study to assess the actual requirement of labour. As against the standard of 3.16 tonnes of Porcelain per worker per annum fixed while settling the wage agreements, the actual productivity was between 2.20 tonnes (in 1994-95) and 3.03 tonnes (in 1991-92) in the Porcelain division. Similarly, in respect of Kaolex, the annual productivity was only between 35.70 tonnes (in 1994-95) and 53.81 tonnes (in 1993-94) per worker against the standard of 88.24 tonnes per worker per annum. Consequent on this low productivity, the unproductive wages paid during the five years up to 1994-95 was Rs41.96 lakhs.

The Consultants appointed by the State Government in May 1987 in their report of July 1987 had commented that the labour costs in the Porcelain Division was 2 to 3 times the industrial norm and that according to industry norms, the existing labour strength was sufficient to achieve an annual production level of 2000 tonnes.

2A.9.2. Overtime wages

While the labour utilisation/productivity was far below the standard in the two divisions, the Company paid Rs17.90 lakhs as overtime allowance during the period from June 1991 to September 1994. The engagement of workers on overtime basis when there was under utilisation of labour lacked justification.

2A.10. COST ACCOUNTS

The Company had not maintained any cost records to work out the cost of production of various products with a view to identify and control various elements of cost such as material, labour and overhead. In the absence of cost records, the Company could not also ascertain the optimal product-mix and break-even production.

2A.11. INTERNAL AUDIT

There was no internal audit wing in the Company. The Company had been engaging firms of Chartered Accounts for internal audit, usually appointed after the transactions are over.

The internal audit being an aid to Management to enable timely corrective action, the delayed appointment and limiting their coverage and periodicity did not serve any useful purpose. The reports of the internal auditors were neither placed before the Board of Directors nor sent to Government along with Company's replies, as contemplated in the directions issued by the State Government in May 1983.

2A.12. ACCOUNTING MANUAL

The Company had not compiled an accounting manual detailing the procedure for accounting, costing, inventory control, budgetary control, financial management, reporting, etc.

CONCLUSION

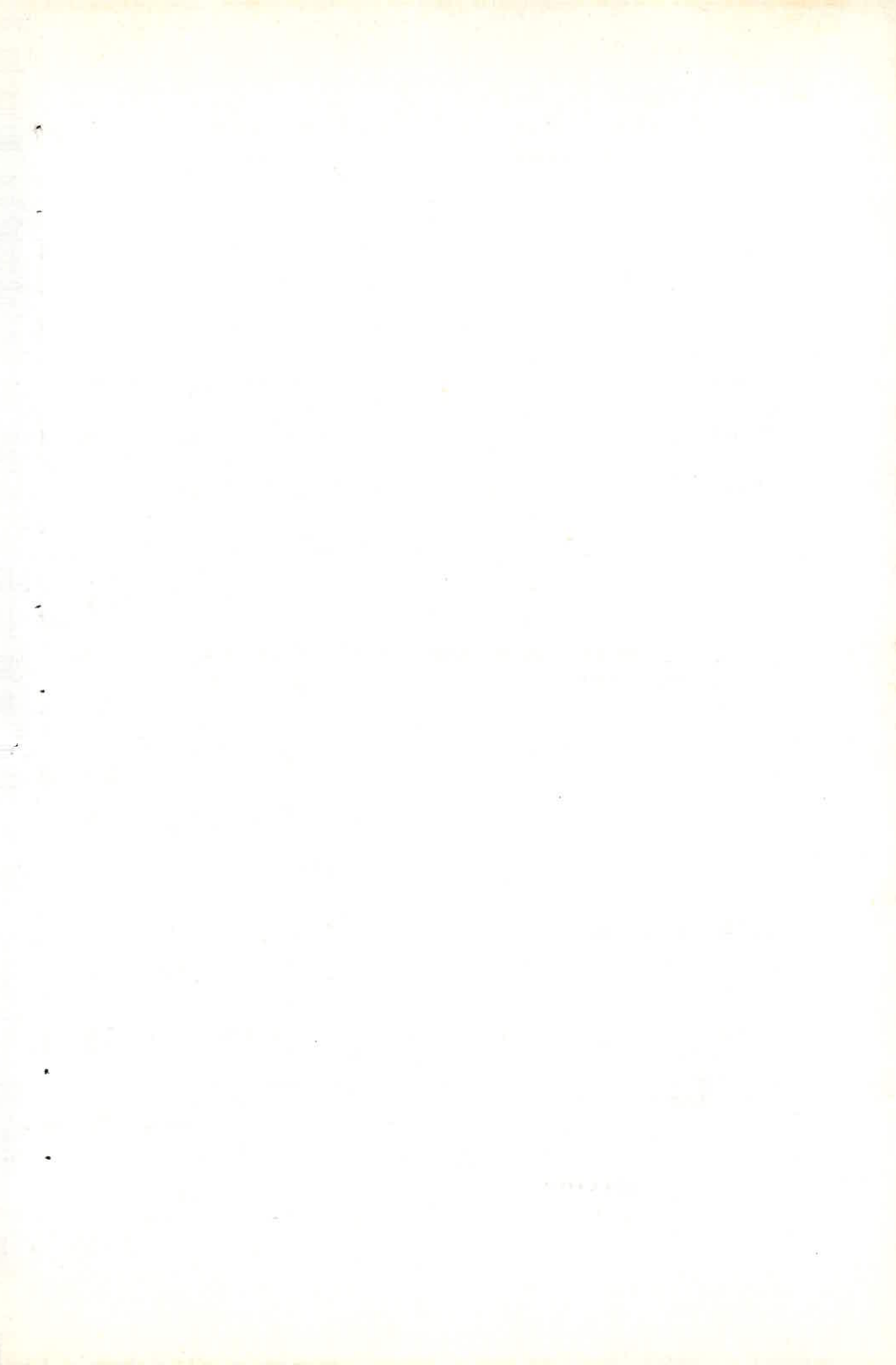
The foregoing paragraphs would indicate that:

- on account of under utilisation of capacity, coupled with high incidence of breakages and excess consumption of power, the Company has been incurring loss since inception, the accumulated loss up to 1986-87 being Rs1049.74 lakhs;
- investment of Rs125 lakhs in a joint venture did not yield the desired results rendering the investment unfruitful;
- even after installing additional equipment and effecting structural additions for Rs49.80 lakhs during the two years up to 1985-86, the Speciality Clay Divison suffered an aggregate loss of Rs225.70 lakhs on account of high cost of production and low level of activity till it was closed down in November 1990;
- there was accumulation of finished goods valued at Rs243.71 lakhs (including non-moving stock of Rs113 lakhs);
- consequent on low productivity, the Company had to pay unproductive wages amounting to Rs41.96 lakhs during the five years up to 1994-95; and
- extension of credit facility without obtaining any security resulted in accumulation of debts to Rs38.99 lakhs.

These matters were reported to the Government and the Management in June 1995; their replies have not been received (September 1995).

2B. TRACO CABLE COMPANY LIMITED

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TRACO CABLE COMPANY LIMITED

Highlights

The Company incorporated in February 1960 is engaged in the manufacture of various types of conductors used for electrical transmission and distribution system in its Power Cable Division at Irimpanam and Jelly filled telephone cables used for communication systems in its Telephone Cable Division at Thiruvalla.

The capacity utilisation in the Telephone Cable Division for the last three years up to 1993-94 ranged between 20.4 and 48.6 per cent of the installed capacity of 10.95 lakh core kilometres (ckm).

(Paragraph 2B.5.1)

During the four years up to 1993-94, there was excess consumption of raw materials valued at Rs39.97 lakhs in the Power Cable Division of which Rs28.30 lakhs represented value of copper consumed in excess while in the Telephone Cable Division, the excess consumption of major raw materials, viz., polyester tape, copper, steel tape, etc., after providing for the normal wastage worked out to Rs70.44 lakhs during the 2 years up to 1993-94.

(Paragraphs 2B.7.1.2 and 2B.7.1.3)

Failure of the Company to buy copper rods when it was offered at lower rates and its subsequent purchase within two months from the same supplier at a higher rate resulted in an extra expenditure of Rs12.56 lakhs.

(Paragraph 2B.8.1.3)

The Company incurred an extra expenditure of Rs14.57 lakhs due to change in the terms of a purchase contract from the

normal condition that the price payable for copper based on the base price of Hindustan Copper Limited prevailing at the time of supply into base price prevailing at the time of opening the letter of credit.

(Paragraph 2B.8.1.4)

Owing to its failure to adhere to the delivery schedule for supply of conductors to Kerala State Electricity Board (KSEB), the Company had to pay Rs47.28 lakhs towards liquidated damages, during the three years up to 1993-94 apart from becoming ineligible to claim price escalation of Rs48.77 lakhs.

(Paragraph 2B.9.1.2)

Due to production and sale of short length cables during the four years up to 1993-94, the Company suffered a loss of Rs52.83 lakhs on account of price reduction for such short length cables.

(Paragraph 2B.9.2.2)

The Company had not reconciled/investigated the reasons for the shortages of finished goods to the tune of Rs222.70 lakhs when compared to the book stock during the three years up to 1993-94.

(Paragraph 2B.9.3)

During the period from March 1990 to 1993-94, the Company sustained a net loss of Rs110.52 lakhs on account of rejection of 228.334 lkm of jelly filled telephone cables by Department of Telecommunications (DOT) as the item could not get through the water penetration test.

(Paragraph 2B.9.4)

2B.1. INTRODUCTION

The Company incorporated in February 1960 is engaged in the manufacture of various types of conductors used for electrical transmission and distribution systems and jelly filled telephone cables used for communication systems. The Company has two production divisions, (i) Power Cable Division at Irimpanam near Kochi for the manufacture of AAC[#], ACSR[#], PVC[#] covered and bare copper conductors and aerial cables and (ii) Telephone Cable Division at Thiruvalla for the manufacture of jelly filled telephone cables (JFTC).

2B.2. ORGANISATIONAL SET-UP

According to the Articles of Association of the Company, the number of Directors shall not be less than seven and not more than eleven. The number of Directors came down from ten in 1991 to seven as at the end of 1993-94. Of the seven Directors, two are nominees of IDBI and IFCI and others are nominees of the State Government.

In April 1991, the State Government appointed a former executive director of Hindustan Cables Limited, who was experienced in the production of cables, as the Managing Director of the Company on contract basis for a period of three years. His services were, however, terminated even before completion of one year in October 1991 for reasons not on record and the Managing Director of another Government company was given additional charge of the Managing Director of this Company.

2B.3. AUDIT COVERAGE

The implementation of the project for manufacture of jelly filled telephone cables was reviewed in the Report of the Comptroller & Auditor General of India for the year 1987-88 (Commercial). This was examined by COPU (1991-93) and the recommendations are contained in their thirty-first Report presented to the Legislature in July 1993.

[#] AAC : All Aluminium Conductors
 ACSR : Aluminium Conductors Steel Reinforced
 PVC : Poly Vinyl Chloride

The present review conducted during December 1994 to April 1995 covered the activities of the Company for the five years up to 1993-94 and the results are discussed in the succeeding paragraphs.

2B.4. FINANCE AND RESOURCES

2B.4.1. Capital structure

Against the authorised capital of Rs1500 lakhs, the paid-up capital was Rs 1301.81 lakhs as on 31 March 1994 which was contributed by Government of Kerala (Rs1282.05 lakhs), Kerala State Industrial Development Corporation Limited (Rs10 lakhs) and others (Rs9.76 lakhs).

2B.4.2. Borrowings

The borrowings of the Company as at the end of 1993-94 stood at Rs3445.99 lakhs including cash credit of Rs147.24 lakhs, loan from Government of Kerala: Rs428.70 lakhs, foreign currency loans: Rs1483.23 lakhs and Rupee loans: Rs1329.32 lakhs from IDBI/IFCI.

As the Company could not meet its obligations in regard to payment of interest and repayment of principal due to financial crunch, it proposed (August 1993) to IDBI to treat the entire outstandings as a fresh loan and charge interest at lower rate of 14 *per cent* or alternatively to consider waiving of further interest, liquidated damages and commitment charges to the extent of Rs175 lakhs and to share cash losses to the extent of Rs199 lakhs. The proposal had not been accepted by IDBI so far (March 1995).

2B.4.3. Financial position

The table below summarises the financial position of the Company under broad headings as at the end of the five years up to 1993-94:

	1989-90	1990-91	1991-92	1992-93	1993-94
	(Rupees in lakhs)				
Liabilities					
(a) Paid-up capital	965.60	1025.61	1075.61	1128.61	1301.81
(b) Reserves & Surplus	64.91	50.80	50.80	236.50	393.04
(c) Borrowings	2034.34	2682.30	3773.64	3727.01	3445.99
(d) Trade dues & other current liabilities including provisions	469.77	908.98	1336.47	1669.19	1961.01
TOTAL :	3534.62	4667.69	6236.52	6761.31	7101.85
Assets					
(a) Gross block	3053.00	3188.93	3632.33	3967.39	4065.97
(b) Less: depreciation	198.15	345.77	549.85	870.11	1217.50
(c) Net block	2854.85	2843.16	3082.48	3097.28	2848.47
(d) Capital-work-in progress	0.19	5.91	1.47	88.51	49.55
(e) Investments	0.02	0.02	0.02	0.02	0.02
(f) Current assets, loans & advances.	679.56	1376.10	2378.17	2801.12	3558.47
(g) Accumulated loss	—	442.50	774.38	774.38	645.34
TOTAL :	3534.62	4667.69	6236.52	6761.31	7101.85
Capital employed*	3064.64	3310.28	4124.18	4229.21	4445.93
Net worth** :	1030.51	633.91	352.03	590.73	1049.51

* Capital employed represents net fixed assets plus working capital.

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

2B.4.4. Working results

The table below indicates the working results of the Company for the five years up to 1993-94:

	1989-90	1990-91	1991-92	1992-93	1993-94
	(Rupees in lakhs)				
Income					
Sales	764.28	1166.64	2813.94	4320.46	4851.88
Other Income	8.79	4.94	50.40	93.21	135.64
Increase(+)/Decrease(-) in stock	(+)26.72	(+)222.11	(+)75.56	(-)42.52	(-)55.46
Total Income	799.79	1393.69	2939.90	4371.15	4932.06
Expenditure					
Raw-materials	527.94	1033.33	2056.49	2559.28	2942.94
Fuel (Power)	5.32	12.70	17.59	29.31	36.15
Stores & spares	0.28	4.17	8.58	1.29	0.61
Salaries & wages	73.93	94.98	108.59	157.99	190.51
Welfare expenses	10.15	12.49	17.69	22.90	32.47
Repairs	4.43	7.17	11.47	23.51	41.74
Selling expenses	16.75	29.05	67.75	122.53	114.71
Other expenses	61.19	134.20	156.40	176.56	268.73
Total operating expenditure	699.99	1328.09	2444.56	3093.37	3627.86
Interest	39.68	369.42	590.15	771.71	671.11
Depreciation	24.94	152.79	237.07	320.37	347.51
Transfer to investment Allowance Reserve	35.18	—	—	185.70	156.54
Net profit(+)/loss(-) after tax and investment allowance	—	(-)456.61	(-)331.88	—	(+)129.04

The Company had an accumulated loss of Rs645.34 lakhs as at the end of 1993-94. On account of recurring loss/insufficiency of profit, no dividend was declared after 1983-84.

2B.5. PRODUCTION

2B.5.1. Capacity utilisation

While the capacity and production of AAC/ACSR were being reckoned with reference to the weight in tonnes of aluminium in the products, those of PVC covered and bare copper conductors were being compared with the length in Million Core Metres (MCM) and those of jelly filled telephone cables in Linear Kilometres (LKM).

The table below indicates the actual production during the three years up to 1993-94 under the broad category of AAC and ACSR, PVC covered and bare copper conductors and jelly filled telephone cables against the installed capacity of 1500 tonnes, 32.9 MCM and 5000 LKM respectively.

Product			Actual Production		
			1991-92	1992-93	1993-94
1. ACSR & AAC	Q (tonnes)		1469	575	953
	P		97.9	38.3	63.5
2. PVC covered conductors & bare copper conductors	Q (MCM)		15.4	17.6	2.1
	P		46.8	53.5	6.4
3. Jelly filled telephone cables	Q (LKM)		2416	4542	3544
	P		48.3	90.8	70.9

The percentage of capacity utilisation of these three products during the three years up to 1993-94 is given in Figure - 5.

Q - Quantity

P - Percentage of actual production to installed capacity

TRACO CABLE COMPANY LIMITED

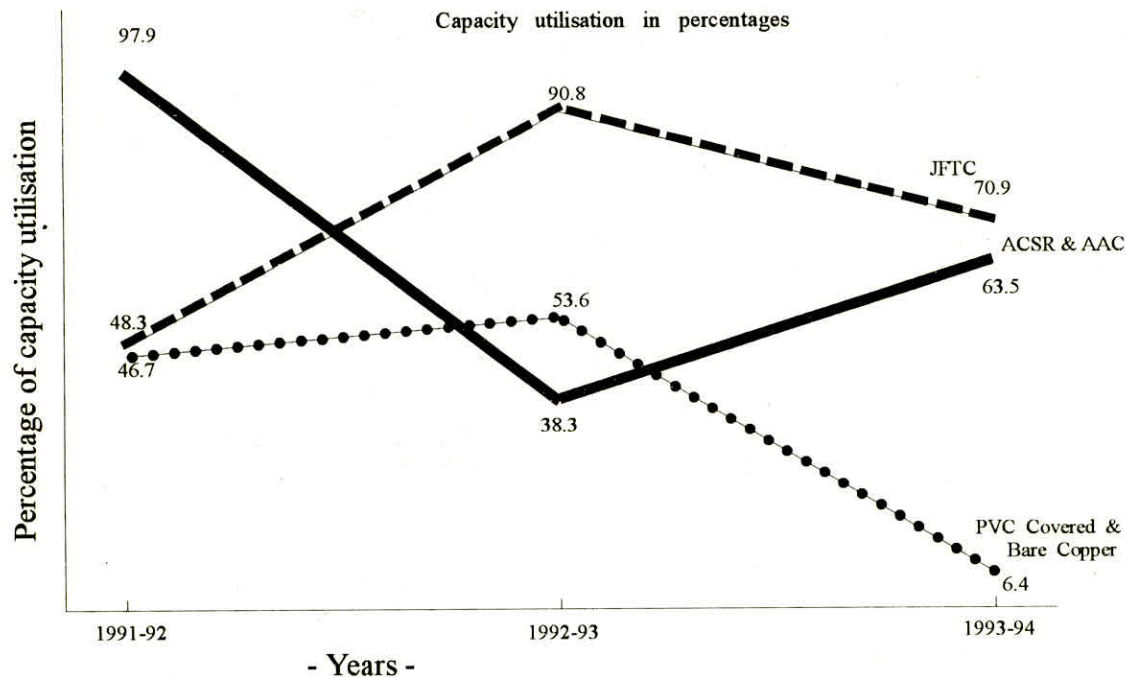


Figure - 5
(Refer Paragraph 2B.5.1)

According to the project report of March 1985 for the manufacture of JFTC, the installed capacity of 5000 LKM (equivalent to 7.3 lakh core Kilometres (CKM)) was on two-shifts working. As the unit was working in three shifts, the installed capacity should have been reckoned as 7500 LKM (equivalent to 10.95 lakh CKM). Reckoning the installed capacity at 10.95 lakh CKM, the percentages of utilisation of capacity was only 20.4, 35.8 and 48.6 respectively during the three years.

The reasons for low production of JFTC especially when there were sufficient orders and backlog in the supply have not been analysed by the Management. The underutilisation in the production of power cables was due to lack of orders as mentioned in paragraph 2B.9 (infra).

2B.5.2. MACHINE UTILISATION

2B.5.2.1. Power Cable Division

The processing machines in the Power Cable Division mainly comprised of four wire drawing machines, five insulation and sheathing machines, two twistors, three stranding machines, one planetary machine for stranding and armouring and five coiling and rewinding machines. A review of the actual utilisation of these machines during the five years up to 1993-94 revealed that the overall utilisation of machines was very low and that certain machines were completely idling during different periods as indicated below:

Name of machine	Period during which the machine was idle
F 31 Wire drawing machine	1989-90 to 1993-94
Four-wire twister	1990-91 to 1993-94
A & B twister	1992-93 and 1993-94
Dual coiler	1989-90 to 1991-92 & 1993-94

The actual output of the two wire drawing machines viz. D13 and D17 in the Division which had capability of reducing 9.5mm wire rods into wires up to the size of 1.4mm and 1.1mm diameter respectively during the three years up to 1993-94 was only 65004 reels against the standard output of 105018 reels, the percentage of shortfall being 38.1.

Against the standard output of 29194 KM, the actual output obtained in the stranding machines during the 3 years up to 1993-94 was only 25095 KM, the percentage of shortfall being 14.

Similarly, in the case of 6 Bay Stranding Machine for Aerial Telephone Cables there was shortfall in the output by 32.6 *per cent* in 1991-92, 16 *per cent* in 1992-93 and 32.6 *per cent* in 1993-94 when compared to the standard.

The output achievable according to the specification of the suppliers of the machines was not available for verification and comparison.

At the instance of the Company, Kerala State Productivity Council (KSPC) conducted (1992) a work study and job evaluation. It was noticed in Audit that the existing work norm was lower than the standard output recommended by KSPC in wire drawing and

stranding sections. The Company has not so far taken any action to revise the workload based on the recommendations of KSPC.

Due to shortfall in production, the Company could not adhere to the delivery schedule, necessitating payment of liquidated damages as indicated in paragraph 2B.9.1.2(i) (infra).

2B.5.2.2. Telephone Cable Division

The processing machines in the Division comprised mainly of one Rod Break Down machine, two Tandem machines for fine wire drawing, annealing and insulating, seven Twinning machines, two stranding machines, two jelly-filling and jacketing machines, two armouring machines and two rewinding machines. The Division started production of 0.9mm dia wires from 1993-94 in addition to the existing range of 0.5mm dia and 0.63mm dia. The performance of the machines for the period up to 1991-92 could not be compared in the absence of relevant details. The table below indicates the percentages of shortfall in output obtained in the two Tandem machines and the Twinning machines when compared to the standard fixed, during the two years up to 1993-94:

		1992-93		1993-94	
		0.5mm	0.63mm	0.5mm	0.63mm
		(Percentage of shortfall)			
1. Tandem-I	Machine	23	25	29	—
2. Tandem-II	Machine	52	67	41	88
3. Twinning	Machines(7 nos)	46	50	49	95

Though the shortfall in the output from these primary machines would affect the overall productivity, the Management

had not analysed the reasons thereof with a view to take remedial measures.

Incidentally, it was noticed in Audit that due to the failure of the Company to supply the items in time, DOT cancelled the unexecuted portion of 4511 LKM of various sizes of cables out of 15528 LKM of cables ordered for supply during the four years up to 1993-94.

2B.6. MANPOWER UTILISATION

At the power cable Division Irimpanam, the percentage of capacity utilisation came down from 98 in 1991-92 to 64 in 1993-94. In the case of PVC covered conductors, the percentage of capacity utilisation came down from 47 in 1991-92 to 6 in 1993-94. Though the production, thus decreased, the strength of employees increased from 157 during 1991-92 to 165 during 1992-93 and to 202 during 1993-94.

According to the Project Report of the Telephone Cables Division at Thiruvalla, the total strength of personnel required to achieve full production capacity of 5000 LKM of cables was 215. Though the capacity utilisation in this Division in terms of LKM came down from 91 *per cent* in 1992-93 to 71 *per cent* in 1993-94, the strength of employees increased from 258 in 1992-93 to 310 during the year 1993-94. The addition to staff and workers to the extent of 52 in 1993-94 involving an additional annual expenditure of about Rs12.48 lakhs (at the average rate of Rs2000 p.m per employee) without corresponding increase in production lacked justification.

The Management stated (July 1995) that in 1993-94, the Company anticipated very good orders from KSEB and therefore,

engaged the additional men. It was, however, found that there was no proposal of extending the rate contract by the Board beyond 1992-93 and hence the recruitment of personnel in anticipation of the orders from Kerala State Electricity Board was not justified.

2B.7. MATERIAL MANAGEMENT AND INVENTORY CONTROL

2B.7.1. Consumption of raw materials

2B.7.1.1. The consumption of various raw materials for production of cables and conductors varies in accordance with the type and sizes of cables/conductors produced. Taking into account the material content required in each item of finished products as per the relevant ISI or DOT standards, the Company has prescribed separate norms for consumption of various raw materials.

2B.7.1.2. Power Cable Division

Major raw materials used in the Division are aluminium, copper, steel, PVC Compound and polyethylene compound. The table below indicates the quantity and value of major raw materials consumed in excess of the standard during the four years up to 1993-94:

Item	1990-91		1991-92		1992-93		1993-94	
	Qty. (Ton- nes)	Value (Rs.in lakhs)	Qty. (Ton- nes)	Value (Rs.in lakhs)	Qty. (Ton- nes)	Value (Rs.in lakhs)	Qty. (Ton nes)	Value (Rs.in lakhs)
Aluminium	-	-	-	-	3.3	1.58	-	-
Copper	22.5	18.49	3.825	4.41	4.319	5.40	-	-
Steel	4.1	0.78	5.686	1.32	5.420	1.37	1.763	0.47
PVC Compound	0.2	0.07	-	-	-	-	4.746	1.99
Polyethylene compound	7.7	4.09	-	-	-	-	-	-
Total		23.43		5.73		8.35		2.46

Of the total excess consumption of materials valued at Rs39.97 lakhs, Rs28.30 lakhs represented the value of copper consumed in excess. The Management has not, however, reviewed the consumption pattern so as to effect proper control and avoid loss on excess consumption.

2B.7.1.3. Telephone Cable Division

Major raw materials used for production of jelly filled telephone cables are copper, HDPE/MDPE and masterbatches, cable filling compound, polyester tape, polyal tape, steel tape and LDPE/Binder tape. The consumption of various raw materials depended on the size and pair strength and the Company had prescribed the material content of different raw material per kilometre of each size of cable and the possible scrap as a percentage of standard material content. The percentages of scrap prescribed for copper, HDPE/MDPE and masterbatches were 6.5 and for cable filling compound, polyester tape, polyal tape, LDPE, Steel tape etc., 3. A review of the actual consumption of major raw materials during the two years up to 1993-94 revealed that while the consumption of the most of the major raw materials was within the norms during the period 1992-93 it exceeded the norms in the subsequent period resulting in an extra expenditure of Rs70.44 lakhs, as indicated below:

Item	Year	Excess consumption	
		Quantity (Tonnes)	Value (Rs.in lakhs)
1. Polyester Tape	1992-93	5.950	9.74
	1993-94	3.097	4.82
2. Copper	1993-94	29.620	31.59
3. MDPE/HDPE	1993-94	24.458	12.10
4. Steel Tape	1993-94	41.407	12.19
Total			70.44

The reasons for excess consumption had not been investigated. The norms for consumption of various materials as prescribed by the manufacturers/suppliers of machinery were not available for comparison.

2B.8. PURCHASE

The deficiencies in the procurement and inventory control noticed during audit are discussed hereunder.

2B.8.1. Purchase of copper

2B.8.1.1. A major item of raw material used for production of jelly-filled telephone cables is copper and the Company is using cast copper rods of 8mm size.

From the second half of 1991-92, the Company had been purchasing copper mainly from Indian Importers on 'high seas sales basis' linking the price with the price of Hindustan Copper Limited (HCL). According to the Company, direct imports on the basis of uncertain and fluctuating London Metal Exchange (LME) price was risky. This was not tenable as the Indian traders who resorted to high seas sales of copper had been importing copper on the basis of LME price. Incidentally, it may be mentioned that the Company could make a saving of Rs12.86 lakhs during October 1994 when it resorted to direct import of 168 tonnes of copper from Korea.

Though the annual requirement of copper was 1400 tonnes worth Rs15 crores, there was no system of inviting competitive tenders before placing orders. Instead, the purchases were being made mainly from Chetan Corporation, a Bombay firm and its sister concerns. Of the 51 orders for 2427.708 tonnes of copper placed

during the period from September 1991 to March 1994, 45 orders for 2019.708 tonnes were placed with them.

The following irregularities were noticed in respect of the purchases of copper made from Chetan Corporation or its sister concerns:

2B.8.1.2. In respect of an order placed with the firm in June 1992 for the supply of 42.632 tonnes of copper, the purchase price of Rs1.34 lakhs per tonne was subject to increase/decrease in HCL price applicable for the month in which the goods were delivered. For this purpose, the date of delivery had to be reckoned as the date of lorry receipt issued by the transport contractor.

It was observed in Audit that the Company opened a Letter of Credit on 23 June 1992 for Rs37.93 lakhs in favour of the supplier and remitted the customs duty (Rs22.26 lakhs) and clearing charges (Rs0.70 lakh) by D.D. on 24 June 1992 to the supplier with a request to despatch the material by 30 June 1992. The material was cleared by the clearing agent and stocked in the Central Warehouse, Bombay on 25 June 1992. It was, however, noticed in Audit that copper was despatched from Bombay on 15 July 1992 by the transporters - Okay Transport Corporation. Meanwhile the HCL price had gone up to Rs1.39 lakhs per tonne. The extra expenditure to the Company on this account was Rs1.97 lakhs.

In respect of another order placed on 11 January 1993 for 63.46 tonnes of copper, the price indicated in the purchase order was Rs1.34 lakhs per tonne with a price variation based on HCL price prevailing on the date of supply i.e., the date of lorry receipt. The LC was also opened at this rate. Though the price prevailing at the time of despatch on 27 January 1993 was Rs1.31 lakhs only, the payment was made at the pre-revised rate. This resulted in an

excess payment of Rs1.90 lakhs. The Company has not taken any action for getting refund of the excess payment.

2B.8.1.3. In May 1994, Sterilite Industries, Bombay offered to supply copper rods to the Company at the HCL base price of Rs1.12 lakhs per tonne. Though the stock (including the quantity expected against the orders already placed) was sufficient to meet the production requirement up to June 1994 only, the Company did not respond to this offer. As the stock of copper came down to 32.4 tonnes by the end of June 1994, against the average monthly requirement of 140 tonnes, the Company contacted the firm on 27 June 1994 when the firm demanded higher rate of Rs1.56 lakhs per tonne. Hence the Company had to purchase 71.2 tonnes of copper in June 1994 (44.47 tonnes) and July 1994 (26.73 tonnes) at higher rate of Rs1.56 lakhs per tonne from the firm against the HCL rate of Rs1.36 lakhs and Rs1.40 lakhs per tonne for June and July 1994, respectively, resulting in an extra expenditure of Rs12.56 lakhs. In case, the May 1994 offer of the firm had been accepted, the Company could have avoided this extra expenditure.

2B.8.1.4. In response to a tender invitation of June 1992, the Company received an offer from a French firm for the supply of 1000 tonnes of copper rods at HCL price prevailing at the time of delivery. In August 1992, though the Company issued a letter of intent for 1000 tonnes, it placed an order for 80 tonnes only. It also opened a letter of credit for Rs37.10 lakhs being the net price and interest for 180 days payable at the price of August 1992 for 40 tonnes. Against this, in November 1992, the Company received 39.970 tonnes of copper by which time the HCL price had decreased to Rs1.15 lakh per tonne from Rs1.23 lakhs prevailing in August 1992. But the suppliers drew the price at the original rate against the letter of credit without considering the decrease in price resulting

in an overpayment of Rs5.99 lakhs. The Company had not initiated steps for getting refund of the overpayment (August 1995).

In April 1993 the Company placed a repeat order for 180 tonnes of copper on the same supplier. But the price variation clause in the purchase order was altered to the effect that the price would be on the basis of the HCL price at the time of opening the letter of credit and accordingly, a letter of credit was opened in April 1993. Against this, 182.17 tonnes of copper despatched by the suppliers in May 1993 was received by the Company in July 1993 at the HCL price of Rs1.05 lakhs per tonne prevailing at the time of opening the letter of credit. As the HCL rate was Rs0.97 lakh only at the time of receipt of the material by the Company, the alteration effected in the purchase order of April 1993 to the effect that the rate ruling on the date of opening the letter of credit would be paid was in deviation of the normal contractual terms and had resulted in an extra expenditure of Rs14.57 lakhs. As the purchase was on credit basis for 180 days, the Company had to pay Rs1.37 lakhs also towards interest at the rate of 19 *per cent* on this additional payment of Rs14.57 lakhs.

2B.8.2. Purchase of galvanised steel tapes

2B.8.2.1. For armouring jelly filled telephone cables, the Company was using galvanised steel tapes of different sizes, depending upon the size of the cables. In August 1991, the Company invited tenders for the supply of 660 tonnes of galvanised steel tapes of 0.5 mm thickness. Modi Steel, Patna offered the lowest rate of Rs28,834 per tonne (landed cost). The Company however, placed (October 1991) order for only 50 tonnes against the requirement of 660 tonnes. In November/December 1991, the Company placed orders on three other firms of Hyderabad (Southern Steel Ltd., Sunshine Galvanisers (P) Ltd. and Swati Coats (P) Ltd.) for supply of another

140 tonnes of the item, at a negotiated landed cost of Rs28,990 per tonne, with provision for price variation based on JPC price of steel and MMTC price of zinc.

Meanwhile after inviting fresh tenders in November 1991 for supply of 700 tonnes of the item, the Company shortlisted four parties and revised offers were collected from them. The above three Hyderabad firms offered the same rate of Rs28,990, though the price of zinc had come down by Rs1000 per tonne by then. Based on the recommendations of the purchase committee, orders were placed on these three firms in February 1992 and the supply was completed in January 1993. Non utilisation of the entire offered quantity of 660 tonnes in August 1991 necessitating the purchase at higher rates resulted in an additional expenditure of Rs2.64 lakhs.

2B.8.2.2. The Company did not invite tenders in January 1993, on completion of supply against previous order. Instead, it issued (March 1993) a fresh purchase order for another 150 tonnes on one of the existing suppliers viz., Sunshine Galvanizers, against which 145.110 tonnes was supplied at a basic price of Rs29,999. As the basic price quoted by this firm against a subsequent tender of April 1993 was Rs28,000 only, the purchase of 145.110 tonnes at higher rates without inviting fresh tenders resulted in an extra expenditure of Rs3.03 lakhs.

2B.8.3. Purchase of cable filling compound

In terms of the supply orders for JFTC, the underground telephone cables were to be filled with petroleum composition of the type approved by DOT supplier-wise and fresh type approval was to be obtained whenever the product of a new supplier was to be used.

In response to a tender invitation of August 1991 for the supply of 300 tonnes of cable filling compound, the lowest quoted rate was that of Petrogel India Limited, Madras (Rs38,413.92/tonne) followed by that of Savitha Chemicals Limited, Bombay (Rs39,819/tonne). Based on further discussions, the above firms agreed (October 1991) to reduce the price so as to bring down the landed cost to Rs37,902 and Rs37,439 respectively. Based on the orders of the Managing Director, the company placed (1 November 1991) an order on Petrogel India Limited for supply of 80 tonnes and invited (13 November 1991) fresh tenders for another 400 tonnes. The rates quoted by the two type approved suppliers were higher and hence the landed cost was Rs38,230 per tonne (Petrogel India Limited) and Rs39,680 per tonne (Savitha Chemicals Limited) respectively. Based on a discussion held in January 1992, Savitha Chemicals agreed to reduce the landed cost to Rs38,269 per tonne and the Company immediately placed an order for supply of 300 tonnes of cable filling compound. Another order for supply of 100 tonnes was placed on Petrogel India Limited in February 1992. Thus, the decision to restrict the quantity to 80 tonnes against the requirement of 300 tonnes notified in August 1991 necessitated purchase from the same parties at higher rates resulting in an extra expenditure of Rs1.91 lakhs.

2B.8.4. Purchase of PVC compound

2B.8.4.1. The Power Cable Division of the Company was using two grades of PVC compound for insulation and sheathing of cables. The Company was purchasing the item mainly from National Organic Chemical Industries Limited, Bombay (NOCIL) at the list price furnished by them. Though a number of parties had offered to supply the material on various occasions, the Company rarely contacted them and therefore the competitiveness of the price paid to NOCIL could not be ensured. Two cases where the Company effected purchases from NOCIL ignoring another lower offer are discussed below:

2B.8.4.2. (i) While the Company was purchasing WB.85 grade PVC compound from NOCIL, the Company contacted three other parties in April 1992 for the purchase of the same item. Out of two parties responded, the rate of Rs0.44 lakh per tonne (landed cost) quoted by Konkan Speciality Poly Products was lower for CPI 85 grade, as against the landed cost of Rs0.48 lakh of NOCIL for equivalent WB.85 grade. After testing and acceptance, the Company placed orders for 9 tonnes of the item in June 1992 and the supply was made in August 1992. However, the Company did not place any further order on this firm and purchased 60 tonnes of WB 85 grade PVC compound from NOCIL during the period from July 1992 to March 1993 incurring an additional expenditure of Rs2.08 lakhs.

(ii) Similarly, the rate offered (April 1992) by Konkan Speciality Poly Products for CPI 95 (Sheathing) grade was lower than that of NOCIL for equivalent WB 95 grade by Rs1915.50 per tonne. In this case also, no attempt was made to effect the purchases from the cheaper source after testing the sample. In respect of 81 tonnes of WB 95 grade PVC compound purchased from NOCIL during 1992-93, the Company incurred an additional expenditure of Rs1.55 lakhs.

2B.9. SALES POLICY AND PERFORMANCE

2B.9.1. Power Cable Division

2B.9.1.1. The major customer of the Division was Kerala State Electricity Board. During 1990, based on discussions at Government level, a rate contract was concluded with the Kerala State Electricity Board for supply of various items for a period of three years from 1990-91 to 1992-93. The rate contract was not extended further.

The total sales of the products of the Division decreased from Rs1173.68 lakhs in 1991-92 to Rs760.39 lakhs in 1992-93 and to Rs657.66 lakhs in 1993-94. The abnormal decrease in sales in 1993-94 was on account of not getting any orders from K.S.E. Board (except for a value of Rs7.19 lakhs) as the rates quoted during 1993-94 for AAC items were not competitive. In order to secure the orders, the Company should have quoted rates in such a way as to cover the direct material cost and conversion cost providing for a contribution to cover a portion of the fixed cost. But no such attempt was being made by the Company at the time of submission of quotations.

2B.9.1.2. Delay in supply

(i) According to the rate contract entered into with KSE Board in respect of the material supplied belatedly, the Company was liable to pay liquidated damages at one *per cent* of the value of materials per month of delay or part thereof subject to maximum of 10 *per cent* of the value of belated supplies.

A review of the execution of the rate contract revealed that the Company could not adhere to the delivery schedule. In terms of the provisions in the rate contract, the Board recovered liquidated damages of Rs32.81 lakhs for belated supplies of AAC and ACSR conductors during the three years up to 1993-94. Liquidated damages recovered by the Board towards short/belated supply of weather proof wires during this period was Rs14.47 lakhs. The reasons adduced by the Company for delay/non—supply were backlog in supply against previous order, lower production due to power failure in March/April 1991, non-receipt of payment from the Board in time and non-availability of aluminium. The Board did not accept these grounds and the liquidated damages had not been waived.

(ii) The rate contract provided for variation in rates in proportion to the increase/decrease in the cost of major inputs. However, the price variation benefit was limited to the quantity to be supplied each month according to the delivery schedule. The rate contract price of ACSR conductors for 1991-92 was revised by the Board in September 1991 and in January 1992 taking into account the increase in price of steel wire and aluminium. Against the total escalation claim of Rs29.63 lakhs, the Board though initially admitted Rs13.67 lakhs, it ultimately intimated in December 1992, that price variation benefit was not at all applicable for the quantity supplied for 1991-92 since the Company failed to keep up the stipulated monthly schedule. The Board also rejected the plea of the Company that the belated supply was due to non-receipt of payments in time from the Board.

(iii) The Company could not adhere to the delivery schedule specified in the rate contract for 1992-93 also. The supplies against the orders for the 1st and 2nd quarters could be completed only by May 1993. In the meantime, the price of aluminium went up by Rs3600 per tonne in April 1992 and again by Rs2000 per tonne in November 1992. However, on account of belated supply, the Company could not claim price escalation to the extent of Rs19.14 lakhs.

2B.9.2. Telephone Cable Division

2B.9.2.1. The various sizes of jelly filled telephone cables produced by the Company from the year 1990-91 were being sold to DOT for its various circles viz., Kerala, Tamil Nadu, Andhra Pradesh, etc.

The table below indicates the details of quantity of JFTC sold in various sizes, sales value realised and average sales realisation per LKM during the four years up to 1993-94:

Year	Quantity sold (in lakh LKM)	Sales realisation (Rs. in lakhs)	Average sales realisation per LKM (Rs. in lakhs)
1990-91	286.843	216.49	0.75
1991-92	2063.406	1640.25	0.79
1992-93	4641.019	3560.07	0.77
1993-94	3503.716	4194.22	1.20

2B.9.2.2. Sale of telephone cables in short length

According to the contract with DOT, in respect of short length cables (i.e., cable lengths between 25 *per cent* to 75 *per cent* of the standard length) a price reduction of 25 *per cent* would be made. Out of 10496 LKM of telephone cables supplied to DOT during the four years up to 1993-94, 375 LKM was in short length. Consequently there was a reduction in the price by Rs74.29 lakhs. It was observed in audit that the revenue realised on sale of short length cables was below the cost of production by Rs52.83 lakhs.

Management had not ascertained the reasons for the production of short length cables.

2B.9.2.3. Delay in supply

In response to a tender notice from DOT, in August 1991 the Company offered to supply 5484 LKM of JFTC in 19 sizes/specifications. Against this, the Company received an order in January

1992 for 3560 LKM of cables in 9 sizes. The purchase order provided for levy of liquidated damages at 0.5 *per cent* of the value of belated supply per week, subject to a maximum of 5 *per cent*.

The Company could not, however, supply the entire quantity within 30 September 1992, the scheduled period of supply. Though the period of supply was extended up to April 1993, on the request of the Company, these extensions were without price variation and with liquidated damages. The Company supplied 686.442 LKM of cables during the extended period.

In terms of the purchase order, DOT withheld Rs11.41 lakhs from the Company's bills towards liquidated damages.

As the Company could not effect the supply in time, DOT cancelled the unexecuted portion of 2873.558 LKM valued at Rs2232 lakhs.

2B.9.2.4. Sales realisation

In terms of the sales contract with KSE Board for the supply of power cables, 90 *per cent* of the bill amount was initially payable against supply and the balance after inspection. The initial payment was due to be made by the Board under IDBI bill discounting facility subject to the prescribed limit. As the Board had already availed the facility to the maximum extent, Rs277.15 lakhs were pending realisation from the Board as on 31 March 1994.

Similarly, in terms of the supply orders of DOT though the Company was to get 95 *per cent* of value against supply and balance after inspection, the Company was not getting the amount promptly. The amount pending realisation from the Department as at the end of March 1994 was Rs1684.74 lakhs.

The table below indicates amount realisable from sundry debtors for the five years ending 31 March 1994 and the extent of cash credit availed for working capital:

Year	Outstanding for less than a year	Outstanding for more than a year	Total	Amount outstanding under cash credit.
(Rupees in lakhs)				
1989-90	226.80	5.69	232.49	143.81
1990-91	475.75	9.44	485.19	600.68
1991-92	1295.30	11.02	1306.32	800.52
1992-93	1744.01	74.20	1818.21	641.07
1993-94	1822.12	147.81	1969.93	147.24

In case the Company had promptly realised the amount from its debtors, it could have avoided the cash credit during the years 1989-90 and from 1991-92 to 1993-94.

In the absence of any stipulation in the contract, the Company could not claim interest on delayed payments.

2B.9.3. Shortage in the stock of finished goods

A comparison of actual physical stock with book stock revealed wide variation in the telephone cable division. While there was excess stock of 45 LKM of cables valued at Rs39.99 lakhs during 1990-91, the total shortages during the subsequent three years up to 1993-94 was 260 LKM. The value of the shortage based on the average sales realisation worked out to Rs222.70 lakhs. Reason for the shortages in the stock of finished goods had not been investigated by the Company.

2B.9.4. Loss due to rejection of cables in water penetration test

The jelly filled telephone cables produced after test at each stage of manufacture are accepted by the DOT only after passing water penetration test on random sampling method. In case the samples fail in the test, the entire quantity wound on the drum would be rejected.

During the period from March 1990, when commercial production was commenced, up to 1993-94, the total quantity of cables rejected by DOT due to failure in water penetration test was 228.334 LKM valued at Rs140.02 lakhs.

As the saleability of the rejected cables was ruled out, the Company scrapped the same by November, 1994. The realisable value of scrapped cables was only Rs29.50 lakhs and the loss to the Company on account of rejection of cables in water penetration test worked out to Rs110.52 lakhs.

According to the Company, in majority of cases, the failure in water penetration test was due to the seepage of water occurred due to the folding of polyester tape in the longitudinal direction. As the rejection of cables results in heavy loss, the Company should have taken due care for avoiding folding of polyester tape in longitudinal direction.

2B.10. TRANSPORTATION OF FINISHED GOODS

In July 1991, the Company invited tenders for transportation of finished goods from the JFTC factory at Thiruvalla to various centres in Kerala. Out of four tenders received, the lowest tender was of Manoj Enterprises, Ernakulam, who backed out subsequently, for reasons not known.

The work was awarded to the second lowest tenderer St. Antony's Lorry Booking Office, Changanacherry. The period of contract which was for four months from December 1991 to March 1992, was extended to December 1992 and again to December 1993 on negotiation basis without ensuring the reasonableness of the rates. In July 1993, when the work was retendered, the rates of transportation decreased considerably. Out of 8 quotations received, Asiatic Transport was the lowest and St. Antony's Lorry Booking Office, Changanacherry was the second lowest. The Company decided to engage both the parties at the lowest rates and the work orders were issued in September 1993 for a period of one year, up to August 1994.

The rates obtained against tender of July 1993 indicates that the rates at which the work was being executed from December 1991 to August 1993 were very much on the high side. The extra expenditure on account of extending the contract for transportation at higher rates during the period from April 1992 to August 1993 compared with the rates at which the work was awarded with effect from September 1993 worked out to Rs2.89 lakhs.

2B.11. EXPANSION SCHEMES

2B.11.1. The table below indicates the expansion schemes in hand, the estimated expenditure and actual expenditure incurred up to the end of 1994-95 thereagainst:

Name of Scheme	Estimated expenditure	Expenditure up to 1994-95 (including amount payable against orders placed)
(Rupees in lakhs)		
1. Expansion of the capacity of JFTC Division	1082.70	219.64
2. Project for production of smaller sizes of JFTC	30.00	33.14
3. Project for manufacture of AAAC	30.00	36.70

The following observations were made in Audit:

2B.11.1.2. According to the Project Report prepared in 1985 for setting up of the JFTC Division, the production capacity of the plant was 7.3 lakh LKM per annum on two shifts basis and production could be further increased by working the third shift with the addition of some balancing equipment. The Company had not ascertained the feasibility of attaining the installed capacity of 10.95 lakh CKM for three shifts by adding the balancing equipment. Instead, it went in for an expansion requiring Rs10.83 crores. The finance required for the expansion was to be met out from long term borrowings (Rs7.22 crores) and equity participation from Government of Kerala (Rs3.61 crores).

The State Government released its share of Rs3.61 crores in March 1994 as equity (Rs173.20 lakhs) and loan (Rs187.70 lakhs). The proposal to finance the project was, however, turned

down by the financing institutions and hence alternate source for mobilising the required funds including cost over run, if any, has to be identified (March 1995).

Taking up of the project for implementation before tie up for the required finance was not in order.

2B.11.1.3. The project for manufacture of smaller sizes JFTC at Irimpanam under implementation was also expected to be completed by 1995-96. As the facility for production of these sizes of cables already existed in the JFTC Division, the necessity for this expansion was not clear.

2B.11.1.4. The implementation of the project for manufacture of All Aluminium Alloy Conductor (AAAC) was in progress (March 1995) and the commercial production was expected to be commenced during 1995-96. However, the KSE Board, the sole customer for the product had not yet (March 1995) projected their demand for AAAC. The Company had also not examined the possibility of securing orders from other Boards by competing with other established manufacturers.

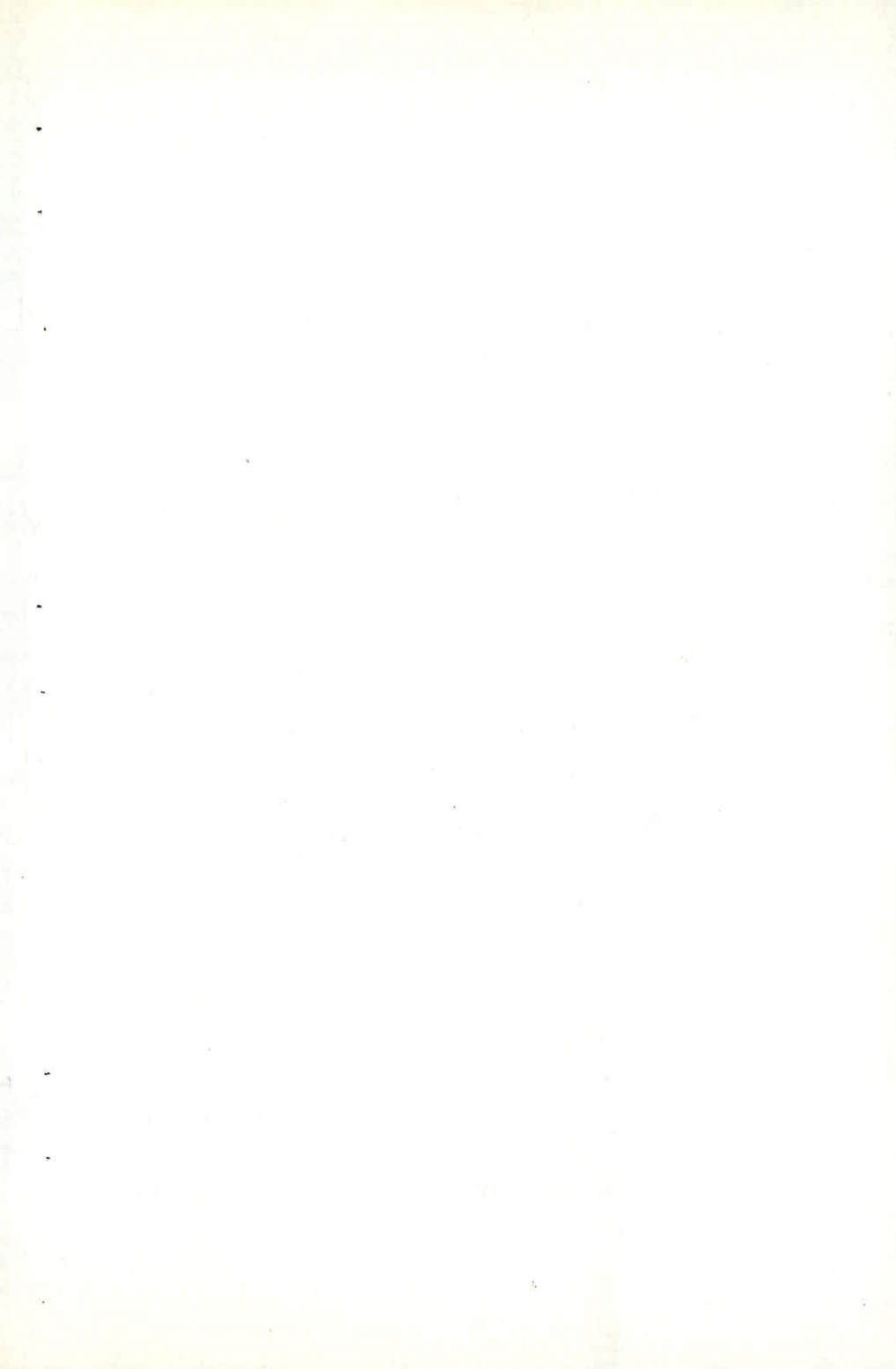
CONCLUSION

The foregoing paragraphs would indicate that

- there was under utilisation of capacity in the Telephone Cable Division;
- excess consumption of raw materials in the Power Cable Division and in the Telephone Cable Division aggregated Rs110.41 lakhs;
- there were deficiencies in the system of procurement of raw materials like copper leading to extra expenditure;

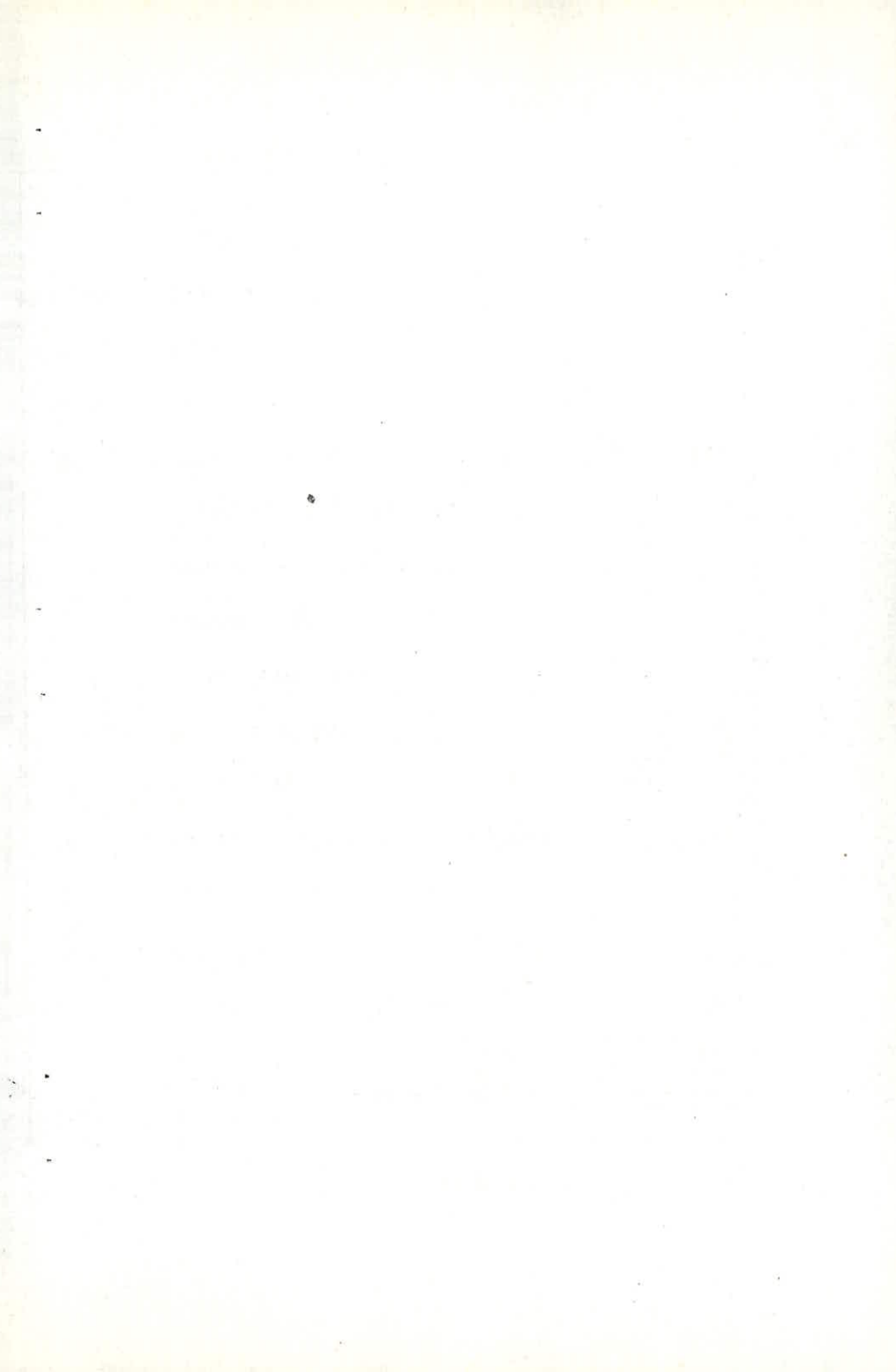
- the Company could not secure orders for supply of cables as it quoted abnormally high rates;
- non-adherence to the delivery schedule led to payment of liquidated damages;
- production of cables in short length resulted in short realisation of sales price leading to a loss of revenue of Rs52.83 lakhs;
- due to defective production, at the finished product stage, the cables failed to pass the water penetration tests, leading to a loss of Rs110.52 lakhs; and that
- there was no system for investigating the shortages of stock of finished goods.
- The Company has suffered an accumulated loss of Rs6.45 crores mainly due to under utilisation of capacity, high cost of production arising from excess consumption of raw materials, purchase of raw materials at higher price and lack of quality control of finished products. These areas of deficiencies would require immediate remedial action.

The above matters were reported to the Government in May 1995; their replies had not been received (September 1995).



2C. THE KERALA AGRO INDUSTRIES CORPORATION LIMITED

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THE KERALA AGRO INDUSTRIES CORPORATION LIMITED

Highlights

The Company incorporated in March 1968 is engaged in the production and trading in agricultural machines, implements and spare parts; hiring of tractors, tillers and bulldozers as well as providing workshop facilities; and manufacture and sale of fruit products.

(Paragraph 2C.1)

Five out of six regional workshops-cum-service stations test checked were not self-supporting. While one unit at Athani made a marginal profit of Rs4.34 lakhs, the remaining five units suffered an aggregate loss of Rs40.62 lakhs during the five years up to 1993-94.

(Paragraph 2C.5.1)

Out of 3866 cases of hire purchase sales involving Rs114.28 lakhs pending settlement as at end of March 1994, 1035 cases for Rs46.25 lakhs were pending over ten years. In 98 cases dating back from 1970-71 involving Rs20.45 lakhs, even the first instalment was not received from the buyers.

(Paragraph 2C.8.1)

Though there was enabling provision in the hire purchase agreements, the Company did not revise the claim of interest based on the lending rates fixed by banks from time to time on the cash credit it availed. As a result, the Company suffered loss of Rs49.15 lakhs in respect of 74 cases test checked in audit as it had to bear the additional burden of interest on the funds locked up.

(Paragraph 2C.8.2)

Though sales policy of the Company did not envisage credit facilities for direct sales/services, it had been extending credit facilities to Government Departments, companies and other organisations. As at the end of March 1993, Rs116.88 lakhs was pending realisation out of which Rs17.89 lakhs was due from private parties.

(Paragraph 2C.9.1)

Kerala Agro Fruit Products, a unit of the Company, engaged in the production of juice, jams, etc., was incurring losses continuously during the period from 1989-90 to 1992-93 and the accumulated loss was Rs149.87 lakhs as at the end of March 1993.

(Paragraph 2C.10.2)

On account of unscientific/defective storage, 247.66 tonnes of mango pulp and 34.31 tonnes of pineapple pulp valued at Rs6.26 lakhs were spoiled during the period from August 1990 to March 1995.

(Paragraph 2C.10.7)

On account of diversion of 166 power tillers meant for distribution under Prime Minister's Special Programme Scheme to persons not covered under the scheme, the Company had to buy an equal number at higher rates thereby incurring an extra expenditure of Rs5.62 lakhs as the price realisable for the supply under the scheme was fixed.

(Paragraph 2C.13.2)

The unilateral decision of the State Government in July 1985 to terminate the subsidiary status of Kerala Agro Machinery Corporation Limited (KAMCO) and Meat Products of India

Limited (MPI) in which the Company had invested Rs117 lakhs and Rs34.65 lakhs respectively, for Re.1 each each was objected to by the Government of India which held 34.9 per cent shares in the Company. However, the Company transferred the shares held by it in those companies to the State Government in January/June 1986.

(Paragraph 2C.14.1)

Owing to the purchase of 2757 cage wheels from KAMCO during the five years up to 1994-95 at rates higher than the cost of purchase from other sources/ fabrication, the Company incurred an extra expenditure of Rs16.69 lakhs.

(Paragraph 2C.14.2)

2C.1. INTRODUCTION

The Kerala Agro Industries Corporation Limited (KAIC) was incorporated on 22 March 1968 as a joint venture of the State Government and Central Government with the main objective of promotion of agro industries and other ancillary enterprises in the State. Two subsidiary companies viz., Kerala Agro Machinery Corporation Limited (KAMCO) and Meat Products of India Limited (MPI) incorporated in May 1982, were delinked in 1986 by transfer of respective shares (referred to in Paragraph 2C.14.1). In January, 1982, the Company set up Kerala Agro-Fruit Products (KAFF) unit at Punalur for manufacture of fruit products. As at the end of 1994-95, the Company had eleven regional workshops-cum-service stations for sales and service of agricultural implements.

The activities of the Company are mainly confined to (a) production and trading (hire purchase and direct sales) in agricultural machines, implements and spare parts; (b) hiring of tractors, tillers and bulldozers as well as providing workshop facilities; and (c) manufacturing and sale of fruit products.

The National Convention of State Agro Industries Corporations held in July 1989 at Bangalore under the auspices of Ministry of Agriculture emphasised the vital role of Agro Industries Corporation in advancing selective mechanisation of agriculture and recommended a growth strategy which involves taking up new activities in the areas of fertiliser mixing, pesticide formulations, seeds, bio-fertilisers and plasticulture.

Out of these recommendations, the Company had undertaken only the plasticulture activity besides an ongoing State Government scheme of small farm mechanisation.

The Company also undertakes survey, installation and commissioning of irrigation systems and trains farmers in the use and maintenance of agricultural machineries, apart from implementing various schemes entrusted by the State Government from time to time for the benefit of farmers.

2C.2. ORGANISATIONAL SET-UP

As at the end of 1994-95, there were five Directors in the Board of Directors of the Company (including two Central Government nominees). The Managing Director who is the chief executive of the Company is assisted by a General Manager, Controller of Finance and Accounts, Administrative Officer, Secretary and Enforcement Officer. While the Kerala Agro-Fruit Products unit is under the charge of the General Manager, the regional workshops-cum-service stations are under the charge of Regional Engineers/Assistant Engineers.

2C.3. AUDIT COVERAGE

The working of the Company was last reviewed in the Report of the Comptroller & Auditor General of India for the year 1982-83 (Commercial).

The present review conducted during January to May 1995 is confined to the performance of the Company for the period from 1989-90 to 1993-94 based on the activities undertaken by the Head Office, agro-fruit products unit and six out of eleven regional units. The observations of audit are discussed in the succeeding paragraphs.

2C.4. FINANCE, RESOURCES AND WORKING RESULTS

2C.4.1. Capital structure

Against the authorised share capital of Rs500 lakhs, the paid up capital of the Company as at the end of 1993-94 was Rs474.11 lakhs contributed by the Central Government (Rs169.56 lakhs) and State Government (Rs304.55 lakhs).

2C.4.2. Cash management

A review of the cash and bank balances during the period from 1989-90 to 1993-94 revealed the following :

(i) Heavy balances were held by units in the current account after meeting expenses and transfer of funds to Head office. Four units test checked by Audit revealed that during the five years up to 1993-94 the average monthly surplus balance ranged between Rs2.22 lakhs (in 1989-90) and Rs5.52 lakhs (in 1992-93). As the Company was working on borrowed funds, the retention of huge balance in the current account by the units without fetching any interest resulted in a loss of Rs3.38 lakhs calculated at the borrowing rates.

(ii) Rs10,894 transferred from a unit in July 1987 to the Head Office through mail transfer had not reached the bank accounts of Head Office (March 1995). The Company had not effectively followed up the case.

Management stated (May 1995) that due to lack of adequate man power, it was not possible to have effective financial control and that all efforts would be made to improve the system.

2C.4.3. Working results

The Company had finalised its accounts only up to 1992-93. The accumulated loss of Rs454.29 lakhs as at the end of 1992-93 represented 95.8 *per cent* of the paid-up capital. The table below indicates the working results of the Company during the four years up to 1992-93:

Particulars	1989-90	1990-91	1991-92	1992-93
	(Rupees in lakhs)			
A - Income				
(i) Sales	354.58	444.57	566.17	556.79
(ii) Interest	30.00	26.81	27.68	29.97
(iii) Others	13.17	16.87	22.70	26.08
	397.75	488.25	616.55	612.84
B - Expenditure				
(i) Cost of sales	296.02	375.04	467.96	460.26
(ii) Personnel	101.49	109.39	122.30	160.93
(iii) Administrative, selling & others	26.95	28.38	28.88	39.95
(iv) Finance	29.66	32.26	50.63	43.95
(v) Depreciation	3.06	2.75	2.54	2.43
	457.18	547.82	672.31	707.52
C - Profit(+)/ Loss (-) for the year	(-)59.43	(-)59.57	(-)55.76	(-)94.68
D - Prior period adjustment(Net)	(+) 1.75	(-) 0.94	(-) 7.04	(+)105.80
E - Net profit(+)/ Net loss(-)	(-)57.68	(-)60.51	(-)62.80	(+)11.12

The profit for the year 1992-93 was due to withdrawal of excess interest charged by Canara Bank on the term loan till 1991-92 (Rs27.06 lakhs) and change in accounting of interest/penal interest on hire purchase transactions from cash basis to accrual basis (Rs85.06 lakhs).

2C.5. PERFORMANCE OF WORKSHOPS-CUM-SERVICE STATIONS

2C.5.1. The eleven units of the Company which are spread throughout the State provide pre-sale and after-sale service of tractors, power tillers, etc. Besides working as workshops and service stations, these units are engaged in the manufacture/fabrication of agricultural implements. Neither any production plan was drawn up nor any physical targets were set by the Company in respect of various items manufactured.

The actual working results of each unit/ workshop was not being assessed by the Company. An analysis of the monthly progress reports (indicating the sales and production with respective contribution earned) furnished by six units test checked by Audit revealed that only the Athani unit was making marginal profit (Rs4.34 lakhs) throughout. The aggregate deficit of the other 5 units for the five years up to 1993-94 amounted to Rs40.62 lakhs. This would indicate that none of these units (except Athani) were self supporting.

2C.5.2. Manufacture of Agricultural implements

A test check of the six units by Audit revealed that there was no system to prepare estimates for each work order and to fix norms for consumption of major items of raw materials to have effective control in the consumption of materials.

An analysis by Audit revealed that in the Palakkad unit alone, there was excess consumption of 23.01 tonnes of mild steel items (value: Rs3.12 lakhs) on the fabrication of 162 cage wheels, 127 cultivators, 170 power tiller trailers and 800 mini paddy threshers during the period of five years up to 1993-94, when compared to the lowest recorded consumption.

Similarly in respect of the 22 aluminium hand carts fabricated by the Athani unit in June 1989, the cost was Rs10,079 per cart. However, in respect of a repeat order for another 8 carts received in November 1989, the cost was only Rs6,317 per cart. This would indicate that there was lack of control over material consumption resulting in extra expenditure of Rs0.83 lakh in respect of the first batch of production. The Company stated (May 1995) that as the fabrication work was being got done by engaging casual labourers, the chances of variation in raw material consumption was more.

2C.5.3. Manufacture and supply of mini paddy threshers

2C.5.3.1. The Company started manufacturing motorised mini paddy threshers initially in its Palakkad unit in January 1992, mainly for supply to the small and marginal farmers under Prime Ministers' Special Programme (PMSP) Scheme. Subsequently, in April - July 1993 Arimpur, Athani and Vanchiyoore units were also entrusted with the work. There was no system of preparing estimate taking into consideration the requirement of men and material. The cost of production in the units varied widely in respect of the threshers produced during the period from March 1993 to April 1994, as shown below :

Name of Unit	Quantity produced (Nos.)	Material cost (Rs.in lakhs)	Labour cost	Total cost	Cost per thresher (Rupees)
Palakkad	800	30.63	3.27	33.90	4,238
Athani	200	8.10	1.02	9.12	4,560
Arimpur	40	1.22	0.38	1.60	4,000
Vanchiyoore	55	2.39	0.55	2.94	5,345

Compared to the cost of Rs4,238 in Palakkad Unit, where the production was standardised, the excess cost of production in Athani and Vanchiyoor units amounted to Rs1.25 lakhs. Management stated (May 1995) that production was started in the three other centres with a view to meet the urgent demand from the Agriculture Department and the production in those centres was since discontinued.

2C.5.3.2 Purchase of costlier motor

The mini paddy threshers manufactured by the Company were fitted with 0.5 H.P. electric motors. In respect of the first batch of 20 threshers manufactured between January 1992 to March 1992, the Palakkad unit used Remi motors (cost: Rs2,215 per motor) for 15 threshers and Stark motors (cost: Rs1,716 per motor) for 5 threshers. Though the Stark motor was cheaper and without any complaints the Company purchased 929 Remi motors between April 1993 and August 1994, at a total cost of Rs18.71 lakhs, resulting in an extra expenditure of Rs2.77 lakhs.

Management stated (May 1995) that the threshers fitted with Stark motors were not powerful enough to take the higher starting torque. The reply is not tenable as the Regional Engineer, Palakkad had reported in January 1994 that the specifications and performance of Stark motors precisely matched Remi motors.

2C.5.4. Manufacture and supply of chicken coops

Under a scheme for providing flood relief assistance to livestock farmers, the State Government authorised (December 1989), the Company to supply 20000 chicken coops made of seasoned and treated rubber wood at Rs222.50 per unit to the Department of Animal Husbandry. Accordingly, the Arimpur, Athani

and Kottarakkara units manufactured and supplied 16597 chicken coops to various District offices of the Department of Animal Husbandry. In the absence of any estimates and effective control over cost, the cost of production varied between Rs111 per unit in Arimpur in 1989-90 and Rs161 in Kottarakkara in 1991-92. Based on the cost of Rs111 incurred in Arimpur and Athani units during 1989-90 and 1990-91 respectively, the extra expenditure due to excessive cost of production in the other units amounted to Rs5.93 lakhs.

2C.5.5. Fabrication of trailers in anticipation of future orders

The Company used to manufacture trailers for both tractors and power tillers on job order basis. However, six tractor trailers (cost : Rs1.98 lakhs) fabricated between October 1993 and July 1994 in Arimpur unit in anticipation of future orders, were lying unsold in the open yards of the units exposed to the vagaries of nature (March 1995).

Management stated (May 1995) that manufacture of trailers were planned on the basis of the projections given by the Agriculture Department and that efforts were being made to dispose them of.

2C.6. EXECUTION OF WORK ORDERS

The Company used to undertake works contract for survey, installation and commissioning of drip, sprinkler and surface irrigation system through its units. Most of the works were undertaken for Kerala Agricultural University and other Government Departments.

During the period from April 1992 to December 1994 the Palakkad unit received 21 work orders worth Rs11.65 lakhs from Kerala Agricultural University, Trichur on the basis of quotations

issued. Against this, the actual cost of execution was Rs14.86 lakhs resulting in loss of Rs3.21 lakhs. Similar loss in respect of 23 work orders worth Rs16.46 lakhs executed by Arimpur unit during the period from 1990-91 to 1993-94 was Rs3.55 lakhs.

Management stated (May 1995) that the items manufactured by the units were available in the market at cheaper rates and that action was being initiated to reduce the cost of production.

2C.7. CUSTOM HIRING SERVICES

The Company undertakes hiring out of its bulldozers and tractors through its regional workshops-cum-service stations.

2C.7.1. During the period from April 1989 to December 1991, the two bulldozers available at the Kottarakkara unit were hired only for 1150 hours against 5400 hours available. Consequently, the hire charges realised was insufficient to cover the cost and resulted in a loss of Rs1.50 lakhs. Hence, both the bulldozers were transferred to Vanchiyoore unit by December 1991. Even after the discontinuance of hiring operation, the unit retained 3 operators during 1992 - 93 and 2 operators thereafter, resulting in payment of idle wages of Rs2.65 lakhs till March 1995.

In Vanchiyoore unit also, the utilisation of the bulldozers was only up to 50 per cent of the available hours and hence the Company discontinued the operation of these two bulldozers in August 1993 and May 1994 respectively on the plea of uneconomic operation. In December 1994, the Company sold one bulldozer for Rs6.75 lakhs in tender-cum-auction. However, spares worth Rs1.89 lakhs relating to that bulldozer had not been disposed of (March 1995). The other bulldozer is remaining idle from June 1994.

2C.7.2. The tractor and trailer available at Athani unit meant for hiring to farmers was being used only for transporting KAMCO power tillers to various units of the Company from June 1986. The percentage of their utilisation during the period from 1987-88 to 1993-94 ranged between 0.6 to 21.5 only. The loss on account of under utilisation of the vehicle during the period from June 1986 to September 1994 worked out to Rs1.41 lakhs. Though the unit decided to dispose of the vehicle in September 1994 due to uneconomic operation, no further steps were taken in this direction.

2C.8. HIRE PURCHASE

2C.8.1. The scheme for selling tractors and power tillers on hire purchase basis commenced in 1969-70 was discontinued by 1985-86 due to paucity of funds. The sale of sprinklers on hire purchase system was prevalent only during 1983-85. At present the sales under this scheme is confined to pumpsets only.

Since introduction of the scheme in 1969-70, up to 1993-94, the Company sold 853 tractors, 1248 tillers, 15 sprinklers and 20524 pumpsets valued at Rs1293.84 lakhs under this scheme. Out of 3866 cases (210 tractors, 44 tillers, 8 sprinklers and 3604 pumpsets) involving Rs114.28 lakhs pending settlement, as at the end of March 1994, 1035 cases involving Rs46.25 lakhs were pending over 10 years.

It was further noticed that in 98 cases (involving Rs20.45 lakhs) dating back from 1970-71, not even a single instalment was received from the buyers. In respect of 2295 cases (including 83 cases involving Rs19.75 lakhs pending in various Courts), revenue recovery action was pending.

A test check of the records maintained by the Company revealed the following deficiencies :

- non-availability of collateral security for realisation of the dues, once the buyers defaulted in payment of the instalments.
- absence of a system to ascertain the whereabouts of the defaulted buyers; and
- inordinate delay in initiating revenue recovery proceedings.

2C.8.2. Though there was an enabling provision in the hire purchase agreements, the Company did not claim interest based on the lending rates of banks. Further, the amount realised from the defaulted buyers was being adjusted against the principal instead of against the accrued interest. Due to non-revision of the interest based on the lending rates fixed by the bank from time to time on the cash credit availed, the Company suffered additional burden of interest on the funds locked up. In respect of 74 cases test checked in Audit, the loss on that account was Rs49.15 lakhs.

2C.9. TRADING AND SERVICING ACTIVITY

2C.9.1. Realisation Of debts

Though the sales policy of the Company did not envisage credit facilities for direct sales/service, it had been extending credit facility to Government departments, corporations and other organisations. As at the end of March 1993, Rs116.88 lakhs was pending realisation; out of which Rs17.89 lakhs was due from private parties.

2C.9.2. Though the Company was entitled to realise interest at 18 per cent per annum on overdue payments, it had never raised supplementary invoices for such interest. Consequently in six units test checked, the claim of interest to the extent of Rs0.96 lakh in respect of the overdue invoices pending up to 1990-91 had become time barred and Rs15.66 lakhs relating to the sales effected up to March 1994 was yet to be realised (March 1995). As the Company had been working on borrowed funds, the inordinate delay in realisation of dues amounting to Rs15.66 lakhs resulted in loss of Rs4.79 lakhs up to December 1994 by way of interest on the funds locked up. A further review of the actual sales realisation made during the period from 1990-91 to 1993-94 in these six units revealed that the delay in realisation of debts beyond the credit period of 30 days ranged between 4 and 1130 days resulting in loss of interest of Rs6.39 lakhs.

The Management stated (May 1995) that in view of the competition from private sector, it had to extend credit facilities for getting orders from the Government departments.

2C.10. KERALA AGRO-FRUIT PRODUCTS, PUNALUR

2C.10.1. The unit engaged in the production of pulps, juices, slices, titbits, syrups, squashes, jams, pickles, etc., out of mango and pineapple and synthetic vinegar commenced commercial production in May 1982.

2C.10.2. Working results

Details of the working results of the unit for the four years up to 1992-93 are given below:

	1989-90	1990-91	1991-92	1992-93
	(Rupees in lakhs)			
Sales value	41.86	35.64	37.85	37.25
<u>Less:</u> variable cost	35.94	36.43	40.48	38.14
Contribution	(+)5.92	(-)0.79	(-)2.63	(-)0.89
Finance charges	8.60	9.92	14.69	6.13
Depreciation	1.65	1.46	1.27	1.12
Administrative and other expenses	5.66	6.79	9.86	7.56
Loss	9.99	18.96	28.45	15.70

It was noticed that sales value was not sufficient to cover even the direct costs of production except during 1989-90. As at the end of March 1993, the accumulated loss of the unit was Rs149.87 lakhs.

2C.10.3. Capacity utilisation

The installed capacity in respect of ready to serve (RTS) and other than ready to serve products were 350 tonnes and 400 tonnes respectively per annum. The actual production against the installed capacity of 750 tonnes came down from 534 tonnes in 1989-90 to 222 tonnes in 1993-94 mainly due to shortage of working capital.

A graphic representation of the declining trend in production is given in Figure - 6.

KERALA AGRO INDUSTRIES CORPORATION LIMITED

Installed capacity and production of Kerala Agro Fruit Products Unit

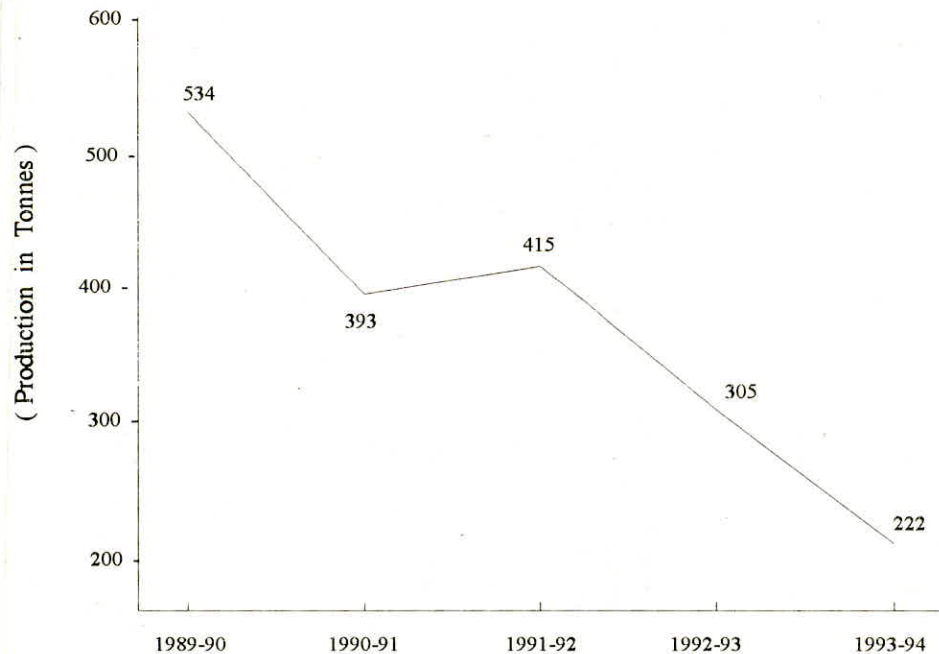


Figure - 6 (*Refer paragraph 2C.10.3*)

2C.10.4. Production of fruit pulp

During the five years up to 1993-94, the unit procured 679 tonnes of mango fruits and 134 tonnes of pineapple fruits for production of jam, squash, etc.

Against the assessment of the Company that the yield would be around 60 to 65 *per cent* in the case of mango and 50 to 55 *per cent* in the case of pineapple, the actual yield of mango pulp ranged between 46 and 65 *per cent* and that of pineapple pulp and juice between 32.6 and 39.5 *per cent*. The reasons for the heavy shortfall in the yield of pulp had not been investigated by the Company.

Based on the average attained yield of 53 *per cent* in respect of mango and the minimum anticipated yield of 50 *per cent* in respect of pineapple, the unit sustained a loss of Rs6.24 lakhs in respect of short production of 184 tonnes of mango pulp and 29 tonnes of pineapple pulp/juice during the period from 1989-90 to 1993-94.

2C.10.5. Packing of fruit pulp

For preserving the fruit pulp manufactured by it, the Company was using glass bottles and plastic barrels, which were reusable. It also used non-reusable metal cans to supply mango pulp to Kerala Co-operative Milk Marketing Federation Limited (MILMA) and also for packing and ultimate production of mango drinks in tetra-pack. Though the unit stopped production of mango drink in tetra pack and supply of mango pulp to MILMA by July 1990, it purchased 16481 non-reusable metal cans of 3.1 kg./ 5.25 kg. size costing Rs3.98 lakhs during the period from June 1991 to July 1992. As the packing cost of mango pulp in cans was Rs6.12 per kg against Re.0.26 per kg for packing in bottles, the purchase

of the non-reusable costlier metal cans resulted in an extra expenditure of Rs3.81 lakhs.

It was also noticed in Audit that in view of the poor quality of cans purchased, there were leakages which necessitated excess usage of 12594 cans (cost: Rs1.12 lakhs) during the period from 1989-90 to 1992—93.

2C.10.6. Excessive breakages of RTS bottles

The RTS mango fruit drink in 200 ml. bottles was being distributed in the brand name 'JYOTHI' in the southern districts of Kerala through a network of dealers.

Since inception of the RTS production in 1983 till 31 March 1994, the unit purchased 6.75 lakh bottles. After allowing 1 per cent for normal breakage as per industry norm, the excessive breakages during the period up to 31 March 1994 were 0.80 lakh bottles valued at Rs2.34 lakhs. The Company stated (May 1995) that a breakages register was being maintained from January 1995 and that the cost would be recovered whenever there were abnormal breakages.

2C.10.7. Spoilage of fruit pulp due to defective and prolonged storage

The shelf life of the preserved pulp was assessed as one year by the Central Food Technology Research Institute, Mysore. Mango and pineapple fruit pulp produced by the unit was being stored in bottles, plastic jars, plastic barrels and metallic cans of different sizes. While the bottled pulp was stored in the factory itself, a major portion of the canned and barrelled pulp was stored in the godown of the bankers towards security for the key loan availed for working capital.

The storing was done on the floor and the constant contact with the floor caused rusting of the bottom of the cans leading to leakage of pulp which in turn damaged the neighbouring cans. Due to lack of space, the barrels were stacked one over the other leaving considerable dead space in between enabling growth of microbes which contaminated the pulp. Further as the cans were stacked one over the other up to 14 cans, there was heavy load at the bottom layer, resulting in bulging, leakage and spoilage. Moreover, the cans were released always from the top layer, leaving the bottom layer (which contained the older pulp) to deteriorate due to prolonged storage.

On account of the unscientific / defective / prolonged storage, 247.66 tonnes of mango pulp and 34.31 tonnes of pineapple pulp valued at Rs6.26 lakhs were spoiled during the period from August 1990 to March 1995.

2C.10.8. Utilisation of labour

2C.10.8.1. The man power available in the unit during all the five years up to 1993-94 was 43. Steady decrease in the capacity utilisation resulted in increased idle labour hours, which ranged from 13.9 *per cent* in 1989-90 to 54.5 *per cent* in 1993-94.

A review of the man power available in the unit during the five years up to 1993-94 with the requirement as per the norms fixed by the Company revealed that there was excess engagement of labour by 1.37 lakh hours resulting in the payment of wages of Rs9.64 lakhs to idle staff.

2C.10.8.2. While the regular labour was underutilised, the unit engaged casual labourers for 92647 hours incurring Rs2.80 lakhs as wages during the period from 1989-90 to 1992-93. This lacked justification.

2C.11. INVENTORY CONTROL

- 2C.11.1. The stock of spare parts of agricultural machinery at the end of 1992-93 was Rs19.72 lakhs representing 15 months' requirement and it varied from 12 to 17 months' requirements for sales/captive consumption during the period from 1989-90 to 1992-93. The Company had not fixed the minimum, maximum and reorder levels.

A perusal of the inventory position as at the end of 1994-95 in five units test checked revealed that spare parts (valued at Rs8.75 lakhs) procured during the period from 1969-70 to 1989-90 which had been rendered obsolete/non-moving were still held in stock (March 1995).

Management stated (May 1995) that action was being taken to dispose of the stock.

- 2C.11.2. The Company did not have a system of reconciliation of inter unit transfers. As at the end of March, 1993 the consolidated statement prepared by the Company showed the transfer in and transfer out from the eleven units as Rs27.98 lakhs and Rs31.17 lakhs respectively as against Rs37.58 lakhs and Rs256.93 lakhs respectively compiled by audit from individual stock statements furnished by these units. The differences have not been reconciled (March 1995).

- 2C.11.3. In November 1991, the Company received an initial order for 1000 rubber tapping kits from Manimalayar Rubbers Private Limited at the rate of Rs225 per kit. The Company, therefore, produced 1079 kits during the period from January 1992 to March 1995 and held components costing Rs1.21 lakhs as at the end of 1994-95. After lifting 151 kits in 1991-92, the buyer refused

(April 1992) to take delivery of the balance quantity due to quality complaints. The details of disposal of the defective stock (value:Rs2.09 lakhs) and the components (Cost:Rs1.21 lakhs) were awaited (March 1995).

2C.12. TRAINING SCHOOL

The Company started (August 1969) a training school at Malampuzha with a capacity to train 200 persons per annum in tractor operation. Against this the number of persons trained ranged between 73 and 136 during the five years up to 1993-94. Consequently, the fees collected at the rate of Rs250 per course up to 1991-92 and at Rs500 thereafter was insufficient to cover the cost of training resulting in a deficit of Rs2.57 lakhs during the five years up to 1994-95.

Management stated (May 1995) that it was planning to improve the pattern of training with corresponding increase in the fees to make the activity on no profit no loss basis.

2C.13. SCHEMES

2C.13.1. In addition to the above activities, the Company had been implementing various schemes entrusted by the State Government from time to time for the benefit of the agriculturists.

The result of the review of some of the schemes are narrated in the succeeding paragraphs.

2C.13.2. Scheme for assistance to small and marginal farmers under Prime Minister's Special Programme (PMSP Scheme)

The Company had been supplying KAMCO power tillers to the public under general booking scheme at the rates ruling on

the date of supply. In November 1992, the State Government accorded sanction for the implementation of the PMSP Scheme to provide assistance to small and marginal farmers in the State during 1992-93 and entrusted (February 1993) the distribution of 1000 power tillers (which was raised to 1050 in October 1993) and 1000 threshers to the Company at Rs64,000 and Rs6,547 respectively. Of this Rs54,000 and Rs5,547 respectively were realisable as the subsidy from Government and the balance of Rs10,000 and Rs1000 each respectively were to be collected from the beneficiaries under the scheme.

Accordingly, the Company received Rs2 crores on 8 March 1993 and Rs11.20 crores on 31 March 1993 from the State Government and supplied 1051 tillers and 985 threshers by November 1994. A perusal of the scheme revealed the following:

(i) The Company diverted 166 power tillers, purchased at the rate of Rs53,100 under the scheme, to persons not covered under the scheme. Consequently, the Company had to buy an equal number of tillers at rates ranging between Rs55,100 and Rs60,600. As the price realisable for supply under the scheme was fixed, the diversion of the power tillers meant for the Scheme resulted in an extra expenditure of Rs5.62 lakhs.

(ii) In February 1993, the transportation charges for supply to the various units was fixed at Rs1100 irrespective of the distance involved. An analysis of the actual cost involved, revealed that the Company had to incur an extra expenditure of Rs0.72 lakh due to fixation of uniform rate.

(iii) The Company retained the amount of Rs11.20 crores received on 31 March 1993 in the Treasury Savings account. Based on the instructions of the Agricultural Production Commissioner

(May 1993) the Company drew and disbursed Rs733 lakhs, out of this amount, to various other Government agencies. The interest earned on this amount of Rs733 lakhs till disbursement was Rs8.63 lakhs only (after adjusting Rs4.30 lakhs towards the cost of tractors supplied additionally). During the period from May 1994 to February 1995 the Principal Information Officer, Farm Information Bureau of the State Government forwarded advertisement bills totalling to Rs14.57 lakhs towards the issue of supplements in connection with Karshaka Awards, Cattle Feed Factory inauguration, Coconut Development Scheme and Agriculture Fair-1994. As the net interest earned on Rs733 lakhs held on behalf of the Government was Rs8.63 lakhs only, the settlement of these bills totalling to Rs14.57 lakhs resulted in a loss of Rs5.94 lakhs to the Company. Since the interest earned from the savings account would attract tax liability, the payment of advertisement bill without providing for this liability was also not in the best interest of the Company.

2C.13.3. Pilot project for marketing of fruit juices

The National Horticultural Board (NHB) launched (September 1989) a pilot project for marketing of fruit juices. The project envisaged providing financial assistance to Agro/Horticultural corporations engaged in marketing/processing of horticultural products for installation of refrigerated juice vending machines.

Though in October 1989, the Company submitted proposals to NHB for availing financial assistance to acquire 100 refrigerated juice vending machines, it reduced (March 1990) the number of machines to 25 on the plea of shortage of time for implementing the scheme. Accordingly the NHB disbursed Rs3.34 lakhs in March 1990 by way of subsidy (Rs0.80 lakh) and loan (Rs2.50 lakhs). Against this

reduced number of 25 machines, the Company could purchase (December 1991) only 7 machines at a total cost of Rs1.16 lakhs and the machines were allotted in February, 1992. Though NHB continued the scheme of providing financial assistance in the subsequent three years up to 1992-93, the Company did not avail the benefits as it failed to implement the scheme successfully.

As the Company utilised only a part of the assistance under the scheme, subsidy to the extent of Rs0.60 lakh and soft loan of Rs1.80 lakhs stood diverted for other purposes. Besides, on account of the delay in procurement of machines and identifying the beneficiaries the Company had to forgo subsidy aggregating to Rs2.81 lakhs due to reducing the number of machines from 100 to 25. The Company thus lost an opportunity to expand the marketing activity of fruit juices produced at KAFP especially when huge quantity of pulp and juice was being spoiled every year due to prolonged storage.

Management stated (May 1995) that it had to opt for reduced number of machines in view of poor response from the interested beneficiaries and non availability of good quality machines. The reply is not tenable as the Company initiated action for selection of beneficiaries only in April 1990 though the Scheme was intimated to the Company in October 1989. Further, the Company did not consult the Agro-Industries corporations of other States/Co-operative institutions engaged in bulk vending of fruit juice about the availability of quality machines before placing orders for the machines.

Incidentally, it was noticed in Audit that in respect of the machines allotted none of the beneficiaries lifted the fruit pulp from KAFP despite specific clause to that effect in the agreement.

2C.13.4. Central assistance for development of fruit and vegetable processing industry

Government of India introduced a plan scheme in September 1990 for assistance to State Government/ co-operative undertakings for the development of fruits and vegetable processing sector. The scheme envisaged providing financial assistance by way of loan/ equity for setting up of new fruit and vegetable preservation units and diversification of existing agro-based and allied units into fruits and vegetable processing activities and for enhancement of production capacity. At the instance of the State Government, the Company submitted (January 1991) an application for assistance under the Scheme for setting up a mango based ready to serve beverage bottling plant in north Kerala.

In March/August 1991, the Government of India disbursed Rs6.38 lakhs to the Company for setting up a fruit and vegetable processing unit near Kochi, on the condition that the assistance would be utilised exclusively for the purpose for which it was sanctioned, and that the State Government would make a matching contribution.

Even after a lapse of nearly four years since receipt of the central share, the State Government had not released its matching contribution and the Company had not initiated any action to set up the proposed project. The entire central assistance of Rs6.38 lakhs therefore stood diverted for meeting the working capital requirements of the Company.

2C.14. OTHER TOPICS OF INTEREST

2C.14.1. Disinvestment of shares in subsidiaries

In 1973, the Company promoted Kerala Agro Machinery Corporation Ltd. (KAMCO) for the manufacture of power tillers and accessories and Meat Products of India Ltd.(MPI) for processing of meat products. As these subsidiaries could not raise funds from other sources, the Company had diverted its funds to them to the extent of Rs198 lakhs by way of share capital (Rs152 lakhs) and loans (Rs46 lakhs). In July 1985, the State Government decided to terminate their subsidiary status by delinking them from the Company. The original Government orders stating that the shares held by the Company in KAMCO i.e. 1,17,000 shares of Rs100 each (Rs117 lakhs) and MPI i.e. 34,649 shares of Rs100 each (Rs34.65 lakhs) would be valued at Re.One per share was modified in July/October 1985 to the effect that it would be valued at 'Re.One' instead of 'Re.One per share'. It was also ordered (November 1985) that the loan and interest charge of Rs29.66 lakhs paid to MPI by the Company would be converted as shares to be issued to the Company. Based on this, MPI issued (January 1986) 45,564 shares of Rs100 each for Rs45,56,400 to the Company. The Board of Directors of the Company declined (February 1986) to accept these shares and requested MPI to cancel the allotment as such conversion was not in the interest of the Company. However, MPI had not cancelled the allotment so far (March 1995).

Based on the Government orders of March/April 1986, the Company transferred the shares held by it in MPI and in KAMCO to the State Government in January/ June 1986 respectively. But the Government of India which held 34.9 *per cent* shares in the Company objected to the transfer and insisted that the entire investment of the Company in these two subsidiaries should be

fully reimbursed. It also held that the unilateral decision of the State Government to terminate the subsidiary status by transfer of shares held by the Company to the State Government at nominal value was not acceptable. Though the Company took up (January 1989, March 1992 and November 1992) the matter with the State Government, the decision had not been modified so far (March 1995).

The transfer of shares without the consent of the share holders and prior to finalisation of the quantum of compensation, resulted in a loss of Rs1.98 crores to the Company towards share capital contribution (Rs1.52 crores) and loan (Rs0.46 crore). Further, as the Company is working on borrowed funds, the conversion of loan of Rs0.46 crore into equity without the Company's consent resulted in a loss of Rs1.61 crores by way of interest for the period from January 1986 to March 1995.

Management stated (May 1995) that it concurred with the audit observation.

2C.14.2. Purchase of accessories from the tiller manufacturer

In order to supply the accessories of power tillers, the Company was either fabricating them in its own units or resorting to purchase from outside parties. Under the dealership agreement, the Company was purchasing certain accessories from KAMCO also.

A review of the purchases made by the Company revealed that it purchased 2757 cage wheels during 1990-91 to 1994-95 (up to December 1994) from KAMCO at prices ranging between Rs1,892 in 1990-91 and Rs2,898 in 1994-95. During the same period, the Company purchased cage wheels of the same

specification from another supplier at the rates ranging between Rs1238 in 1990-91 and Rs1856 in 1993-94. Incidentally it was noticed that in July 1992, the Palakkad unit of the Company could fabricate a batch of 10 cage wheels at a cost of Rs1382 per set.

The extra expenditure on the purchase of 2757 cage wheels from KAMCO during the period from 1990-91 to 1994-95 at rates higher than the cost of purchase from other sources/fabrication, amounted to Rs16.69 lakhs.

Management stated (May 1995) that in terms of the agreement with KAMCO, the Company was bound to buy the accessories and spare parts from KAMCO. The reply is not tenable as it was noticed that the Company was manufacturing many accessories included in KAMCO's price list as standard accessories, and that there was no such restrictions in respect of dealership for items like tractors.

CONCLUSION

The foregoing paragraphs indicate :

- ineffective follow-up of debts in respect of hire purchase sales, leading to non-realisation of even the first instalment in respect of 98 cases involving Rs20.45 lakhs;
- unscientific storage of fruit pulp leading to spoilage of 281.97 tonnes of the stock valued at Rs6.26 lakhs;
- under utilisation of labour leading to payment of wages to idle labour;
- diversion of tillers under PMSP scheme to persons not covered under the scheme, necessitating alternate purchase

at higher cost resulting in an extra expenditure of Rs5.62 lakhs; and

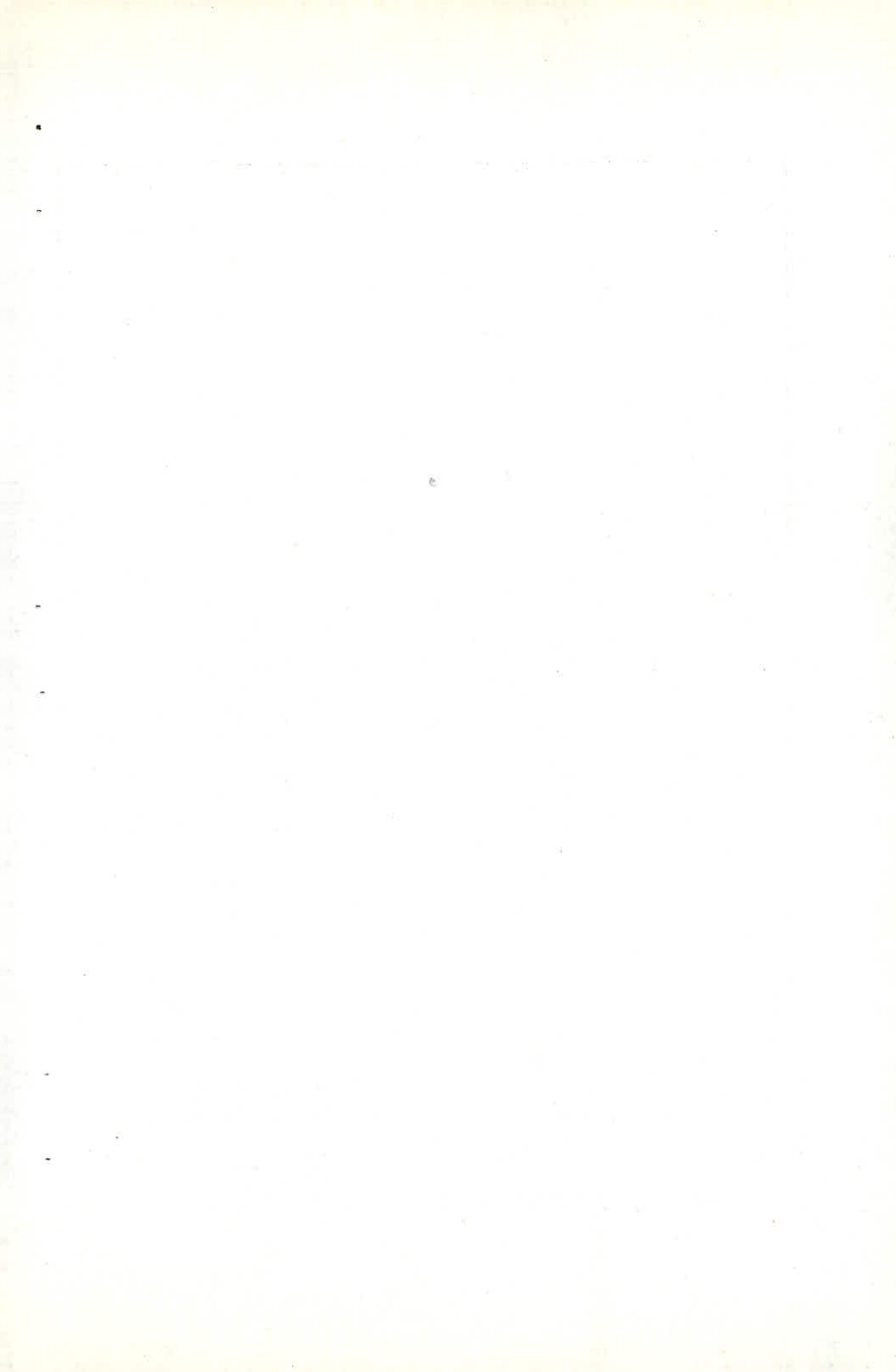
- purchase of accessories at higher cost resulting in an extra expenditure of Rs16.69 lakhs.
- The unilateral decision of the State Government to terminate the subsidiary status of KAMCO and MPI in which it had invested Rs117 lakhs and Rs34.65 lakhs respectively for a token consideration of Re.1 each was objected to by the Central Government which held 34.9 *per cent* shares in this Company. The issue remains unresolved for the last ten years
- Unless effective steps are taken to reduce the cost and to increase the turnover, the prospects of the Agro-Fruit Products becoming viable, is remote.

The above matters were reported to the Management and the State Government in June 1995; their reply had not been received (September 1995).

2.D. KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

Purchase of land for the establishment of nylon filament yarn project at Mylom

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**KERALA STATE INDUSTRIAL DEVELOPMENT
CORPORATION LIMITED**

**PURCHASE OF LAND FOR THE ESTABLISHMENT OF
NYLON FILAMENT YARN PROJECT AT MYLOM**

Highlights

On an understanding that one member of each family of the land owners, who voluntarily gave the land for the Nylon Filament Yarn Project, would be provided job in the Company, the land owners parted with their land at the rate of Rs1000 to Rs1200 per cent whereas according to the land records of the neighbouring lands, prices at that time were Rs1000 to Rs2000 per cent. The proposed project did not come up and hence the land owners were deprived of a reasonable price for the land and the job assured.

(Paragraph 2D.3)

The Company failed to protect its interest as no charge was created on the land in its favour before paying Rs20.87 lakhs for the land.

(Paragraph 2D.3)

The disposal of the land to a firm engaged in the construction of residential buildings at a price of Rs1726 per cent, against the prevailing rates of Rs4500 per cent for residential plots in the area resulted in a loss of Rs44.36 lakhs.

(Paragraph 2D.5)

2D.1. INTRODUCTION

Kerala State Industrial Development Corporation Limited (KSIDC) obtained (29 December 1971) a letter of intent from the Government of India for establishing a project for the manufacture of Nylon-6 Filament Yarn (NFY) having a capacity of 2100 tonnes per annum (TPA) at an estimated project cost of Rs15 crores. Attempts to find out a suitable co-promoter to implement the project did not materialise and the project was abandoned in March 1975 as the Government of India decided to review the whole industry. In August 1979, KSIDC applied for a revised licence for NFY project with a capacity of 15000 TPA at an estimated cost of Rs75 crores. As against this, the Government of India granted licence for 6000 TPA in April 1983.

A promotional agreement was thereupon entered into by KSIDC with SUNFLAG on 4 October 1983 according to which both the parties agreed that a company by name SUNFLAG Nylons Limited (SNL) shall be registered and the equity capital of the company shall be held by KSIDC (26 *per cent*), SUNFLAG (25 *per cent*) and Public (49 *per cent*). It was also agreed that till such time the shares earmarked for the public are raised, the contribution to the share capital shall be made by each party in the above proportion. In the promotional agreement, KSIDC was mentioned as "promoter" and SUNFLAG as "Co-promoter". But the subscribers to the Memorandum of Association of SNL did not include any nominees of KSIDC or SUNFLAG. The new company was formed with Rs70 as paid up capital contributed by seven signatories to the Memorandum of Association. Out of the seven signatories, four were employees of KSIDC and three were outsiders. They were holding the shares in their personal capacity and not as nominees of KSIDC.

2D.2. Implementation of the project According to KSIDC, after selection of SUNFLAG Group as the Co-promoter, a detailed market survey was undertaken by KSIDC regarding the future of Nylon Filament Yarn in India and it justified a capacity of about 4000 to 5000 tonnes per annum only. At this time, SUNFLAG was also interested in investing in a project in Kerala with investment of Rs50 to 60 crores only in view of their overall strategy in India. After considering various aspects, a project report was prepared for manufacture of 3830 TPA of NFY.

Though according to the promotional agreement, SUNFLAG was to prepare the detailed project report (DPR), KSIDC undertook this work and appointed Humphrey and Glasgow Private Limited, Bombay (April 1983) to prepare a project report. The detailed project report prepared for a capacity of 3830 TPA envisaged the project cost at Rs50.59 crores which was revised to Rs49 crores at the instance of financial institutions.

Detailed application for financial assistance was prepared and submitted to IDBI in May 1984. The consortium of National Financial Institutions (IDBI, IFCI, ICICI) appraised the application in detail and issued approval of financial assistance on 24 November 1984. The letter of intent issued by the Government of India in April 1983 was transferred to SNL in September 1984. While sanctioning the financial assistance, the consortium of National Financial Institutions led by IDBI insisted on obtaining "No objection certificate" from the Government of India to start a 3830 TPA capacity project. KSIDC took up the matter with the Government of India in January 1985. Accordingly, sanction was obtained from Government of India on 28 February 1985 for a capacity of 4000 TPA. The Government of India orders, inter-alia, included the condition that the project had to be completed and commercial production started within a period of two years from the date of issue of the industrial licences.

In view of the changing pattern of consumption of synthetic filament yarn, SNL felt (4 October 1985) that it would be better to manufacture Polyester Filament Yarn (PFY) rather than NFY. Consequently, the licence was got changed in January 1986 for manufacture of PFY of 15000 TPA capacity. SNL submitted revised proposals to the Financial institutions in January 1986. The revised project report thus prepared envisaged manufacture of 4875 TPA of PFY and the cost of the project at Rs49.60 crores. The revised proposals were rejected by IDBI in April 1986 stating that the viability of the project looked doubtful even on the basis of 100 per cent capacity utilisation. Further, the Government of India in its new broad banding policy had also indicated (September 1985) the economic size of such plants at 15000 TPA.

The project cost of 15000 TPA capacity PFY plant was estimated at Rs125 crores. But as SUNFLAG had expressed their inability to bring in additional funds, the project was not found feasible.

The Board of Directors of Sunflag Nylon Limited discussed this matter in the meeting held on 12 June 1986 and resolved as under :

“In the light of IDBI stipulation about minimum economic size and the inability of the co-promoter to fund a higher capacity plant, it is decided to drop the project of the company.”

2D.3. PURCHASE OF LAND

According to the promotional agreement entered into by KSIDC with SUNFLAG on 4 October 1983, the responsibility of selection and acquisition of land was that of SUNFLAG. However,

KSIDC undertook the job considering that SUNFLAG was a stranger to India as well as Kerala.

The work of identifying a suitable backward area for locating the project was entrusted by KSIDC to Kerala Industrial and Technical Consultancy Organisation (KITCO) and according to the report submitted by KITCO in October 1983, Nedumangad/ Neyyattinkara taluks in Thiruvananthapuram district were found to be most suitable for locating the project. According to KSIDC, several sites were considered by the project group of KSIDC and SUNFLAG and five sites were shortlisted taking into account the infrastructure facility, convenience of travel, etc. Of the five sites chosen by KSIDC, Mylom (in Nedumangad taluk) was found to be the most suitable for locating the project, and the report of KITCO who recommended a site at Mylom for establishing the project was received by KSIDC in January 1984.

Before acquiring the land at Mylom a meeting was convened in Taluk Office, Nedumangad on 14 March 1984 by the then Sub-Collector, Thiruvananthapuram in which the Tehsildar, Nedumangad and the land owners participated. There is nothing in the records of KSIDC to show that such a meeting was authorised by the Company. In that meeting, agreement was reached regarding fixing of purchase price of land through negotiation by Revenue Officials and the Sub-collector gave assurance of job to one member from each family, who voluntarily surrendered land to the project and this assurance was given by the Sub-collector on behalf of KSIDC.

Thus, the understanding on job was worked out by the Sub-collector himself which was later on ratified by the Chairman, KSIDC. The Chairman & Managing Director of KSIDC passed order on 23 June 1984 to honour the commitment made by the

Sub-collector. Accordingly, KSIDC wrote to all individual land owners on 23 June 1984 agreeing to provide suitable employment to each land owner/his nominee in the Company as a gesture of their co-operation in selling the land.

It was found that the value of various plots of land in the Mylom area at the time of acquisition of land by KSIDC was in the range of Rs1000 to Rs2000 per cent. However, the value paid by KSIDC for the land was Rs1000 (for 657.5 cents) and Rs1200 (for 941.5 cents) per cent.

Land measuring 15.99 acres was purchased through negotiation between June and October 1984 from 47 parties at Rs1200 per cent (941.5 cents) and at Rs1000 per cent (657.5 cents) and also an amount of Rs57,500 was paid towards compensation for structures. In addition, 20 cents of land was also purchased through acquisition for Rs33,725 as the owner was reluctant to part with his land. The total expenditure including registration, stamp duty and other charges was Rs20.87 lakhs.

In April 1984, a director of SNL informed the Chairman, KSIDC that their application to RBI was pending for necessary approval and as such it would take some more time for SUNFLAG to make their equity contribution to the capital of the Company. They requested KSIDC to advance necessary funds to cover the cost of land so as to avoid delay in the matter. KSIDC, accordingly incurred the entire expenditure of Rs20.87 lakhs on the acquisition of land for SNL which was, in effect, an interest-free and unsecured advance given to SNL.

2D.4. EXPENSES FOR THE PROJECT

The promotional agreement dated 4 October 1983 between KSIDC and SUNFLAG provided that the expenditure incurred by each party for promotion of the project, supported by audited statement of accounts, should be reimbursed by SNL to such extent as may be separately agreed upon between the parties. There was no separate agreement as to the nature of expenditure for which the KSIDC and SUNFLAG would be entitled for reimbursement.

According to the latest accounts available (for the year ended 31 March 1991), the SNL has shown current liabilities towards KSIDC and co-promoter (SUNFLAG) as Rs29.97 lakhs and Rs23.36 lakhs respectively. The details of these amounts could not be examined in Audit. It was, however, noticed in Audit that (i) the pre-incorporation expenses of Rs1.66 lakhs spent by KSIDC included Rs1.41 lakhs being foreign tour expenses of three KSIDC officials including its Managing Director to UK and Europe during 5 December to 20 December 1983 stated to be for selection and finalisation of technology tie-up of the project. Since the technology tie-up was the responsibility of SUNFLAG, the expenditure by KSIDC on this account was avoidable. Moreover, the foreign tours of the Managing Director required prior sanction of the State Government which was not obtained; (ii) the pre-incorporation expenses of Rs5.14 lakhs shown as spent by Sunflag Textiles Ltd. (STL) a member of SUNFLAG Group included rent (Rs1.69 lakhs); salaries (Rs0.91 lakh); postage, telephone, telex, etc., (Rs0.61 lakh); conveyance (Rs0.48 lakh), etc., for which no vouchers were available for verification in Audit. Thus the expenditure stated to have been incurred by STL on behalf of SNL prior to incorporation on rent, salaries, telephone, telex charges, etc., were without specific sanction of the Board of Directors of SNL.

2D.5. DISPOSAL OF LAND

In view of the decision not to go ahead with the implementation of Nylon Filament Yarn Project, the question of continuing the existence of the new Company (SNL) came up for consideration in a meeting of officials of KSIDC and SNL held in June 1990. Three alternatives were considered in the meeting i.e.,

(i) The KSIDC would take full possession of the land.

(ii) SNL would go in for voluntary liquidation and land would be purchased by KSIDC.

(iii) SNL would go in for voluntary liquidation and allow the liquidator to dispose of the assets by auction and the amount realised by the liquidator would be shared between KSIDC and SUNFLAG in proportion to their investment in the Company (SNL) on the date on which it was decided to abandon the project.

After discussion of the above alternatives, it was decided to proceed with the third alternative.

On 11 April 1991, KSIDC asked SUNFLAG to give a concrete proposal, in case they were interested in taking over the land. In response to this, SUNFLAG offered (17 May 1991) to purchase the land for Rs23 lakhs, which according to them was 10 to 15 *per cent* higher than the purchase price.

On the very next day (18 May 1991) of the receipt of the offer from SUNFLAG, the Managing Director, KSIDC offered this land to Industries Department at the price offered by SUNFLAG. Industries Department, however, vide its letter dated 2 July 1991 expressed its regret that it did not require the land. SNL gave time up to 28 February 1992 to SUNFLAG for finalising the settlement

on negotiation but no negotiation took place. Chairman, SNL informed his Board of Directors on 28 March 1992 that as the SUNFLAG could not come up with a firm offer, KSIDC had been negotiating with five other parties for better deals.

In the meanwhile, SUNFLAG inserted a sale notice in Malayala Manorama dated 20 December 1991 under the caption "Farm land for sale". The sale notice mentioned that the land (measuring 16 acres) was 12 km from Thiruvananthapuram, connected by local bus service and was also good for industry. 54 enquiries were received in response to the advertisement. The enquiries were in the nature of seeking clarification and asking for further details about the land. However, no offer in financial terms was received.

On 16 March 1992, Micro Abrasives (India) Ltd. (MAI) expressed their willingness to purchase the land for construction of a factory building and wanted KSIDC to intimate the fair price of the land. Subsequently, on 26 March 1992, they themselves offered a total sum of Rs25 lakhs for the land, stating that their offer was open for a period of 30 days.

To determine the fair price of the land as required by MAI, KSIDC requested (18 March 1992), the District Collector, Thiruvananthapuram to issue a valuation certificate. Accordingly, the Revenue Authorities (Village Officer and Tehsildar, Nedumangad and Deputy Collector and ADM, Thiruvananthapuram) intimated the valuation in respect of 15 acres 99 cents of land at Rs1000 per cent and the total value worked out to Rs15.99 lakhs.

The land value fixed by the Revenue Authorities was not kept confidential but this information was apparently leaked out

and MAI became aware of it. Thereafter, MAI informed KSIDC that they were not in a position to make an upward revision of the original offer of Rs25 lakhs.

On 27 April 1992, MAI withdrew the offer stating that the validity period had expired and their original offer of Rs25 lakhs was based on the information that the land value in the vicinity was Rs2 lakhs per acre whereas according to Revenue Officials, it was about Rs1 lakh per acre and as such the land in question was worth only a sum of Rs16 lakhs to Rs17 lakhs. MAI also desired to settle a fair price for the property based on the report of the concerned revenue officials. KSIDC vide letter dated 15 June 1992 stated that it was authorised by SNL and offered a final price of Rs24.90 lakhs besides registration charges and requested to confirm the acceptance on or before 25 June 1992 but no response was received from MAI.

Subsequent to the withdrawal of the offer of MAI, SUNFLAG issued another advertisement in Malayala Manorama on 11 October 1992 (second advertisement) for the disposal of land and received enquiries from 29 parties. However, detailed quotations were not available.

On 12 April 1993, the Managing Partner of Green Valley Builders (GVB) held discussion with the Chairman SNL about the purchase of the land. What transpired during the discussion was not available in the records of KSIDC. Following the discussion, GVB offered on 15 April 1993 to buy 15.95 acres (out of 16.19 acres) as availability of this much land was confirmed by SNL and this was also in consonance with the records of KSIDC according to GVB. GVB introduced themselves as builders and land developers and wanted the documents to be made in the names of purchasers or their nominees and a minimum period of 6 months

from the date of execution of the agreement to complete the total sale deeds. The Chairman of SNL accepted this offer verbally on 15 April 1993 itself and written acceptance was communicated on 17 April 1993. Subsequent to the acceptance of the offer, the matter was placed before the SNL Board on 20 April 1993. The Board approved the sale of land to GVB.

Agreement for the sale was executed with GVB on 22 April 1993 and GVB made an advance payment of Rs1 lakh to KSIDC on the same day by way of pay order drawn on Vijaya Bank, Thiruvananthapuram.

Subsequent to the execution of the agreement for sale, GVB inserted an advertisement in the local press regarding the sale of the said land and documents were registered in favour of 27 parties on 13 October 1993 (18 parties) and 18 October 1993 (9 parties) for 13.91 acres of land. The GVB had remitted Rs26.10 lakhs against which sale deeds have been executed in respect of 13.91 acres valued at Rs24.01 lakhs. The balance of Rs2.09 lakhs with SNL/KSIDC received as advance payment in respect of 2.26 acres of land could not be transferred to GVB owing to litigation.

GVB informed KSIDC in July 1994 that they were unable to take the possession of land even after protection of the police due to agitation by the previous sellers of land and counter statements from different corners. They also requested KSIDC to make the following arrangements within 15 days from the date of the letter.

(a) to give physical possession of land; or

(b) to repay the cost of land, damages incurred by them and other expenses incurred by them in the form of court fees, development of land, publicity, etc.; and

(c) in case the land was proposed to be taken back, arrangement should be made to register the land at the cost of SNL after making all payments mentioned at (b) above.

Further developments in this regard were not available in the records of KSIDC.

In this connection, the following points deserve mention:

The offer of GVB differed substantially from the other offers for the purchase of land, as in earlier case [Micro Abrasives (I) Ltd.] the land was to be used for industrial purposes, whereas the offer of GVB (Builders & Engineers) was to divide the area in different sizes of plots for building residential houses. Thus on the receipt of the offer from GVB, SNL should have got a fresh valuation of their land to be sold in plots. This was not done and the value offered was accepted without ensuring the reasonableness of the price.

During audit scrutiny it was noticed that according to the valuation certificate issued by the Tehsildar, Nedumangad on 4 August 1993 to one Karunakaran Nair for the sale of his land to Khadi Board (adjacent to SNL) at Aruvikkara Village the land value for small plots was Rs4500 per cent.

It was also noticed by Audit that the value was fixed (July 1990) by the Village Officer at Rs5000 per cent based on document No.449 of 1991, Survey No.653/1 and document No.450 of 1991, Survey No.653/1. Against this the value approved by the Tehsildar was Rs4500.

The value of land, therefore, can be taken as Rs4500 per cent and the total loss on the sale of 15.99 acres was Rs44.36 lakhs. On the actual sale of 13.91 acres, the loss on sale amounted to Rs38.59 lakhs.

CONCLUSION

A detailed examination of the transactions undertaken by KSIDC in connection with this project was conducted in Audit between September 1994 and January 1995. The results of such examination are brought out in the succeeding paragraphs.

SUNFLAG did not have adequate financial resource for setting up a project in view of the fact that when a proposal to set up a more profitable PFY project at an increased cost of Rs125 crores in the place of Rs50 crores for NFY project was considered, they backed out.

KSIDC was instrumental in acquiring land for SNL through the intervention of the Revenue Authorities of the State Government. According to the initial understanding reached by the Revenue Authorities with the land owners at Mylom, the land was to be made available to KSIDC at a rate decided by the Revenue officials through negotiations and one member each of the family of land owners who voluntarily gave the land would be provided job in the company according to their educational qualifications. On this understanding, the land owners agreed to part with their land at the rate of Rs1000 to Rs1200 per cent whereas according to the land records of the neighbouring lands, prices at that time were Rs1000 to Rs2000 per cent. The proposed Nylon Filament Yarn Factory did not come up but the land owners were deprived of a reasonable price for the land and jobs assured. They also failed to get back the land though the project did not come up.

As SNL was a public limited company in the private sector, in the absence of any shareholding by KSIDC, its contribution towards purchase of land became interest-free advance of Rs20.87 lakhs to SNL. Grant of interest-free advance to a private company was neither in accordance with the policy of KSIDC nor in its financial interest.

KSIDC failed to protect its interest, after paying Rs20.87 lakhs for land, by not creating a charge on the land in its favour. The conduct of SUNFLAG in the matter was also devoid of ethics. They persuaded Chairman, KSIDC to part with a large sum of money for meeting the cost of the purchase of land by making a misrepresentation about delay in clearance of application by RBI, when at that time, they had not even submitted their application to RBI.

Obviously, the land owners settled for a lower price because of intervention by the Revenue Department and assurance of job given. When it was decided to abandon the project, both KSIDC and SNL completely forgot about their promise. In the ordinary course, it would have been proper to offer the land to the original land owners for buy back since their assurance of job could not be kept. Neither KSIDC nor the SNL thought of doing so.

A voluntary offer of GVB, who offered an average price of Rs1726 per cent in April 1993, was accepted based on the price of Rs1000 per cent obtained from the revenue authorities in April 1992. It was, however, noticed that the rates for residential plots in the area even according to land records in 1991 was Rs4500 per cent. By not disposing of the land in accordance with the established practice of inviting offers, the Company lost the opportunity of getting a much higher price.

The total loss to the Company on the sale of 15.99 acres (at the rate of Rs4500 per cent) amounted to Rs44.36 lakhs.

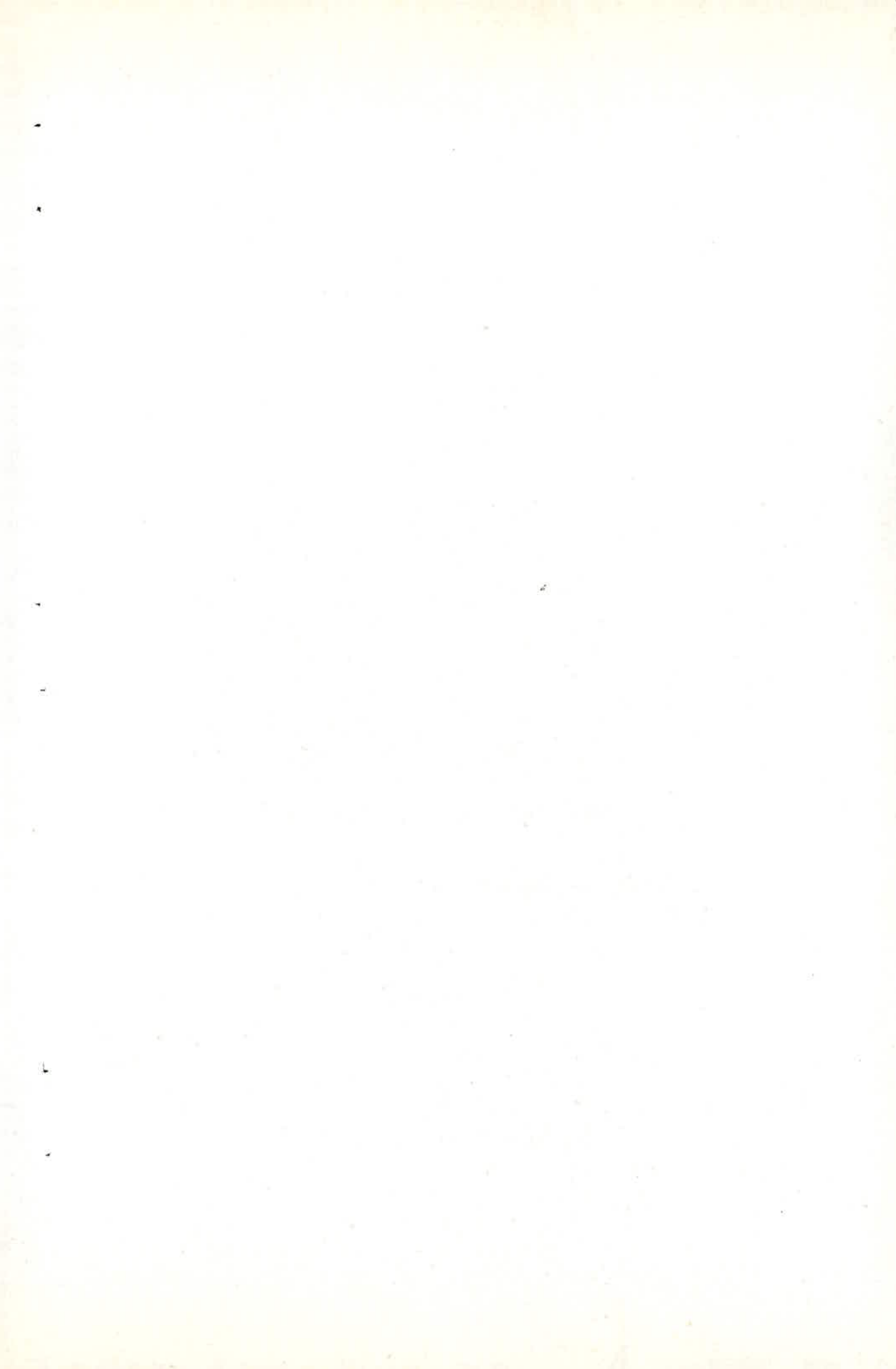
These matters were reported to the Management and Government in July 1995; their replies had not been received (September 1995).

Chapter - III

REVIEW RELATING TO STATUTORY CORPORATIONS

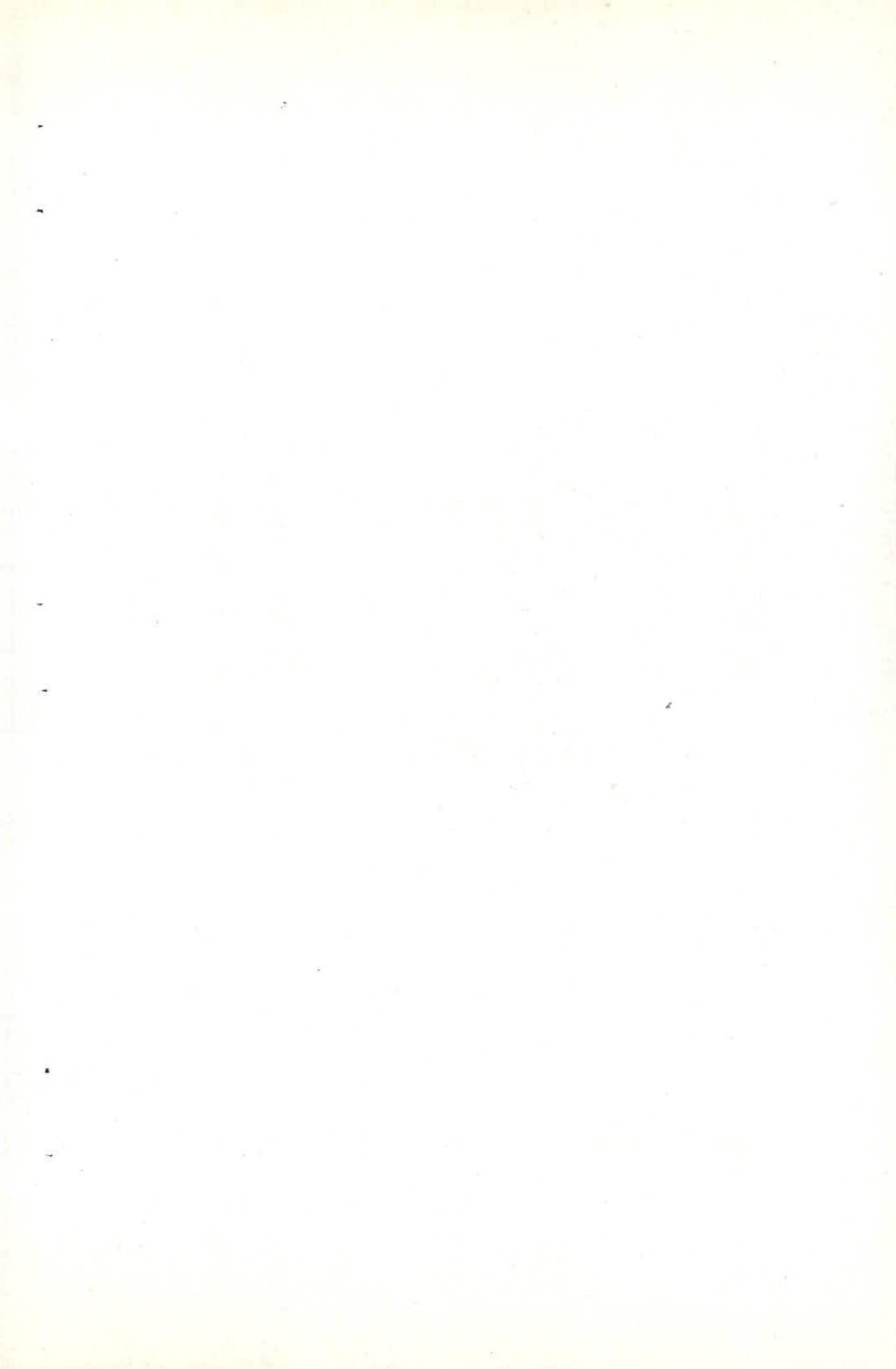
This chapter contains review on the following topic:

- 3A. Kerala State Electricity Board - Implementation of Kakkad
hydro - electric project**



KERALA STATE ELECTRICITY BOARD
IMPLEMENTATION OF KAKKAD HYDRO-ELECTRIC PROJECT

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2
KERALA STATE ELECTRICITY BOARD

IMPLEMENTATION OF KAKKAD HYDRO-ELECTRIC PROJECT

Highlights

The Kakkad Hydro-electric project approved by the Planning Commission in 1976 was originally scheduled to be completed at a cost of Rs18.60 crores in 1985. The project is lagging far behind schedule. According to the estimation of 1993, the Project would be commissioned only in December 1996 at a cost of Rs98.69 crores. Apart from the cost over-run of Rs80.09 crores, the delay in completion of the project by over ten years would entail a loss of revenue of Rs155.71 crores.

(Paragraphs 3A.1, 3A.5 and 3A. 8)

On account of the delay in the supply of drawings and providing facilities to the contractor, there was delay of over 30 months in the completion of the dams at Moozhia and Veluthodu necessitating payment of escalation of Rs27.35 lakhs to the contractor. The Board also suffered a loss of Rs 51.81 lakhs by way of interest due to delay in the commencement of recovery of the ad-hoc advance given to the contractor.

(Paragraph 3A.6.1)

The original contract for the inter connecting(IC) tunnel and the power tunnel was terminated in June 1981 as the contractor stopped the work due to labour problems. Though the Board got an award for compensation of Rs327.29 lakhs as a result of arbitration, the same could not be enforced by the Board as the contractor had alienated his landed properties.

(Paragraph 3A.6.2.1)

On account of agreeing to compensate the contractors for wage revision granted by them to their labourers and rate revisions which were outside the scope of the agreement, the Board had to incur avoidable payment aggregating Rs151.60 lakhs in respect of IC tunnel and Rs179.19 lakhs in respect of power tunnel.

[Paragraphs 3A.6.2.2 and 3A.6.3.1(a)]

Though the expenditure on providing sidings in the tunnel for parking tipping wagons was to be borne by the contractors, the Board allowed the same as extra item involving an additional expenditure of Rs20.49 lakhs up to December 1994.

[Paragraphs 3A.6.2.2(c)(iii) and 3A.6.3.1(b)(iv)]

On account of waiver of interest on advances paid to the contractors of IC tunnel and power tunnel, the Board suffered a loss of Rs79.02 lakhs up to December 1994.

[Paragraphs 3A.6.2.2(d) and 3A.6.3.1(b)]

The extra expenditure to the Board due to granting cost escalations for the period of delay in completion of the power tunnel, amounted to Rs90.60 lakhs up to December 1994.

[Paragraph 3A.6.3.1(b)(v)]

The action of the Board in taking away a portion of the work (485 metres) of driving and concreting the power tunnel from a contractor and entrusting it to another contractor necessitated payment of enhancement in rates involving an extra expenditure of Rs36.79 lakhs.

[Paragraph 3A.6.3.1(c)]

For driving and concreting a link tunnel of 250 metres, which was entrusted as an extra item, the Board agreed for enhancement in the rates, involving an extra contractual liability of Rs28.58 lakhs.

[Paragraph 3A.6.3.1(c)]

The Board without inviting tenders awarded the work of lining the portion of power tunnel which was left out of the main work of driving and concreting the power tunnel to a contractor who was doing the work of lining of surge shaft and pressure shaft as an extra item at higher rates resulting in extension of undue benefit of Rs42.89 lakhs to the contractor.

(Paragraph 3A.6.4)

The contractor for the work of concrete lining to the surge shaft and pressure shaft was granted an increase in the agreed rates amounting to Rs265.64 lakhs up to December 1994 for various items of work which was beyond the terms of the contract.

(Paragraph 3A.6.5.2.2)

One of the generating sets purchased for the project was damaged in a fire accident during erection in October 1992 and the Board decided to repair it at a cost of Rs106 lakhs after about 30 months.

(Paragraph 3A.7.1)

3A.1. INTRODUCTION

A Project Report for a hydro-electric project for generating 262 million units of power per annum utilising the tail-race water of Sabarigiri Power House and the water available from the free catchment of Kakkad river in the Pamba basin was approved by the Board in 1973. The Project Report as revised (1975) was approved by the Planning Commission in 1976, and sanctioned by the Central Electricity Authority in August 1980.

The project envisaged (i) a masonry straight gravity dam across the river Moozhiar; (ii) an earth-cum-rock filled dam across Veluthodu; (iii) 2921 metre long unlined inter connecting tunnel, (iv) 7657.4 metre long power tunnel; (v) surge shaft, unlined tunnel and a steel-lined 106 metre long inclined pressure shaft and an overground power house to house 2 generators of 25 MW capacity each. The project which was started in March 1979 and expected to be commissioned in 1985 was yet to be completed (March 1995).

3A.2. ORGANISATIONAL SET-UP

For implementing the project, two Civil Divisions were formed at Seethathodu under the supervision of the Dy. Chief Engineer, Civil circle at Pallom (subsequently transferred to Kottarakkara). The civil works are under the overall supervision of the Chief Engineer (Civil), South in the Board office at Thiruvananthapuram. For erection of the machinery, an Erection Division was formed at Seethathodu under the supervision of Dy. Chief Engineer (Generation), Moozhiar.

3A.3. AUDIT COVERAGE

This review conducted from December 1994 to April 1995 brings out the irregularities and inefficiency in the implementation of the Project. The points noticed are discussed in the following paragraphs:

3A.4. PROGRESS OF WORK

The table below indicates the physical progress of completion in respect of major items of work:

(a) Completed works

Item of work	Scheduled date of completion	Revised date of completion	Actual date of completion	Extent of delay
(Months)				
Construction of dam				
Moozhiair	January 1988	Not available	September 1990	32
Veluthode	July 1987	Not available	April 1990	33
Inter connecting tunnel driving	November 1983	May 1987	September 1990	40
Power tunnel driving	April 1984	September 1989	September 1990	12
Surge shaft and power shaft driving	May 1987	Not available	July 1990	39

The main reasons for the delay in completion attributed by the Board (February 1989) were :

(i) failure to supply the construction drawings in time by the Board to the contractors;

(ii) inordinate delay in commencing the excavation work on account of delay in ascertaining the strength of the foundation after studying rock structure;

(iii) slackness on the part of the contractor to carry out the work in right earnest;

(iv) non-fulfillment of departmental obligations, viz., providing uninterrupted power supply, motorable roads, etc.

The Board had not analysed the extent of the delay that could be attributed to controllable factors.

In case the drawings were finalised before inviting tenders and supplied to the contractors in time, the delay on that score could have been avoided.

Similarly, the Board had discouraging experience in the past in the construction of masonry dams and was aware that in the case of concrete dams, the construction could be mechanised to a large extent. Even then, while preparing the project report, construction of masonry dam was originally envisaged. The subsequent change of design to concrete dams led to avoidable delay of over 40 months in the commencement of construction.

Further, before tendering, the Board was aware of its obligations as regards supply of uninterrupted power, provision of motorable roads for transportation of heavy machinery and materials, supply of air, etc. Failure to meet these obligations led to delay in completion of works.

(b) Works pending completion

Item of work	Scheduled date of completion	Revised date of completion	Percentage of completion as at the end of March 1995	Reasons attributed by the Board for the delay	
Inter connecting tunnel lining:					
- Invert	November 1983	May 1987	90.1	Labour strike, power failure, etc.	
- Overt	November 1983	May 1987	57.0		
Power tunnel lining:					
- Invert	April 1984	September 1989	81.3	-do-	
- Overt	April 1984	September 1989	58.6		
Surge shaft and power shaft					
- Concreting	February 1991	Not fixed	95.7	Delay in handing over site, labour strike, change in estimated quantity, etc.	
Power house					
- Excavation	December 1986	Not fixed	96.7		
- Concreting	December 1986	Not fixed	90.3		

In addition to the above mentioned factors for delay, it was observed in Audit that frequent changes in design, frequent labour strikes and delay in taking decision by the Board on the requests made by the contractors demanding escalation in agreed rates also contributed for the delay.

The failure of the Board, to execute the works in time, resulted in the project being delayed by 10 years and the State could not derive the benefit of additional power of 50 MW for the period.

3A.5. COST ESCALATION

The outlay of the project sanctioned in 1973 was Rs1860 lakhs. The estimate was revised in 1987 to Rs6690 lakhs and again in 1993 to Rs9869 lakhs by the Chief Engineer (Civil); but these revised estimates have not been sanctioned by the Board/Government/Central Electricity Authority. The original estimate and revised estimates under major heads of work were as shown below:

Major heading of work		Original Estimate 1973	Revised Estimate 1987	Revised Estimate 1993	Percentage of increase of 1993 estimate over original estimate
(Rupees in lakhs)					
I.	Civil works:				
	a) Preliminaries	10	70	70	600
	b) Land	5	39	55	1000
	c) Works	880	4026	5637	541
II.	Electrical works	825	NA	2544	208
III.	Establishment charges:				
	On civil works	72	517	1400	1844
	On electrical works	66	NA	70	6
IV.	Tools & plants	17	NA	51	200
V.	Suspense			60	
VI.	Indirect charges	20	NA	62	210
VII.	Receipt/ Recoveries	(-35)	NA	(-80)	129
TOTAL		1860	6690	9869	431

A bar chart indicating the steep increase in the cost of various components is given in Figure-7.

KERALA STATE ELECTRICITY BOARD

KAKKAD HYDRO ELECTRIC PROJECT

Increase in project cost

Revised Estimate

(1993)

Rs9869 Lakhs

Civil works

(Rupees in lakhs)

Electrical works

Estt., T&P and
other charges

Original Estimate
(1973)

Rs1860 Lakhs

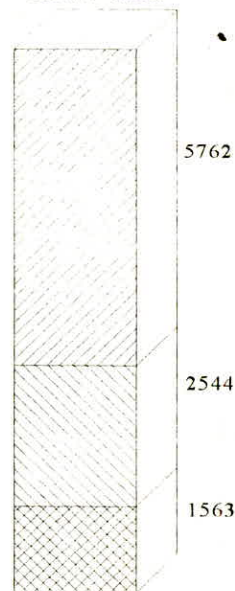


Figure - 7
(Refer paragraph 3A.5.)

The reasons for the first revision of the estimates in 1987 were not intimated to Audit, though called for in April 1995. As regards the second revision of rates in 1993, the Board attributed that it was due to increase in the cost of labour and materials, on account of time over run and increase in quantities under various items owing to changes in design.

It was noticed in Audit that the increase in the cost of establishment by 1844 *per cent* was mainly due to deployment of full strength of staff despite slow progress of work.

The actual expenditure incurred up to 1994-95 was Rs 10,599 lakhs, as detailed below:

	<u>Item</u>	<u>Rupees in lakhs</u>
1.	Land	36.36
2.	Buildings	13.03
3.	Hydraulic works	7,719.99
4.	Other civil works	926.28
5.	Plant and machinery	1,858.66
6.	Line cable net works	28.91
7.	Vehicles	9.22
8.	Furniture and fixtures	3.36
9.	Other equipments	3.12
	Total	<u>10,598.93</u>

The Board had neither accounted the actual expenditure against the broad headings under the estimates nor analysed the reasons for the variance.

3A.6. CIVIL WORKS

3A.6.1. Construction of dams

Tenders were floated for the construction of dams in October 1980. The offers received were not acceptable and were retendered three times during October 1980 to 1984. In the fourth retender the work was awarded in December 1984 to Hindustan Construction Company (HCC) the only contractor found to be qualified by the Board at 120 per cent above estimates accepting 15 special conditions, which included payment for increase in cost of labour, materials and petrol, oil and lubricants and extension of time for completion of work due to reasons beyond the control of the contractor. It was observed in Audit as under :

(i) Though the Chief Engineer (Civil) had recommended after the third retender the acceptance of the lowest tender which was 75 per cent above the estimates, the Board considered the rate to be on the high side and decided (March 1984) to retender the work once again anticipating better offers. But this was not achieved and the Board had to accept a higher rate of 120 per cent above the estimated rates.

(ii) In the second and third retenders, one tenderer (K.Kuriakose) was found to be qualified and HCC did not quote at that time. But in the fourth retender, the same tenderer was found not qualified on the grounds that he furnished particulars relating to financial aspects in the name of a firm, while the tender was in his individual capacity; he had not produced the profit and loss account and balance sheet relating to him; and that the tools and plant items at his disposal were inadequate.

(iii) The Board took almost four years to finalise the contract for construction of the dams during which period the cost of labour and materials escalated.

According to the agreement dated 7 January 1985, the Veluthodu and Moozhiair dams were to be completed within 30 months and 36 months respectively, i.e., Veluthodu dam by 6 July 1987 and Moozhiair dam by 6 January 1988. Though the Board had awarded the work to HCC at high rates holding the view that only they could execute the work in time, the latter could not complete the work according to schedule. The Veluthodu dam was completed only in April 1990 and the Moozhiair dam in September 1990. The delay of over 30 months in completion of dams was due to the failure of the Board in supplying construction drawings in time giving uninterrupted power supply, provision of motorable roads and bridges and the slackness on the part of the contractor in the execution of the work.

The delay in completing the work had resulted in payment of escalation due to increase in cost of labour, material and petrol, oil and lubricants as envisaged in the agreement. The total escalation payments made beyond the scheduled dates of completion amounted to Rs13.34 lakhs and Rs14.01 lakhs for Veluthodu and Moozhiair dams respectively. It was noticed in Audit that the agreement with the contractor provided for payment of escalation on work done including the value of material supplied departmentally. As the escalation in the cost of materials supplied departmentally was already borne by the Board, the payment of escalation to the contractor on the value of material supplied departmentally was an unusual concession extended to the contractor and the payment on this account was Rs9.31 lakhs (i.e., Rs2.23 lakhs in respect of Veluthodu dam and Rs7.08 lakhs in respect of Moozhiair dam). Incidentally, it was noticed in Audit that in respect of other works such as construction of tunnel and surge and pressure shafts, the

escalation provided was excluding the value of materials supplied departmentally.

The following points were noticed in the execution of the contract:

(a) According to the agreement, the Board paid adhoc advances equivalent to 15 *per cent* of the Probable Amount of Contract (PAC), amounting to Rs21.21 lakhs in respect of Veluthodu and Rs70.15 lakhs in respect of Moozhiair dam to HCC between February 1985 and February 1986. Simple interest at 18.5 *per cent* was recoverable on the advance but the agreement limited the amount of interest so recoverable to Rs3 lakhs and Rs7 lakhs in respect of the Veluthodu and Moozhiair dams respectively for the entire period of contract. Further, according to the agreement, the recovery of principal would start only after 10 *per cent* of the work was completed. The contractor took 22 months and 38 months to complete 10 *per cent* of work in respect of Veluthodu and Moozhiair dam respectively. Non-fixation of any time limit in the agreement for completion of 10 *per cent* of the work and non-inclusion of a clause in the agreement to the effect that timely completion of work as a prerequisite for the concession in interest, resulted in delayed commencement of recovery of principal and consequent loss of interest of Rs51.81 lakhs (Rs14.26 lakhs for Veluthodu dam and Rs37.55 lakhs for Moozhiair dam).

(b) The Board procured a 150mm diameter disperser valve for outlet in Moozhiair dam at a total cost of Rs13.78 lakhs from Fouress Engineering (India) Ltd., Bangalore during September 1990. The equipment has not been erected so far (February 1995) as the tunneling work was not completed and storage of water in the reservoir not started. The guarantee period of the valve had expired in April 1992. The procurement of the item, (lead time of which was only 12 months)

much in advance of erection has resulted in locking up of capital from October 1990 and interest loss amounting to Rs11.26 lakhs up to February 1995.

3A.6.2. Construction of water conductor system

3A.6.2.1. The water conductor system consists of an inter-connecting tunnel, a power tunnel, surge shaft and pressure shaft.

The work of constructing the inter connecting tunnel and power tunnel was initially awarded in February 1980 at a total cost of Rs492.27 lakhs on the basis of tenders floated in March 1979. The construction of the inter connecting tunnel and power tunnel was to be completed in November 1983 and April 1984 respectively. The pace of progress of the work was very slow and the contractor carried out only 2 per cent of the work in the first sixteen months. The work came to a standstill in February 1981 due to labour problem. Despite notices issued by the Board, the work was not resumed and therefore, the contract was terminated in June 1981. The contractor went for litigation against the termination of the contract and in April 1992 the Board got an award for Rs327.29 lakhs as compensation in arbitration, but the same could not be enforced as the contractor had alienated his landed properties by then. The Board could encash a bank guarantee of Rs22 lakhs only so far (March 1995).

3A.6.2.2. Construction of inter-connecting tunnel

The balance work of the inter-connecting tunnel was awarded (November 1983) to C.V.George at his quoted rate of 108 per cent above the estimate (Rs137.79 lakhs). The time for completion was fixed as 42 months from the date of agreement, i.e., 5 December 1983.

The following points were noticed in this connection:

(a) **Slow progress of work**

The work was stopped from October 1985 to October 1986, June 1988 to October 1988 and from September 1990 to January 1992 due to labour strike. In November 1992 the Board entered into a settlement with the contractor with a view to completing the work by April 1995 according to which a monthly target of 325 metres per face for floor concreting and 130 metres per face for concreting sides and arches were fixed for the contractor. This was in the place of the target of 750 metres and 230 metres according to the agreement. A non-recoverable remobilisation incentive of Rs5 lakhs and a non-recoverable incentive advance of Rs10 lakhs (recoverable with interest @ 18.5 per cent if the contractor failed to achieve the targets) were paid to the contractor in November 1992. In the case of shortfall in achievement, penalty at the rate of Rs50 per metre for floor concreting and Rs100 per metre for sides and arches was recoverable. Even though the contractor failed to achieve the targets and penalty of Rs3.39 lakhs was recoverable from him for the period up to 15 November 1994, only a token amount of Rs25,000 was recovered (August 1994) which was kept in deposit. The advance of Rs10 lakhs was not recovered according to the settlement and the interest thereon not recovered amounted to Rs3.91 lakhs up to December 1994. The payment of Rs5 lakhs as remobilisation incentive also turned out to be infructuous as the contractor failed to achieve the targets.

(b) **Revision of agreement rates**

(i) According to clause E1.033 of general condition of contract and instructions to contractors forming part of the agreement, the Board took no responsibility on liability due to conciliation of disputes between the contractor and his labourers. Despite this clause, the Board agreed

(April 1989) to bear a part of the liabilities the contractor had to bear as a result of the long term settlement of November 1988 concluded between him and the labourers for ending the strike. The take over of the additional liability of the contractor without a clause to the effect in the agreement with the contractor resulted in an avoidable payment of Rs30.87 lakhs up to August 1994.

(ii) According to another clause in the agreement, the rates accepted would hold good during the period or any extended period of the contract and no revision on any ground or reason could be allowed.

However, the originally agreed rates were revised 3 times upward up to March 1995. In February 1989, the rates were revised giving a 50 *per cent* increase in the rates for the works executed after October 1986 and up to March 1989. From April 1989, a further revision of 15 *per cent* for works executed from April 1989 to September 1990 and a further 35 *per cent* for works executed from October 1990 onwards was given. The extra expenditure due to these enhancements in rates worked out to Rs100.62 lakhs so far (December 1994).

(c) Revision of rates for extra items

(i) The Board had awarded certain extra items of work to the contractor and according to the supplementary agreements entered into the rates fixed were firm during the currency of the contract including extensions granted. Certain other extra items were also entrusted to the contractor on adhoc basis by the Chief Engineer without executing any agreement after fixing the rates. But the enhancement of rates given for the original agreement items referred to under sub paragraph 3A.6.2.2(b) were extended to all these extra items also which involved an extra expenditure of Rs16.42 lakhs (up to August 1994).

(ii) An amount of Rs3.69 lakhs was paid on extra items on account of taking over a part of the contractors' liability as explained in paragraph 3A.6.2.2(b)(i).

(iii) The contractor was allowed to claim the expenditure on providing sidings in the tunnel to facilitate parking of tipping wagons as an extra item for which no agreement was executed even though this had to be done at his own expense by the contractor. The extra expenditure incurred thereon amounted to Rs9.71 lakhs (August 1994).

(d) Waiver of interest on advances

(i) In terms of the agreement, the contractor was paid Rs23.96 lakhs as advance during the period from February 1984 to July 1985 at the interest rate of 18 *per cent*. The interest recoverable amounting to Rs1.50 lakhs for the period from February to November 1992 when the contractor refused to resume the work [after the strike (September 1990 to January 1992)] was waived by the Board extending an undue concession to the contractor. The Board's contention (August 1995) that the waiver of interest on advance for the period was an item agreed to in the settlement with the contractor is not tenable as according to the Board's instruction (December 1988), interest on advances was not to be levied only for stoppage of work for reasons beyond the control of the contractor. In the instant case, the contractor refused to resume the work which cannot be considered as beyond his control.

(ii) An interest free advance of Rs7 lakhs was sanctioned (February 1993) to the contractor to enable him to expedite the work which was affected by rains and floods from July 1992 to November 1992. Eventhough the amount was recoverable in easy instalments, only a sum of Rs1 lakh was so far recovered (August 1994). The contractor did not achieve the targets fixed in November 1992 and as such the interest free advance sanctioned did not serve the purpose.

Apart from losing interest of Rs3.51 lakhs on the above advance (December 1994) calculated at 18 *per cent* per annum, the Board also did not recover the penalty of Rs3.14 lakhs due to non-achievement of targets in terms of the penalty clause in the supplementary agreement executed with the contractor.

(iii) Premature release of the retention amount (Rs25 lakhs) recovered from the running bills of the contractor on 3 occasions against bank guarantee/ hypothecation of machinery resulted in undue benefit to the contractor and loss of Rs22.48 lakhs by way of interest (up to December 1994).

(e) **Excess consumption of cement**

There was an excess issue of 490 tonnes of cement for concreting the inter connecting tunnel based on the data provision of 300 kg of cement per cubic metre of concrete. It was observed in Audit that the cement content was fixed on adhoc-basis from time to time without being supported by the test results obtained from the Cement Concrete Laboratory and the deviation from the data provision resulted in an extra expenditure of Rs10.77 lakhs being the value of 499 tonnes of cement used in excess. The actual consumption of cement varied between 330 kg and 400 kg per cubic metre during the period from November 1992 to December 1994.

3A.6.3. Construction of power tunnel

3A.6.3.1. After termination of the initial contract for inter-connecting tunnel and power tunnel, the balance works of power tunnel were awarded to CS & Co., Kottayam at a cost of Rs557.21 lakhs. The due date for completion of the work was fixed as 45 months from the date of the agreement i.e., 12 May 1983. But as the contractor delayed the commencement of work and did not show sufficient progress even thereafter, the contract was terminated in August 1984. The suit filed by the

contractor in the Sub-Court, Thiruvananthapuram challenging the termination is pending disposal (March 1995).

The estimate for the balance work of power tunnel was revised to Rs600 lakhs and awarded to 3 parties as shown below at 118.5 per cent above estimates (less cost of departmental materials) with special conditions having a maximum financial implication of 11.6 per cent of PAC:

	Name	Percentage of works	Value of contract (Rs. in lakhs.)	Due date for completion
1.	R J Shaw and Co.(RJS)	46	491.52	27.9.1989
2.	Paily Pillai and Sons (PPS)	34	353.95	12.4.1989
3.	Hydro-Power Construction (HPC)	20	200.93	28.8.1989

Though all the works were to be completed by the end of September 1989, only driving of tunnel (construction of tunnel excluding concrete lining) was completed and concrete lining of the tunnel was lagging far behind as shown below:

Name of contractor	Invert concreting			Overt concreting		
	Total	Completed	Balance as on 31.12.94	Total	Completed	Balance as on 31.12.94
	(Metres)					
RJS	2885	2851	34	2885	1672	1213
PPS	3176	2216	960	3176	1044	2132
HPC	1669	1383	286	1669	1384	285

Frequent labour troubles necessitating stoppage of work for long periods was the main reason for the slow progress. According to the work programme agreed to by the contractors, the work had to be completed by RJS on 30 April 1995, by PPS on 31 January 1996 and HPC on 31 March 1995. All the three works are still in progress (August 1995).

The following points were noticed in the execution of the contract.

(a) **Revision of agreement rates**

(i) The workers' strike from June 1988 to November 1988 and from September 1990 to August 1991 affected this work.

After the settlement of the strike (November 1988) the Board agreed, as in the case of the interconnecting tunnel contract, to bear a portion of extra cost to the contractors to an extent of 0.09588 part of the value of work by way of "contractual adjustment of liabilities", though the additional expenditure as a result of conciliation settlement was to be borne by the contractors. The extra expenditure incurred by the Board up to December 1994 on this account amounted to Rs67.70 lakhs. This included a sum of Rs10.41 lakhs on the cost of departmental material used even though the contractors did not incur any expense in its procurement. The payment on account of contractual adjustment of liability was extended to extra items also and this resulted in an extra payment of Rs4.95 lakhs.

(ii) According to the agreement entered into with the contractors, the rates once agreed were to remain firm during the currency of the contract, including extensions granted. However, after the settlement of the strike during 1990-91, the Board agreed, as in the case of the inter-connecting tunnel contract, for a 15 *per cent* increase

in the agreed rates in respect of works executed between the date of completion as per the original agreement and 31 October 1990 and a 35 *per cent* increase thereafter. The additional financial burden to the Board on this account amounted to Rs106.54 lakhs up to December 1994.

(b) **Waiver/Non-recovery of interest on advances, etc., and other benefits**

(i) According to the original agreement, mobilisation advances given to the contractors were to be charged simple interest at 9 *per cent* till the date stipulated for completion and on the balance outstanding at 18.5 *per cent*. When the contractors failed to complete the work within the stipulated time, interest was continued to be charged at 9 *per cent*. The loss of interest on this account amounted to Rs5.24 lakhs up to December 1994 (RJS: Rs2.34 lakhs, PPS: Rs2.12 lakhs and HPC: Rs0.78 lakh).

(ii) The retention amounts recovered from the contractors' bills, which were refundable only on completion of the works, were refunded prematurely against bank guarantee/ hypothecation of machinery resulting in an interest loss of Rs32.26 lakhs (up to December 1994) (RJS Rs8.93 lakhs, PPS Rs18.12 lakhs and HPC Rs5.21 lakhs).

(iii) After the labour strike during 1990-91, in order to expedite the pace of work, revised targets for concreting the tunnel were fixed on the lines of the interconnecting tunnel contract. Remobilisation advances (not recoverable) at Rs5 lakhs each (total Rs15 lakhs) and incentive of Rs10 lakhs each (total Rs30 lakhs) were also paid. The targets to be achieved and the penalty for non-achievement were the same as for interconnecting tunnel contract. The incentive of Rs10 lakhs was recoverable with 18.5 *per cent* interest if the targets were not achieved. Even though none of the contractors could achieve the targets, the incentive amounts have not been recovered. The interest not

recovered on the amounts worked out to Rs11.78 lakhs (up to December 1994). Penalty for shortfall in achievement amounting to Rs6.30 lakhs up to December 1994 was also not recovered.

(iv) The contractors were allowed to claim the expenditure on providing sidings in the tunnel to facilitate parking of tipping wagons as an extra item even though as per the contract, this had to be done at their own expense by the contractors. The expenditure on this amounted to Rs10.78 lakhs (RJS-Rs3.60 lakhs, PPS-Rs4.19 lakhs and HPC-Rs2.99 lakhs).

(v) In addition to the above increase in rates, cost escalation (based on cost of living index) amounting to Rs90.60 lakhs was also paid to the contractor up to December 1994 in respect of the period of delay in completion of the work.

(vi) On account of delay in completion of the tunnel, the cost of cement went up; which had to be borne by the Board. The extra expenditure on this account worked out to Rs87.90 lakhs.

(c) Additional concessions to PPS

The contractor PPS was entrusted with the driving and concreting of 485 metres of tunnel from Adit V to IV (originally given to RJS) in lieu of 119 metres tunnel towards surge shaft (given to another contractor). The demand of the contractor for an additional rate in view of the additional quantities was turned down by the Board initially, as no extra rate due to change in quantity of length of tunnel was payable according to agreement. However, after detailed deliberations/meetings with the contractor, he was allowed (May 1993) additional service charges amounting to Rs17.12 lakhs for driving and Rs19.67 lakhs for concreting this portion of the tunnel. As RJS to whom the work was originally entrusted had not expressed their inability to carry out this

portion of the work, the execution of the same through another contractor paying extra rates was not justifiable.

Mention was made in para 4.2.1.3 of the Report of the Comptroller & Auditor General of India for the year ended 31 March 1992 (Commercial) about extra-liability of Rs54.65 lakhs for driving and concrete lining of a link tunnel due to defective alignment of power tunnel. For driving and concreting this link tunnel of 250 metres which was entrusted to PPS as an extra item, further enhancement in the originally agreed rates were sanctioned involving an additional financial commitment of Rs28.58 lakhs.

3A.6.4. Power tunnel-driving and concreting of balance portion

The main work of driving and concreting power tunnel was given to three contractors as mentioned above. 117 metres of tunnel driving towards Adit V left out from the above contracts was got done through P.N. Sankaran Nair, contractor for driving surge shaft and pressure shaft without inviting tenders as an extra-item. 119 metres of tunnel driving taken away from the purview of the contract with PPS was also entrusted with this contractor. Sankaran Nair completed the driving in January, 1990.

In February 1990, T O Abraham & Co., the contractor for the lining of Surge shaft and Pressure shaft came forward to do the work of lining the power tunnel driven by Sankaran Nair. Further, in May 1990, they expressed their willingness to execute the work at the rates payable to PPS (who was doing lining work for power tunnel). In response to a request of the Board, the contractors quoted their rates in October 1990 which were slightly lower than that of PPS. The Board did not respond to this till November 1991, when the contractors intimated that they were willing to undertake the work at the rates agreed to for concreting the pressure shaft which was higher than those of

PPS. In February 1992, the Board awarded the work to T.O. Abraham & Co. at this rate, resulting in an extra expenditure of Rs10.33 lakhs when compared to their initial offer. It was noticed in Audit that the Board did not call for fresh tenders before awarding the work at the higher rates. The award of the work to the contractors at higher rates without inviting fresh tenders lacked justification.

The works were completed and payments were made at the agreed rates. However, in August 1993 the contractor represented that the rates agreed to were not workable in view of the additional lead involved and reduction in minimum thickness of concrete lining from 30 cm to 25 cm. The request of the contractor was not justifiable as the contractor himself had come forward to undertake the work fully knowing the working environment and the lead involved and as per agreement there would be no change in rates even if the quantities varied. However, the Board allowed the contractor's request and sanctioned the work to be executed as extra item. On account of granting extra item at higher rates, the rates paid to the contractor worked out to Rs4335.15 per cu.m. for invert concreting and Rs5200.50 per cu.m. up to August 1992 and Rs6839.75 per cu.m. thereafter for overt concreting while for similar work, the rates paid to PPS were only Rs1019.35 per cu.m. and Rs1345.75 per cu.m. respectively. The undue benefit extended to the contractor on account of treating the work as extra item and paying at higher rates amounted to Rs42.89 lakhs.

The Board stated (September 1995) that the higher rates given were to enthruse the contractor to complete the work and that during discussions, the contractor was given the hope that rates would be increased and that the Board has to keep up its credibility.

3A.6.5. Construction of surge shaft and pressure shaft

3A.6.5.1. Driving of surge shaft and pressure shaft

The contract for driving surge shaft tunneling and shafting for pressure shaft and connected works was awarded (November 1985) to P.N. Sankaran Nair at 88 *per cent* above estimate (less cost of departmental materials) for a contract value of Rs99.19 lakhs.

The agreement was executed in December 1985. Against the scheduled date of completion of May 1987, the work was completed only in July 1990. The delay of 38 months was due to the failure of the Board in fulfilling its contractual obligation like supply of uninterrupted power, providing electric crane and air compressor and on account of frequent labour strikes.

It was noticed in audit that the surge shaft was slashed with a diameter of 16.2 metres and subsequently widened to 16.6 metres by the same contractor. But the widening of the shaft for a small stretch was entrusted to another contractor (T O Abraham & Co.) at a higher rate of Rs945 per cu.m. as against Rs151 per cu.m. only payable to the regular contractor, Sankaran Nair. In respect of 450 cu.m. of the work carried out at higher rates, the Board had to make an extra payment of Rs5 lakhs. There was no justification to get the work done through another contractor at such a high rate when the regular contractor was bound to do the work at lower rates.

3A.6.5.2. Concrete lining to surge shaft, pressure shaft, concreting around steel liners and grouting to the lining

3A.6.5.2.1. The above work was awarded (February 1990) to T O Abraham & Co. on retender at 58.99 *per cent* above the revised estimate (Rs122 lakhs) at a cost of Rs165.85 lakhs. The time for completion was fixed as 12 months from the date of award (i.e., 18

February 1991). The contractor commenced preliminary work after a delay of 3 months and there was further delay in execution. Only 7 *per cent* of the work was done till the due date for completion. In June 1991, he applied for extension up to 18 February 1992. The work was yet to be completed (March 1995). But a total amount of Rs605.34 lakhs had been paid up to January 1995 against the contract value of Rs165.85 lakhs. The steep increase in the cost was on account of awarding the work on contract basis before conducting proper studies and finalisation of designs and specifications.

The following points were also noticed in the execution of the work.

3A.6.5.2.2. Payment of excess over agreement rates

(i) In May 1991, the contractor requested for extension of the benefit of the "contractual adjustment of liabilities" to him also. This request was rejected by the Board in August 1991 on the ground that the benefit was applicable only to those contractors who were parties to the settlement of November 1988 and the tender for this work was quoted subsequently in August 1989. However, the Board agreed (June 1993) for its extension to this contract limiting it to 50 *per cent* of the monetary benefit given to other contractors for all works done after 18 February 1991. In respect of all works done after 1 September 1992, this was raised to 100 *per cent* after withdrawing 50 *per cent* enhancement given earlier. It was observed in audit that major portion of the work was done after 1 September 1992. The extra expenditure to the Board due to this undue benefit to the contractor amounted to Rs41.02 lakhs (up to December 1994).

(ii) After the strike in the project area during 1990-91, the Board had agreed to a 15 *per cent* increase in the rates for all works done after 18 February 1991 and a 35 *per cent* increase for the work

done from 1 September 1992 in respect of the tunneling contractors. On a request from the contractor, this enhancement in rates also was extended to him. The increase in rates given to other tunnelling contractors was not applicable to this contractor as the estimate in respect of this work was based on 1986 schedule of rates while it was based on 1982 schedule of rates in respect of the other contractors. The extra commitment on account of extending this undue concession to the contractor was Rs9.09 lakhs. In January 1995, the Board, further agreed to enhance the 15 *per cent* increase (granted from 19 February 1991) to 45 *per cent* and the further increase of 35 *per cent* (from 1 September 1992) was applied to this increased rate. The extra benefit passed on to the contractor worked out to Rs4.53 lakhs (up to December 1994).

(iii) According to the general conditions of contract and instructions to tenderers which formed part of the agreement, the rate once fixed for an extra item would not be varied during the currency of the contract and the clause regarding price variation, if any, with tender would not apply so far as extra items were concerned. Despite this clause, the rate revision effected in respect of the items as per the original agreement by supplementary agreements No.IV and VIII were made applicable to extra items also whereby the unintended benefit extended to the contractor amounted to Rs211 lakhs (up to December 1994).

3A.6.6. Construction of power house and allied works

The work of construction of power house building, machine foundation, tail race and other allied items was awarded (August 1984) to A.S.Kunchan at 81 *per cent* above estimates for Rs192.90 lakhs. A period of 28 months was fixed for the completion of the work. The contractor commenced the work in January 1985, after a delay of four months and did not also submit a detailed construction programme as required. The Board could not finalise the designs and the drawings in

time and there was delay in erecting and commissioning the EOT crane by the Board. There were also frequent labour disputes. The work was in progress (March 1995) even though no formal extension of time has been granted by the Board.

A review of the execution of the work so far revealed the following points:

(i) Even though according to the agreement the contractor was not entitled to any revision of rates consequent on revision of PWD schedule of rates and its adoption by Board, the contractor made a claim for 100 *per cent* revision in rates on that ground and also increase in material and labour cost. The Board, however, sanctioned (June 1990) a 20 *per cent* increase (excluding cost of departmental material) for all works executed after the due date of completion i.e., 4 December 1986. The extra burden to the Board amounted to Rs4.76 lakhs and the extension of this to extra items cost a further amount of Rs2.80 lakhs.

(ii) The benefit under “contractual adjustment of liabilities” (after the settlement of the labour strike in 1988) equal to 0.09588 part of the value of work done was also extended to this work. The extra payment made by the Board under this head amounted to Rs13.06 lakhs on items of work as per original agreement and Rs3.58 lakhs on extra items (up to December 1994).

(iii) Escalation in rates based on cost of living index amounting to Rs26.81 lakhs had been paid to the contractor for work executed after 4 December 1986. Since time for completion has not been extended by Board beyond 4 December 1986, the payments lacked justification.

(iv) A sum of Rs5 lakhs recovered from the contractor towards retention money was released (February 1989) prematurely against bank guarantee. The interest loss (@18.5 *per cent*) on the amount so released worked out to Rs5.44 lakhs (up to December 1994).

3A.7. ELECTRICAL WORKS

3A.7.1. Installation of generating equipment

The project envisaged commissioning of 2 generating sets of 25 mw each. Orders for the supply of the generating equipment were placed on Bharat Heavy Electricals Ltd. (BHEL), New Delhi in May 1981. The supply started in 1983 and by the end of 1985, all the major parts were received. The Board had made payments amounting to Rs1238.51 lakhs to BHEL for the supply of the machinery.

The Board appointed (September 1988) Transformers and Electricals Kerala Limited, (TELK) Angamaly as consultants for the erection and commissioning of the generators and associated equipment for a basic price of Rs59.61 lakhs. According to the work order, the erection should be completed and the generating sets commissioned within 30 months (first unit) and 33 months (second unit) of the date of commencement which was 15 April 1989. As such the work should have been completed by 15 January 1992. However, due to delay in completion of civil works, non-engagement of required labour by the contractor, lack of tools and equipment with them, labour strikes and lock outs, the work has not been completed. Extension up to 31 March 1996 was recommended by the Dy.Chief Engineer. The contractor had so far completed about 50 *per cent* of the work.

While the erection work was in progress due to a fire accident the second unit was damaged (October 1992). The first unit also failed in the high voltage tests conducted during February 1995. The Board has decided (March 1995) to send the damaged unit to BHEL, Bhopal

for repairing at a cost of Rs106 lakhs. A fire insurance claim for Rs25 lakhs (an interim claim) lodged (March 1993) with the State Insurance Department was pending (March 1995). However, no action was taken in repairing the first unit (March 1995). It was observed in Audit that as the machinery supplied by BHEL was guaranteed for a period of 12 months from the date of commissioning or 18 months from the date of despatch of the last consignment whichever is later, the repair/replacement charges is to be borne by the Board as the warranty period was already over.

The following points were noticed in the payments made to TELK:

(i) In terms of the work order, the contractor should furnish monthly bills for the value of work done. 95 *per cent* of the value of work done would be paid monthly and the balance on completion of all the works subject to the condition that the monthly minimum payments should not be below Rs80,000 and that the excess paid, if any, would be adjusted from future work bills. It was observed in Audit that for the period from February 1990 to November 1992, monthly minimum of Rs80,000 was being paid to the contractor without taking in to consideration, bills for the actual value of work done. In March 1992 and March 1993 the contractors claimed price variation which was allowed by the Board in April 1994 with retrospective effect from July 1991. But while passing the monthly bills and price variation claims for the period up to November 1992, the claims were admitted without reckoning the excess amount already paid on monthly bills by way of monthly minimum. This resulted in excess payments of the order of Rs10.95 lakhs to them. The non-adjustment/recovery of this overpayment has resulted in an interest loss of Rs1.37 lakhs (up to December 1994).

The Board in September 1995 replied that action was being taken to adjust the amount and realise the interest involved.

(ii) A sum of Rs8.67 lakhs being excess payment made on monthly minimum bills was pending adjustment as on 28 April 1994. But further work bills (Rs0.82 lakh) and price variation claim (Rs11.34 lakhs) were paid without adjusting this amount. The interest loss on this amount at 18.5 *per cent* works out to Rs1.25 lakhs (up to December 1994).

3A.8. DELAY IN COMMISSIONING THE PROJECT

As per the revised estimate the project cost was Rs9868.85 lakhs against Rs1860 lakhs anticipated in the Project Report. The cost has further been updated and as per the annual plan 1995-96 documents, the cost of the project was Rs10,935 lakhs. The cost of construction has thus gone to Rs218.7 lakhs per mw against Rs37.20 lakhs anticipated.

The works were under various stages of construction and as per the latest target, the project would be commissioned in December 1996. In view of the slow progress in the works, it was doubtful that the target for commissioning would be achieved. Management stated (August 1995) that every effort was being made on a war footing to complete the project with a view to commission it in March 1996.

The project report envisaged an annual revenue of Rs262 lakhs based on the firm production of 262 million units per annum. The loss of revenue to the Board for 10 years from 1985-86 to 1994-95 on account of delay in completing the project works out to Rs155.71 crores.

CONCLUSION

The foregoing paragraphs would indicate that:

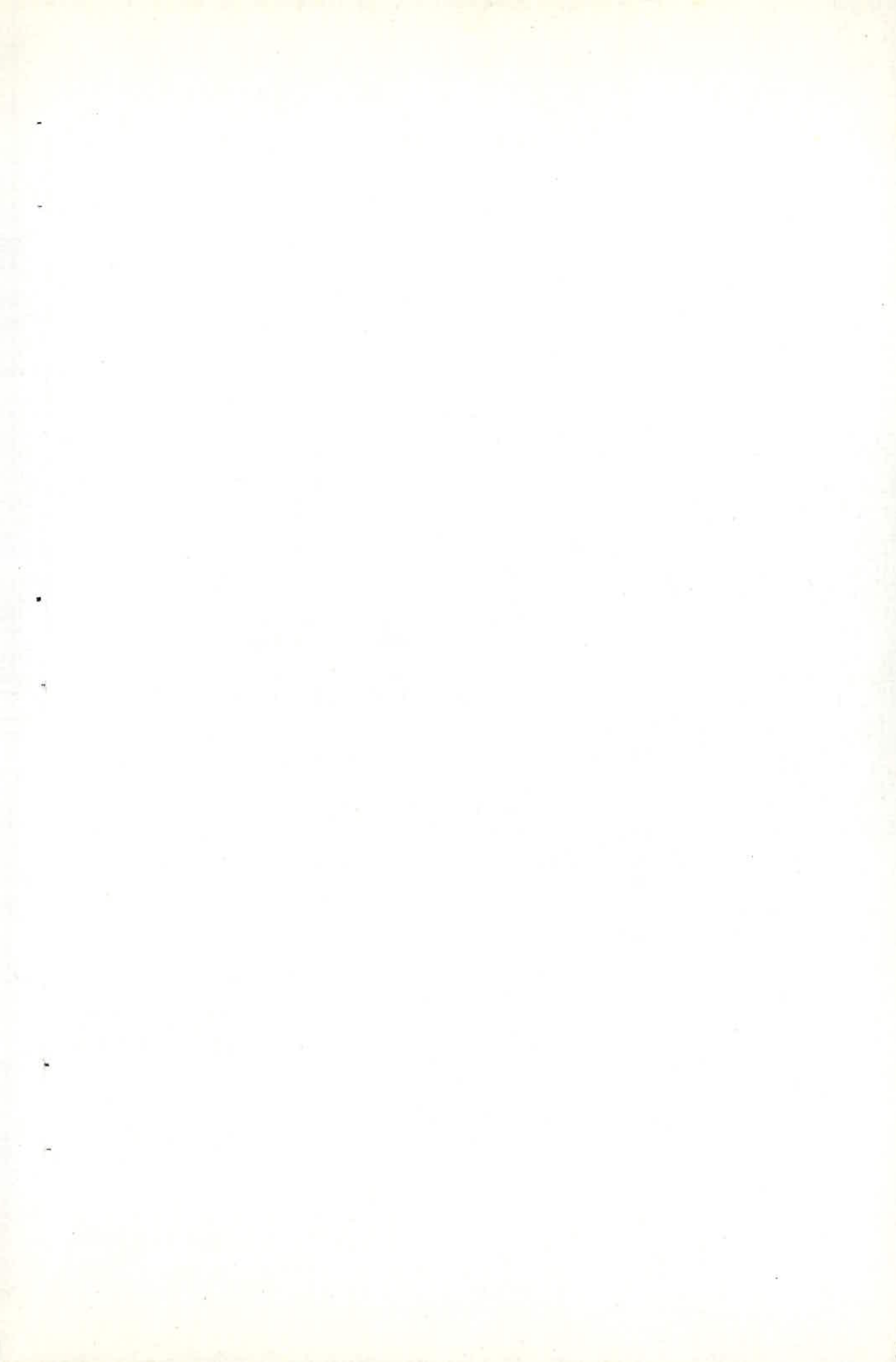
- there was time overrun of over ten years and even then, the project has not yet been completed;
- consequent on the time overrun, granting of concessions beyond the scope of the contracts etc., the cost of the project has escalated from Rs18.60 crores to Rs109 crores up to March 1995;
- there was slackness on the part of the Board to discharge its contractual obligations;
- there was inordinate delay in finalisation of tenders and in conducting proper studies and in finalising the drawings and specifications;
- there were frequent changes in the drawings and specifications necessitating execution of works as extra items at higher rates;
- the concessions granted to the contractors beyond the scope of the agreements and waiver of interest and penalties aggregated to about Rs8 crores; and
- the delay in the commissioning the project deprived, the Board of revenue of Rs155 crores during the ten years of delay.
- Though the Board stated in August 1995 that the project would be completed by March 1996, at the present pace of progress, the possibility of completion by then is very remote.

The matter was reported to the Government in June 1995; their replies had not been received (September 1995).

Chapter IV

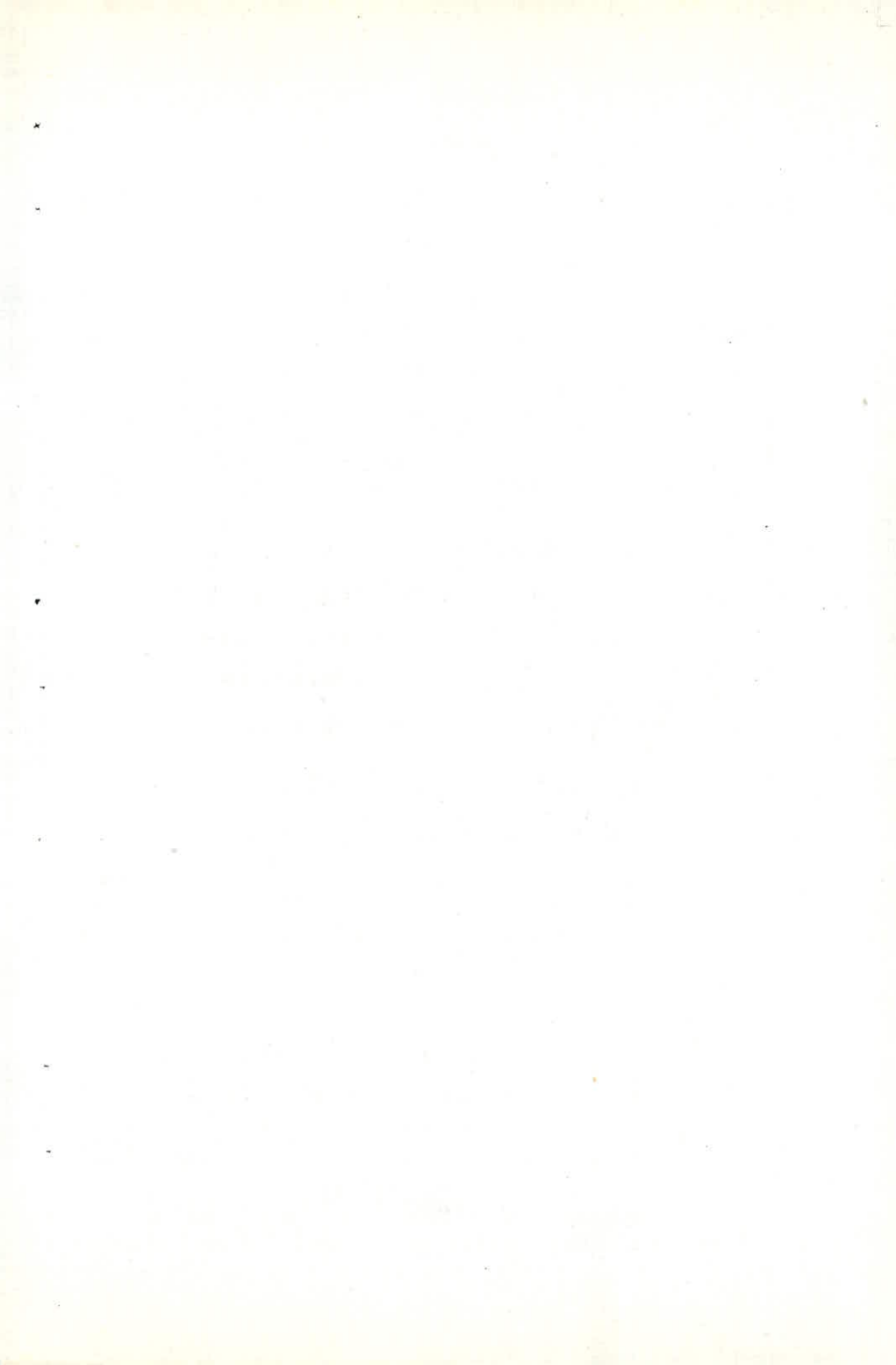
MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

- 4.1. Government companies**
- 4.2. Statutory corporations**



**MISCELLANEOUS TOPICS OF INTEREST RELATING TO
GOVERNMENT COMPANIES AND STATUTORY
CORPORATIONS**

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4.1. GOVERNMENT COMPANIES

4.1.1. The Kerala State Civil Supplies Corporation Limited

4.1.1.1. Loss due to improper handling of a Court case

In January 1984, the Company entered into a contract with Anju Enterprises, Madras for the purchase of 10000 tonnes of boiled rice. The firm supplied the contracted quantity by procuring from different parties. The payment for the entire quantity of rice supplied under the contract was made by the Company to Rameswar Das Goyal & Sons, New Delhi, at the request of Anju Enterprises, on the basis of a power of attorney.

In August 1986, Punjab Khandsari Mills from whom Anju Enterprises had procured 3962.7 quintals of rice for supply to the Company, filed a suit in the Court of the Sub-Judge at Moga for the recovery of Rs3.81 lakhs towards the value of the rice supplied. The Company was made a defendant in this suit alongwith Anju Enterprises, Rameswar Das Goyal & Sons and one Madan Lal, Broker. The Company engaged an Advocate at Moga to defend the suit through its local legal advisor not knowing that the same advocate had been engaged by the plaintiffs also. The advocate did not appear on behalf of the Company to defend the case. Anju Enterprises and other defendants also did not present their case before the Court. As a result, the Court passed an ex-parte decree against the Company and the other three co-defendants. A revision petition filed by the Company praying for setting aside the decree was dismissed by the Court as no evidence in support of the arguments was produced. The Company produced a bank guarantee of Rs3.84 lakhs for the entire decree in favour of the plaintiffs which was encashed in April 1991. The Company spent Re. 1 lakh for the conduct of the case, thus the total extra expenditure incurred by

the Company on this deal was Rs4.84 lakhs. The Company did not proceed against the co-defendants for recovery of their share of contribution after making the payment in April 1991, though the decree was passed jointly on all the four defendants. The Management stated (July 1995) that the Company had taken steps to defend the case by engaging an advocate at Moga and that there was no failure on its part to safeguard its interest. It further stated that it could not initiate legal action against the supplier in view of legal opinion. As the suit was filed against the Company, the details of the advocate representing the plaintiff would automatically come to the notice of the Company and entrustment of the defence of the suit to the plaintiff's advocate was improper. The Company could not give any explanation as to why no action was taken to realise contribution from other defendants. The failure to defend the suit and to realise contribution from other defendants resulted in a loss of Rs4.84 lakhs to the Company. The Company's efforts in filing a petition against the advocate for misconduct and breach of contract also did not fructify.

4.1.1.2. Extra expenditure on purchase of poly propylene bags

The Company has a large number of retail outlets selling essential commodities and provisions. In April 1992, tenders were invited by the Company for the purchase of 60 tonnes of polyethylene bags of four different materials viz., HDPE/LDPE/LLDPE and PPE to meet the requirement of packing covers. After testing the samples and evaluating the offers, the Purchase Committee decided (May 1992) to procure 62 tonnes of poly propylene bags (PPE) from three suppliers. The purchase of PPE bags of comparatively higher price (Rs64 to Rs69 per kg) was decided on the ground that LLDPE (Linear Low Density Polyethylene) bags which were cheaper (Rs59 to Rs64 per kg) were not suitable for packing since these were not transparent. The

Purchase Committee, however, did not consider the impact resistance of the PPE/LLDPE bags when the samples were tested. Instead, it considered only the transparency. In accordance with the decision the Company purchased 56.06 tonnes of PPE bags between June and August 1992, at a total cost of Rs37.81 lakhs. However, in July 1993 the same Purchase Committee decided to purchase LLDPE bags despite its lack of transparency on the ground that PPE bags had less impact resistance resulting in higher incidence of breakages and hence the subsequent purchases made were LLDPE bags.

The failure of the Company to identify the most suitable material thus resulted in the purchase of 56.06 tonnes of unsuitable material at an extra expenditure of Rs2.19 lakhs.

4.1.1.3. Loss due to non-insistance of bank guarantee

In response to a tender floated by the Company in May 1985 for the supply of Andhra boiled rice, Yusufain Trading Corporation, Vijayawada (firm) offered to supply 7000 tonnes at the negotiated rate of Rs281 per quintal. The contract was finalised by the Company in June 1985 and security deposit of Rs1.97 lakhs was obtained from the firm on 26 June 1985 in the form of bank guarantee. As the bank guarantee was not in the prescribed proforma, it was returned to the firm in July 1985, but the same was not received back and the Company did not pursue the case. Since the firm failed to supply the rice contracted for, the Company entered into another contract with the same firm in July 1985 for supply of 1500 tonnes of rice at Rs305 per quintal and decided to withhold an amount equivalent to the security deposit, viz., Rs1.97 lakhs, from the firm as penalty for non-execution of the first contract.

The Company adjusted (October 1987) Re.0.88 lakh towards penalty from the dues payable to the firm under the second contract which was fulfilled by the firm but no action was taken to realise the balance of Rs1.09 lakhs till July 1993. In August 1993, the matter was referred to legal advisers who opined that a suit for breach of contract, involving recovery of Rs1.09 lakhs, would be barred by limitation. Thus, in the absence of security deposit the Company could not recover Rs1.09 lakhs.

The Management stated (November 1994) that the reason for not pursuing the case of the bank guarantee was not known to them and that the failure to take timely legal action was due to their ignorance of law pertaining to time limit.

Government stated (June 1995) that an EMD of Rs0.15 lakh available with the Company was being forfeited and the officials who allowed the claim to become time-barred would be identified and responsibility fixed.

4.1.2. Steel and Industrial Forgings Limited

4.1.2.1. Unauthorised sale of land

The Company, a sick undertaking was referred to BIFR in April 1992 for reconstruction and revival. In view of this fact, its immovable properties were deemed to be under mortgage to financial institutions and proposal for sale of any assets was required to be submitted to BIFR for its sanction. Based on a request made by the State Government, the Company decided in December 1993, to sell 436 cents of its land at Athani to Trichur District Paddy Marketing and Co-operative Society. Though, according to the Company, the market price of land in that locality ranged between Rs3000 and Rs4000 per cent, the transfer price was fixed at a low

level of Rs1000 per cent, at a meeting convened by the Special Secretary to Government (Industries) on 21 February 1994.

In September 1994, IDBI, one of the lead financial institutions of the Company and the operating agency appointed by BIFR to implement the rehabilitation programme, came to know about the proposed sale and it advised the Company not to proceed with the sale. By that time, the Company had already given advance possession of the land to the Society at the nominal rate of Rs1000 per cent in June 1994, for Rs4.36 lakhs without obtaining the sanction of IDBI/BIFR. Later in October 1994, the Company applied to IDBI for post-facto sanction of the sale. The sanction of IDBI was awaited (September 1994).

Thus, sale of 436 cents of land (without the prior approval of IDBI) at a lower rate of Rs1000 per cent against the market rate of Rs3000 per cent resulting in less realisation of Rs8.72 lakhs was not in the best interest of the Company.

The matter was reported to the Management/ Government in May 1995; their replies had not been received (September 1995).

4.1.2.2. Unfruitful expenditure on development of dies

The Company received an order in April 1992 from Mahindra Nissan Allwyn Limited (MNAL), Secunderabad for supply of 2000 pieces of crankshafts at the rate of Rs1,330 per piece. The Company incurred an expenditure of Rs5.22 lakhs on development of dies. The heavy expenditure on the development of dies was incurred in anticipation of further orders from the party and also from other customers. Against the order, the Company supplied 467 pieces during October 1992 to June 1993. In June 1994, MNAL requested the Company to suspend production till

further advice as their production process was yet to be established. Hence further supplies could not be made. Against the cost of production of Rs7.06 lakhs, the Company realised only Rs4.99 lakhs on the sale of 375 pieces.

In June 1994, the Company informed MNAL that in terms of the understanding with them they should have accepted 4000 numbers of crank shafts enabling the Company to recover Rs2 lakhs towards die development costs and claimed an amount of Rs2.05 lakhs from them in full settlement of transactions. However, MNAL did not pay the amount. The Company could neither enforce the supply contract with MNAL to buy the new product specially developed for them nor develop alternate market. As a result, the expenditure of Rs5.22 lakhs incurred on development of dies remained unfruitful, besides the loss of Rs2.07 lakhs on sale of crankshafts.

The Government stated (July 1995) that the dies could be used for producing some other forging by facing out the impression and that such adverse situations are bound to arise in the process of developing new items. In view of the fact that the customer for whom the dies were specially developed had not lifted any supplies after June 1993 and that the dies have not been put to use thereafter, the reply is not tenable.

4.1.3. The Kerala Minerals and Metals Limited

4.1.3.1. Loss due to diversion of borrowed funds

The State Government directed (August 1993) the Kerala Minerals and Metals Limited (KMML) to release Rs70 lakhs from its surplus funds to the Kerala State Cashew Development Corporation Ltd.(KSCDC) another Government Company, so that

the latter could disburse bonus to its employees. The Government had agreed to repay this amount to the KMML, but the terms of repayment and rate of interest were not specified.

KMML was not having surplus funds and it paid the amount of Rs70 lakhs to the KSCDC from its Cash Credit Account. However, these facts were not brought to the notice of the State Government before release of the funds.

KMML requested (September 1993) the State Government to repay the amount of Rs70 lakhs alongwith interest (@18.75 *per cent*) as the amount was released from its cash credit account. However, the State Government instead of refunding the amount to the Company directly in terms of its original order (August 1993), modified the order in June 1994 and instructed the Director of Industries and Commerce to withdraw Rs70 lakhs from contingency fund and pay the same to KSCDC. The amount was received by the KMML in February 1995 after nearly 18 months, but without any interest.

Thus, the failure of the Company to inform the State Government that it was not having surplus funds before the release of Rs70 lakhs, resulted in avoidable payment of interest amounting to Rs19.53 lakhs (up to October 1994) on the cash credit which was not utilised for its own operations. The payment of Rs70 lakhs to KSCDC on the directives from Government especially when the Company was resorting to cash credit operations was not in the interest of the Company.

The Company stated (July 1995) that it had already requested the State Government to pay interest on the released funds. However, the fact remains that it did not bring to the notice

of the Government that the Company was not having surplus funds and was carrying out its business by operating Cash Credit Account.

The matter was reported to Government in May 1995; their replies had not been received (September 1995).

4.1.3.2. Purchase of unsuitable rail weigh bridge

The Company entrusted the construction of a railway siding to the Railways on deposit work basis. As against the scheduled date of completion of March 1981 the work was completed in August 1983. Meanwhile, the Company purchased, in August 1981, one rail weighbridge of 100 tonnes capacity for Rs4.47 lakhs for installation in its railway siding without consulting the railway authorities. Subsequently, in June 1984, when the railway authorities were contacted, the weigh bridge procured by the Company was found unsuitable. As a result, the weighbridge was not installed and put to use. No attempts were made to dispose of the unsuitable weighbridge till 1989 when the rate obtained was Rs1.28 lakhs, which according to the Company was very low. Thereafter, action for disposal of the weighbridge was taken only in March 1995, when the Company disposed of the weighbridge for Rs2.75 lakhs.

Thus, the purchase of an unsuitable weighbridge and its retention without use resulted in locking up of funds to the extent of Rs4.47 lakhs for a period of over 14 years from August 1981 to March 1995.

The matter was reported to Government in May 1995; their replies had not been received (September 1995).

4.1.4. Kerala State Film Development Corporation Limited

4.1.4.1. Undue benefit to a Film Producer

In April 1990, a film producing firm viz., Seven Beauty International booked the facilities in Chitranjali Studio of the Company for producing a film. The producer had deposited Rs. 1 lakh towards advance during April-September 1990. The film was completed in March 1992. The total charges to be recovered from the producer for utilising the facilities were Rs3.84 lakhs.

During the course of shooting of the film the producer had, in October 1990 informed the Company about certain defects in the execution of the film due to faults in the camera and equipment of the studio and claimed compensation for the losses suffered by him for rectification of the defects. The producer also made a representation to the Government in this regard. The Company denied any responsibility for compensation and the Government rejected (January 1992) his request for compensation. After completion of the film, the producer again represented (June 1992) to the Company for a compensation of Rs21 lakhs which was also rejected. A petition filed by the producer in November 1992 before the High Court of Kerala was also dismissed.

However, in April 1993, based on a representation of the producer, the Director of Public Relations desired that the case be reconsidered. Hence, in June 1993, the Company decided to settle the issue by giving either ten prints after collection of a cheque from a distributor of the film for the amount outstanding towards production charges or five prints free of cost, after giving three months' time to the producer to clear the outstanding dues.

Accordingly, in September 1994, the producer gave a post-dated cheque (dated 30 November 1994) for Rs1.68 lakhs from a distributor towards the balance amount outstanding after adjustment of advance (Rs1 lakh) and subsidy (Rs1 lakh) and hence ten prints (including the first print) were released to the producer. The production cost of nine prints (recoverable from the producer) given free of cost worked out to Rs3.60 lakhs at the rate of Rs40,000 per copy towards the cost of film and other expenses.

As the complaint of the producer regarding loss due to faulty equipment was found to be not sustainable, there was no liability on the part of the Company to compensate him. The reasons for extending this unintended benefit to the producer resulting in a loss of Rs3.60 lakhs to the Company, were not on record.

The matter was reported to the Management/ Government in March 1995; their replies had not been received (September 1995).

4.1.4.2. Adjustment of subsidy prior to sanction

The film subsidy rules framed by the Government in 1979 and revised from time to time provided for payment of subsidy to feature films (35mm) produced entirely within the State utilising only the facilities available with the Company. In case the screening committee, constituted for the purpose, recommended the payment of subsidy, the same would be released by the Government to the Company for adjustment against dues or for passing on to the producers. The amount of subsidy was Rs1 lakh per film with effect from January 1988.

In May 1988, the Company entered into an agreement with a film producer (T.G. Vinayan of Archana Combines) under which

the facilities available in the studio of the Company were made available to the producer for production of a feature film. The work was completed in September 1988 at a total cost of Rs6.34 lakhs. While settling the accounts, the Company adjusted Rs1 lakh towards the anticipated subsidy receivable from the State Government. The film was screened before the screening committee on 2 November 1988 which held that the film was not eligible for subsidy. Hence, in February 1990, the Company required the producer to remit back the amount of Rs1 lakh. As the payment was not forth-coming, the Company initiated (April 1992) revenue recovery (RR) action against the producer for Rs1.54 lakhs (including interest). The RR action is pending (September 1994). The grant of advance credit towards subsidy before getting the sanction of Government was improper and was not in the best interest of the Company.

4.1.5. Transformers and Electricals Kerala Limited

Loss due to delay in supply of transformers

The Company received a letter of intent from Damodar Valley Corporation (DVC) in June 1981 for the design, manufacture and supply of two 250 MVA Generator transformers for its Bokaro Thermal Power Station at a total value of Rs157.07 lakhs. The Company received Rs15.70 lakhs as 10 *per cent* advance in August 1981 and the first and the second transformers were due to be delivered in February and June 1983 respectively under the contract entered into in pursuance of the letter of intent.

However, due to unfavourable financial position and infrastructural limitations, the Company had to postpone the manufacture of these transformers and pursuant to the request of the Company, DVC agreed to extend the delivery schedule subject

to the condition that any price variation due to escalation of cost and increase in excise duty and central sales tax would have to be borne by the Company and that the payment will be limited to the rates prevailing on the original delivery dates. The first transformer was delivered only in January 1987 and the loss sustained on this account was, inter-alia, commented in paragraph 2B.11.3.2. of the Audit Report (Commercial) for the year ended 31 March 1991.

As regards the second transformer, it was delivered in November 1991, after a delay of over 8 years. The total cost incurred for the manufacture of the second transformer amounted to Rs229.22 lakhs against which the Company realised Rs69 lakhs only, thus sustaining a loss of Rs160.22 lakhs by way of additional cost, interest paid due to delay in retiring the document by DVC, hauling charges paid to DVC due to delay in supply of roller assemblies and difference in excise duty and CST on the transformer.

The Management stated that the delay in supply was on account of postponement of production schedules necessitated by uncertain ways and means position and infrastructural problems and that by utilising the advances received from DVC amounting to Rs30.70 lakhs (which included 30 per cent progress payment) towards working capital requirements, the Company could save Rs41 lakhs on interest. But it may be seen that the Company lost a much higher amount of Rs160.22 lakhs due to postponing the execution of the order for nearly 8 years as against the meagre benefit in terms of notional savings on interest.

Thus due to defective production planning and consequent delay in manufacture and delivery of the second transformer, the Company incurred a loss of Rs160.22 lakhs.

4.1.6. Kerala State Cashew Development Corporation Limited

Loss of premium on REP licences

The Company is a registered exporter of cashew kernels. Hence, it was entitled to import entitlements by way of REP (Replenishment) licences to the extent of ten to eleven per cent of f.o.b. value of exports, till the system was abolished from July 1991. The Company used to sell these licences at a premium.

In order to get the REP licences, the Company had to file applications with the authorities within three months of the period of export. However, there was delay in submission of the applications which ranged up to 24 months. Besides, most of the application filed by the Company turned out to be incomplete and without the required documents/certificates, with the result that these were returned by the authorities for rectification of defects and resubmission. There were also delays in rectification of defects and resubmission of application as required by the authorities within the prescribed time limit of 30 days. As a consequence of such delays the claims of the Company for REP licences to the tune of Rs100.60 lakhs, Rs21 lakhs and Rs42.72 lakhs, on the f.o.b. value of exports made during the years 1988-89, 1989-90 and 1991-92 respectively were disallowed by the authorities.

Thus, the negligence of the Company in preferring the claims properly within the time limit resulted in an avoidable loss of revenue of Rs39.10 lakhs by way of premium on the REP licences not obtained/disallowed.

The Management while admitting the loss in April 1995 attributed the delay in obtaining REP licences due to practical difficulties in complying with the requirement of furnishing

documents to the authorities in time. Government also endorsed the reply of the Management.

4.1.7. Kerala Land Development Corporation Limited

Avoidable extra expenditure due to retendering of works

The Company engaged in the implementation of schemes for development of agricultural land, invited tenders in November 1992, for the execution of two civil works relating to the improvement of (i) Thuppanthodu Canal (2nd reach) and MM canal (1st reach) and (ii) excavation of Mullassery Canal (3rd reach Part-D) for which the probable amount of contract (PAC) were fixed at Rs70.27 lakhs and Rs113.58 lakhs respectively. The works were undertaken on behalf of the Trichur Malappuram Kole Development Agency.

The lowest offers for these two works were received from TR Kurian which were 16 per cent and 19 per cent respectively below the estimates. The second lowest offers from Mathew Sebastian were also below the estimate rates at 5.5 per cent and 14.1 per cent respectively. The lowest offer was rejected on the ground that EMD was not furnished by the contractor alongwith the tender, as stipulated in the tender notice. The party, however, remitted the earnest money deposit just before opening of the tender. The second lowest offer was rejected on the ground that the contractor had not executed any earth work in the Trichur Kole area previously.

When the works were retendered in December 1992, three tenders were received for each of the two works. The first and second lowest offers were from the same contractors viz., the lowest from TR Kurian and the second lowest from Mathew Sebastian.

But the rates quoted on retender were very much higher and above the estimate rates. The lowest offers received on retender for the two works were 10 per cent and 15 per cent respectively above the estimates compared to 16 per cent and 19 per cent below estimates quoted by the same contractor earlier. Finally, in February 1993, both the works were awarded to TR Kurian, the lowest tenderer at 10 per cent above estimates.

The rejection of even the second lowest acceptable offer without any valid ground and retender of the works resulted in awarding the contracts at an avoidable extra commitment of Rs38.26 lakhs to the Company.

Government stated (August 1995) that the retendering was resorted to in good faith by the Board of Directors with a view to obtain competitive bids as there was considerable difference in the rates between the lowest tender and the second lowest tender and the Company did not expect higher rates on retendering. The reply is not tenable as both the rates were 'below' the estimate prepared by the Company and there was no evidence before the Board that the rates would further come down in case the works were retendered.

4.1.8. Foam Mattings (India) Limited

Liability for payment of income tax due to defective maintenance of records

The Company had been incurring losses continuously up to the financial year 1990-91. But from the year 1991-92, it started earning profits as revealed by the provisional accounts and the profit earned for the financial years 1991-92, 1992-93 and 1993-94 was Rs2.29 lakhs, Rs19.60 lakhs and Rs50.30 lakhs respectively.

According to Section 72 of the Income Tax Act, the Company was eligible for carry forward of business losses amounting to Rs9.39 lakhs and Rs69.82 lakhs for the assessment years 1990-91 and 1991-92 respectively. But this benefit was disallowed by IT authorities on account of discrepancies in the books of accounts of the Company, unsatisfactory maintenance of stock records, non-completion of audit and failure to furnish details called for.

Thus, the non-compliance with the formalities necessary for claiming set off, resulted in forfeiture of the right to set off and consequent liability for payment of income tax of Rs37.35 lakhs (at the current rate of 45 per cent and 15 per cent surcharge thereon) on the profit made in the subsequent assessment years. No appeal was filed by the Company against the disallowance.

Government stated (July 1995) that as the Company was under lock out for six years, (1984 - 1990) the accounts could not be maintained up to date with the result that the requirements for claiming set off could not be complied with by the Company. As statutory requirements in regard to timely completion of annual accounts have to be fulfilled even when a Company is under lockout, the reply lacks justification.

4.1.9. Kerala State Bamboo Corporation Limited

Loss on extraction and supply of reeds

Hindustan Newsprint Limited (HNL) awarded (September 1990) the work of extraction, supply and delivery of 25,000 tonnes of reeds from Chalakayam forest area to the Company at the rate of Rs655 per tonne. The work of collection of reeds was arranged by the Company through different groups of traditional workers in

the area at an average rate of Rs467 per tonne. The handling and transportation work was entrusted to a transport contractor at the rate of Rs278 per tonne.

Against 25,000 tonnes to be supplied before 31 March 1991, the Company could supply only 13,679 tonnes of reeds. Out of this quantity HNL accepted only 13,478 tonnes and rejected 201 tonnes on account of higher moisture percentage. HNL recovered a sum of Rs7.73 lakhs towards liquidated damages for short supply(Rs2.27 lakhs), higher moisture percentage (Rs1.32 lakhs) and excess loose water content (Rs4.14 lakhs).

According to the contract entered into with HNL, the Company was liable to pay liquidated damages for short supply and penalty for excess water and moisture content. But these conditions were not made applicable to the reed collectors who supplied reeds to the Company. Besides, the contract did not provide for payment of any driage allowance to the reed collectors and transport contractor towards weight loss due to driage, but, the Company allowed compensation on this account both to the reed collectors (Rs1.04 lakhs) and to the transport contractor (Rs1.32 lakhs). In addition, the Company paid Rs1.43 lakhs to the transport contractor towards expenses for construction of roads for transportation of reeds though the agreement entered into with him provided that the cost of construction of roads would not be borne by the Company. Thus, on account of the unintended benefits given to the contractor/reed collectors (Rs3.79 lakhs) and the penalty levied by HNL (Rs7.73 lakhs) the Company suffered a loss of Rs11.52 lakhs.

Government stated (July 1995) that the work of supplying reeds to HNL was taken up as a measure of diversification when the Company was running at a loss and that the contract resulted in

a no-profit-no-loss situation. As the expenses incurred by the Company was Rs745 per tonne (average) as against Rs655 receivable from HNL, the reply was not tenable.

4.1.10. Travancore Plywood Industries Limited

Non-availing of MODVAT benefit

Under the Modified Value Added Tax (MODVAT) scheme, 1986, the excise duty paid on the raw materials consumed can be adjusted towards payment of excise duty on the finished products, provided declaration under Rule 57G of the Central Excise Rules, 1944 is filed with the Central Excise Authorities. This MODVAT scheme was extended to wood and articles of wood with effect from March 1987 and the Company has been availing of the benefit since then. But the Company did not include phenol and formalin, two of its major raw materials, for which MODVAT was available from March 1987 in the declaration. During the period from March 1987 to August 1994, the Company purchased and consumed 194.24 tonnes of phenol and 352 tonnes of formalin incurring Rs10.35 lakhs towards excise duty.

Failure of the Company to include phenol and formalin as inputs in the declaration, deprived it of the benefit under MODVAT to the tune of Rs10.35 lakhs.

Government stated (June 1995) that (on being pointed out by Audit) the Company requested the Central Excise authorities for refund/adjustment of the amount and that the request was pending.

4.1.11. The Kerala State Handicapped Persons' Welfare Corporation Limited

Loss on purchase of chilli

The Company purchased 548.44 quintals of red chilli during May-June 1993 as part of its diversification into trading activities, at a total cost of Rs10.83 lakhs without inviting competitive quotations. The purchase was made at the rate of Rs1800 to Rs1860 per quintal when the ruling price was Rs1260 to Rs1680. The chilli so purchased was intended to be sold during the Onam festival season (August - September 1993) in the open market as the Company anticipated substantial rise in the price of chilli during that season. The chilli purchased was kept in the Central warehouse at Kadavanthara and State warehouse, Pallichal up to August 1993. Due to driage, 31.17 quintals of chilli valued at Rs0.56 lakh was lost.

Later, (August 1993), the Company disposed of the entire available stock of 517.27 quintals (purchased at rates ranging between Rs1800 and Rs1860 per quintal) to the Kerala State Civil Supplies Corporation Limited at Rs1749 per quintal fetching Rs9.05 lakhs after holding the stock for 3 months.

The anticipation that there would be substantial increase in the price of chilli during Onam festival season (August-September 1993) did not materialise. The fact that there was bumper crop of chilli in Andhra Pradesh during the harvesting season from January to March 1993, was not taken into account by the Company. According to the Company (September 1994) on account of bumper crop during the year in Andhra Pradesh, Government of India through agencies like NAFED resorted to procurement of chilli for price support and the chilli so procured was released in Kerala

markets at much lower rates. The Company had also not evolved proper scheme for retail distribution of chilli.

Thus, the procurement of chilli without evolving a proper system of distribution and its subsequent disposal to the Kerala State Civil Supplies Corporation Limited at lower rates resulted in a loss of Rs2.25 lakhs (including interest of ~~Rs~~0.47 lakh on locked up funds).

The matter was reported to Government in June 1995. The replies have not been received (September 1995).

4.1.12. Kerala State Electronics Development Corporation Limited

Delay in collection of cheques and payment of interest on overdraft

Mass Communication Division, a unit of the Company, received two cheques dated 28 March 1991 and 24 April 1991 for Rs17.26 lakhs and Rs11.59 lakhs respectively from the Deputy Director, All India Radio, Bombay on 20 May 1991 which were deposited on the same day with the Company's bankers (Canara Bank, Thiruvananthapuram) for collection and credit into the cash credit account. According to the Company, though outstation cheques are normally collected within 14 days, the bankers intimated the Division on 5 July 1991 that the cheques were lost while in its custody and requested the Division to obtain fresh cheques from the drawer. The Company thereupon obtained fresh cheques which were ultimately realised and credited in its bank account on 22 August 1991 and 28 August 1991 i.e., after a delay of 80 days and 86 days respectively. In the meantime, as the cash credit account was overdrawn by Rs28.85 lakhs due to non-accountal of these two cheques, the bankers charged interest at the rate of 25 *per cent* which worked out to Rs1.65 lakhs.

Though the bankers were responsible for the loss of the cheques and consequent delay in realisation, the Company did not take any effective action for obtaining refund of the interest of Rs1.65 lakhs charged by the bank.

The Management stated (May 1994) that although the claim for compensation from the bankers for interest loss had legal support, the decision to enforce it was not taken considering the Company's business interest.

The matter was reported to the Government (February 1995), their reply had not been received (September 1995).

4.1.13. Keltron Component Complex Limited

Granting of excessive discount in violation of sales policy

The Company received a purchase order from Electromark Devices (Bombay) Private Limited, an approved dealer, in September 1991 for the supply of one lakh sets of electrolytic capacitors of different ratings at Rs260 per set for a total value of Rs260 lakhs. The Company had assessed that there would be a margin of Rs86.63 lakhs over and above the raw material cost. As the Company had to incur additional expenditure of Rs64.65 lakhs towards cost of air freight, extra customs duty and exchange rate fluctuations on materials imported for executing the order, the actual margin available was only Rs21.98 lakhs. The order was executed during the period from September to December 1991.

The sales policy of the Company provided for a maximum discount of only 22.5 *per cent* to approved domestic dealers. Against 22.5 *per cent* payable by way of usual discount, the Company allowed a discount of 47.4 *per cent* (Rs234.42 lakhs) to this firm. The granting of 24.9 *per cent* discount in excess of the

normal rate resulted in an extra expenditure of Rs123.18 lakhs. The excess allowance was granted on the ground that the capacitors were intended for export and the Company would capture export market in future. This assumption was not based on any facts and the Company did not get any export order.

As the margin available was Rs21.98 lakhs only, the granting of additional discount of Rs123.18 lakhs in relaxation of the accepted sales policy and thereby incurring a loss of Rs101.20 lakhs did not yield any benefit to the Company as the Company neither received any further orders for execution nor any export orders.

The matter was reported to the Management/ Government in June 1995, their replies had not been received (September 1995).

4.1.14. The Kerala Premo Pipe Factory Limited

Extra expenditure due to purchase of cement at higher rates

The Company had been procuring cement from India Cements Limited (ICL), Thirunelveli and Malabar Cements Limited (MCL), Palakkad without inviting competitive tenders, at the rates offered by the manufacturers. The landed cost of cement purchased from MCL was lower than that of ICL and the difference in price varied from Rs28.60 to Rs143.54 per tonne. The test result of cement from MCL also indicated that the quality was up to the required specification. In spite of the lower rates offered, the Company purchased only 680 tonnes from MCL as against 1985 tonnes from ICL at higher rate, during the period from March 1991 to March 1993. Procuring the cement from ICL at higher rates in spite of the availability of good quality cement at lower rate from MCL which is a Government company, lacked justification. The avoidable extra expenditure incurred due to the purchase of 1985

tonnes of cement at higher rate from ICL during the period March 1991 to March 1993 worked out to Rs2.01 lakhs.

The matter was reported to Management/Government in February 1995, their replies had not been received (September 1995).

4.2. STATUTORY CORPORATIONS

4.2.1. Kerala State Electricity Board

4.2.1.1. Azhutha Diversion Scheme - Revision of rates beyond the scope of the agreement

In December 1988, the Board awarded the contract for the construction of a diversion weir and an unlined tunnel in Azhutha stream under Idukki Augmentation Scheme to the lowest tenderer, at a total probable amount of contract of Rs289.28 lakhs which was 57 *per cent* above the estimate.

The agreement executed with the contractor *inter alia* stipulated that (i) the work should be completed in all aspects by 11 November 1991, and that (ii) apart from the compensation based on the escalation formula, no revision of rates for any work would be allowed on any ground during the currency or the extended period of the contract.

The contractor completed only 45 *per cent* of the work by November 1991 due to :

(i) adverse law and order situation at the work site, inclement weather, geological factors, etc.; and

(ii) controllable factors like non-acquisition of adequate land, faulty transformers, low voltage, poor quality of explosives, belated supply of construction drawings, etc.

Based on the requests of the contractor in November 1991 and November 1992, the Board extended (February 1993) the period of completion of the contract to 31 March 1995 and also allowed an increase of 15 *per cent* over the quoted rate for the work done between 11 November 1991 and 31 August 1992 and a further increase of 30 *per cent* thereafter involving a total financial commitment of Rs75.66 lakhs without assessing the extent of the revision caused due to uncontrollable factors and the contractor had so far been paid an excess amount of Rs38.99 lakhs (March 1995).

The Board also waived interest on outstanding advance and refunded interest already recovered aggregating Rs11.43 lakhs against the terms and conditions of the agreement.

The Board stated (April 1995) that the delays occasioned in the work were beyond the control of the contractor and as such it was just and reasonable to extend certain minimum benefits to the contractor. As the agreement contained escalation formula for both labour and material and since the payment to the contractor was based on this formula, the upward revision in rates and waiver and refund of interest lacked justification.

The matter was reported to Government in June 1995; and their reply is awaited (September 1995).

4.2.1.2. Undue financial aid to the contractor

In February 1992, the Board awarded the work of diversion of streams flowing towards power house and switchyard area of the Lower Periyar Hydro-Electric Project to the lowest tenderer at their quoted probable amount of contract of Rs25.97 lakhs based on 1990 schedule of rates. In terms of the agreement executed (May 1992) in this respect (i) the work was to be completed by October 1992, (ii) the contractor had to manage the labourers, resolve disputes with them and bear the additional cost as a result of any settlement, and (iii) no revision of rates on any item would be allowed on any ground during the period of the contract or on any extensions. As the work could not be completed due to labour problems, the Board granted extensions on various occasions up to December 1993 (without imposing penalty), by which time the work was completed in all respects. In the meantime, the contractor requested for an enhancement of 50 *per cent* over and above the quoted rates to compensate losses incurred by them on account of the increase in labour and material cost consequent on the delay in completing the work due to labour problems. Based on the recommendations (May 1994) of the Chief Engineer, the Board sanctioned (October 1994) enhancement in rates totalling Rs5 lakhs though it was not bound to compensate the contractor for such losses as per the terms of the agreement.

Thus, the payment of Rs5 lakhs was an undue favour to the contractor.

The matter was reported to Government in May 1995 and their reply is awaited (September 1995).

cost analysis of logs procured through auction, the Corporation requested the Government to accord sanction for purchasing them under direct selection method (DSM)* on the plea of non-availability of good quality timber, delay in getting sales tax clearance and inadequate transportation facilities from various depots of Forest Department. Accordingly, in November 1992, Government accorded sanction to purchase logs from the department under DSM. Thereafter, the Corporation resorted to the purchase of logs under DSM only. Under this method, the logs selected by the Corporation would be priced at the rates fixed by the department by adding a certain percentage on the highest bid of the last auction.

As the rates of logs procured under DSM were higher when compared to that of auction, the matter was brought to the notice of the Corporation's Board in November 1993 in which it was mentioned that apart from being economical, the quality of logs procured through auction was satisfactory. However, the Board decided to seek the advice of Government in this matter and to continue the existing system. Accordingly, when the Corporation requested in January 1994 to reduce the rates of DSM, the Government directed (February 1994) the Corporation to continue the DSM system.

It was noticed in Audit that the Corporation procured 302.419 cubic metres of logs under DSM between July 1993 and November 1994 by incurring an extra expenditure of Rs22.87 lakhs when compared to the maximum rates payable for purchases through participation in auction.

Thus, the initial request of the Corporation was devoid of any valid ground for switching over to DSM which was not in the interest of the Corporation.

(ii) According to the terms of sales for DSM, in case the logs were not lifted within the stipulated time allowed, the forest

* Direct selection method is purchase of logs on spot by selection.

department was entitled to dispose of the logs at the risk and cost of the Corporation. It was noticed in Audit that the Corporation did not lift 16.851 cubic metres of logs procured under DSM in July 1993, at a cost of Rs3.30 lakhs from Angamoozhy forest depot before 6 September 1993 on the ground that the rates fixed by the Department were exorbitant, when compared to the rates payable for procurement through auction. Consequently, the department disposed of the logs at the risk and cost of the Corporation and claimed Rs1.66 lakhs on this account, which was paid by the Corporation in August 1994/May 1995.

Thus by resorting to procurement of logs at higher rates under DSM and then leaving them unlified, the Corporation incurred an infructuous expenditure of Rs1.66 lakhs.

The Corporation stated in July 1995 that though procurement of logs through auction was economical it was advised by the Government to continue the system of DSM. The Government also endorsed the reply of the Corporation in July 1995. As the Corporation was satisfied with the quality of logs purchased through auction and the rates were also less, the continued procurement of logs under DSM lacked justification.

4.2.2.2. Extra expenditure in the purchase of PVC leather cloth

In June 1993, the Corporation invited open tenders for the supply of PVC leather cloth as majority of the rate contract holders failed to supply the item. Out of the four offers received, the samples of the second lowest (Rs49.16 per metre) and the highest (Rs63.57 per metre) offers were only found suitable. However, the Executive Committee (Purchase) of the Board of Directors decided (July 1993) to turn down the second lowest offer on the ground that the Association of State Road Transport Undertakings (ASRTU) had rejected (September 1992) their offer as the quality of their product was not known and to accept the highest offer.

The rejection of the lower offer lacked justification as the sample of the product received alongwith the offer was tested and found suitable by the Corporation in July 1993. The purchase of 26762 metres of PVC leather cloth from the highest offerer between November 1993 and June 1995, therefore, resulted in an extra expenditure of Rs3.86 lakhs.

Government stated (June 1995) that the offer of second lowest offerer was not considered due to rejection of its offer by ASRTU as the firm was not known to any of the State Road Transport Undertakings. As the offer was rejected on account of quality which the Corporation was in a position to verify as it did in July 1993 the reply is not tenable.

4.2.2.3. Extra expenditure in the purchase of batteries

In order to meet the annual requirement of dry storage uncharged batteries, the Corporation placed orders for the purchase of 1000 batteries in January 1993 on Chloride India Limited, Calcutta (CIL) at Rs1402.04 each and 500 batteries in July 1993 on Williard Industries, Kochi (WI) at Rs1347.09 each. In the reported performance, the average life of a battery supplied by CIL was 33.8 months against 23.8 months in the case of WI. However, the Corporation had not considered this aspect while placing the order with WI.

Thus, the failure of the Corporation to evaluate the comparative cost benefit ratio of the two batteries properly inspite of being aware of their comparative performance, resulted in avoidable expenditure of Rs1.87 lakhs.

The Corporation/Government stated (May 1995) that order was placed on WI to ensure uninterrupted supply of batteries. The reply is not tenable as the Corporation was aware of the lower life obtained from WI batteries and CIL had not expressed any difficulty in meeting the entire requirement of the Corporation. Thus, the

purchase of 500 batteries from WI incurring the extra expenditure lacked justification.

4.2.3. Kerala Financial Corporation

Loss due to improper pre-sanction evaluation

In November 1982, the Corporation decided to sanction a term loan and seed capital assistance amounting to Rs19.80 lakhs to Jaikrishna Forgings (Pvt.) Limited, an ancillary unit of Steel Industries Kerala Limited (SILK), a State Government company. It was contemplated in the Board meeting held in November 1982, that the loanee should make firm arrangements with SILK or any other buyer to ensure a steady market for its products and also for adequate supply of raw-materials so as to ensure its viability. The Corporation, however, did not insist on fulfilment of the above conditions and disbursed the sanctioned amount of Rs19.80 lakhs in November 1983 and an additional assistance of Rs3.65 lakhs in June 1985. The loan was to be repaid in 13 half-yearly instalments ending March 1991, but it was rescheduled later to be repaid before December 1992.

The unit which commenced production in September 1986 incurred heavy losses right from inception due to lack of orders from SILK as envisaged/ promised originally. As a result, the loanee defaulted the repayment of the principal and interest which accumulated to Rs40.55 lakhs by December 1990. In July 1991, as a part of rehabilitation, the Corporation granted rebate on interest of Rs4.85 lakhs in addition to funding interest of Rs13.18 lakhs up to December 1990. As the rehabilitation package also failed and the loanee did not honour the repayment schedule agreed under the revival scheme, the Corporation issued (January 1993) a notice under Section 29 of the State Financial Corporations Act for taking over the unit against which the loanee obtained a stay order from the Court. The Corporation had not got the stay vacated (March 1995).

As at the end of June 1994, the balance outstanding in the loan account was Rs49.20 lakhs. The value of assets created and mortgaged to the Corporation as security for the loan was Rs26 lakhs only. Thus, the failure of the Corporation to insist on fulfilment of the preconditions before the disbursement of loan resulted in an approximate loss of Rs23.20 lakhs.

The matter was reported to Government in February 1995; their replies had not been received (September 1995).



(SHANKAR NARAYAN)

Accountant General (Audit), Kerala

Thiruvananthapuram,
The **12th February 1996**

Countersigned



(C.G. SOMIAH)

New Delhi,
The **19th February 1996** *Comptroller and Auditor General of India*

ANNEXURES



ANNEXURE

Statement showing the particulars of paid up capital and outstanding loans as at the end of loans during 1994-95 in respect of all the Government companies

(Referred to in paragraph 1.2.3.1)

Sl. No.	Name of company	Name of department	Paid up capital as at the end of 1994-95				
			State Government	Central Government	Holding companies	Others	Total
1	2	3	4a	4b	4c	4d	4e
Electrical, Electronics and Engineering							
Electrical							
1	United Electrical Industries Limited	Industries	387.92	..	..	11.15	399.07
2	Traco Cable Company Limited	-do-	1282.05	..	..	19.76	1301.81
3	Transformers and Electricals Kerala Limited	-do-	1119.41	..	..	237.90	1357.31
4	Kerala Electrical and Allied Engineering Company Limited	-do-	1513.64	..	..	524.21	2037.85
Total			4303.02	..	..	793.02	5096.04
Electronics							
5	Keltron Counters Limited (Subsidiary of KELTRON)	-do-	..	..	446.04	7.86	453.90
6	Kerala State Electronics Development Corporation Limited (KELTRON)	-do-	8490.37	..	..	..	8490.37
7	Keltron Electro-Ceramics Limited (Subsidiary of KELTRON)	-do-	..	..	314.44	3.84	318.28

1

1994-95 and budgetary outgo by way of investment in shares and

(Rupees in lakhs)

Loans outstanding as at the end of 1994-95					Budgetary outgo during the years by way of		
State Government	Central Government	Holding Companies	Others	Total	Share capital	Loans	Subsidy
5a	5b	5c	5d	5e	6a	6b	6c
..
428.70	3709.24	4137.94	..	..	..
1219.54	1219.54	..	..	..
467.03	53.60	520.63	..	..	..
2115.27	3762.84	5878.11	..	..	..
..	..	294.73	120.23	414.96	..	..	..
100.00	3850.00	3950.00	268.00	..	..
..	..	190.74	15.59	206.33	..	..	..

1	2	3	4a	4b	4c	4d	4e
8	Keltron Crystals Limited (Subsidiary of KELTRON)	Indust- ries	..	..	129.72	4.26	133.98
9	Keltron Component Complex Limited (Subsidiary of KELTRON)	-do-	..	..	172.99	69.39	242.38
10	Keltron Magnetics Limited (Subsidiary of KELTRON)	-do-	..	..	25.09	..	25.09
11	Keltron Resistors Limited (Subsidiary of KELTRON)	-do-	..	..	139.81	..	139.81
12	Keltron Power Devices Limited (Subsidiary of KELTRON)	-do-	..	..	410.23	..	410.23
13	Keltron Rectifiers Limited (Subsidiary of KELTRON)	-do-	..	..	518.64	..	518.64
14	SIDKEL Televisions Limited (Subsidiary of SIDCO)	-do-	..	..	43.50	..	43.50
Total			8490.37	..	2200.46	85.35	10776.18
Engineering							
15	The Metal Industries Limited	-do-	22.63	..	..	7.39	30.02
16	The Metropolitan Engineering Company Limited	-do-	192.91	..	..	..	192.91
17	The Kerala Premo Pipe Factory Limited	Local Admini- stration	130.91	..	..	..	130.91
18	Steel Complex Limited (SCL) (Subsidiary of KSIDC)	Indust- ries	..	..	313.17	86.83	400.00
19	Malabar Steel Re-rolling Mill Limited (Subsidiary of SCL)	-do-	..	..	7.45	..	7.45
20	Steel Industrials Kerala Limited (SILK)	-do-	2378.80	..	..	..	2378.80

	5a	5b	5c	5d	5e	6a	6b	6c
	..	..	169.55	89.93	259.48	..	..	..
	..	..	256.94	1239.05	1495.99	..	..	..
	..	..	90.75	..	90.75	..	..	..
	..	..	120.23	..	120.23	..	..	..
	..	60.00	996.60	443.93	1499.93	..	..	..
	..	35.00	132.71	531.19	698.90	..	..	..
	5.05	..	..	98.18	103.23	..	..	..
	105.05	95.00	2252.25	6387.50	8839.80	268.00	..	..
	8.30	..	..	..	8.30	..	..	..
	32.65	..	..	270.17	302.82	..	..	..

	171.86	..	26.29	104.79	302.94	..	177.37	..
	..	..	105.00	22.13	127.13	..	..	..
	1428.70	..	..	25.90	1454.60	..	800.00	..

1	2	3	4a	4b	4c	4d	4e
21	Kerala State Construction Corporation Limited	Public Works	87.50	..	..	..	87.50
22	Scooters Kerala Limited	<i>2 days</i>	229.99	..	..	..	229.99
23	Astral Watches Limited (Susiidiary of KSIDC)	Indus-tries	..	..	8.00	..	8.00
24	Kerala Automobiles Limited	-do-	730.99	..	..	..	730.99
25	Steel and Industrial Forgings Limited (Subsidiary of SILK)	-do-	..	..	450.00	..	450.00
26	The Kerala Asbestos Cement Pipe Factory Limited	Local Admini-stration	6.09	..	..	..	6.09
27	Autokast Limited (Subsidiary of SILK)	<i>2 days</i>	..	..	1310.00	..	1310.00
28	Kerala Hitech Industries Limited	Indus-tries	1300.00	..	..	..	1300.00
29	Kerala State Engineering Works Limited	Public Works	45.64	..	..	..	45.64
30	SIDECO Mohan Kerala Limited (Subsidiary of SIDCO)	Indus-tries	..	..	8.67	8.33	17.00
Total			5125.46	..	2097.29	102.55	7325.30
<div>Plantation, Agro and Wood based Industries</div>							
Plantation							
31	The Plantation Corporation of Kerala Limited	Agricu-lture	556.88	..	..	..	556.88
32	The State Farming Corporation of Kerala Limited	-do-	842.57	..	..	61.00	903.57
33	Kerala Forest Development Corporation Limited (KFDC)	-do-	387.87	93.00	..	..	480.87

	5a	5b	5c	5d	5e	6a	6b	6c
	205.00	..	..	..	350.01	..	..	..
	145.01	..	..	..	..	..	..	..
	..	..	..	188.63	188.63	..	..	..
	..	..	52.00	..	52.00	..	..	..
	219.00	..	..	1508.02	1727.02	..	144.00	..
	..	..	684.00	957.00	1641.00	..	..	..

	230.00	..	142.00	2130.14	2502.14	..	..	..
	..	..	..	2668.95	2668.95	..	..	..
	143.31	..	..	..	143.31	..	..	..
	12.00	..	19.44	66.44	97.88	..	..	..
	2595.83	..	1028.73	7942.17	11566.73	..	1121.37	..

	..	..	..	134.24	134.24	..	..	10.00
	40.37	..	..	21.87	62.24	..	..	..

1	2	3	4a	4b	4c	4d	4e
34	The Rehabilitation Plantations Limited	Rehabilitation	205.85	133.42	..	..	339.27
35	Oil Palm India Limited	Agriculture	679.47	480.68	..	..	1160.15
	Total		2672.64	707.10	..	61.00	3440.74
	Agro Based						
36	The Travancore Sugars and Chemicals Limited	Industries	26.64	..	..	24.36	51.00
37	The Kerala Agro Industries Corporation Limited	Agriculture	304.55	169.56	..	..	474.11
38	The Kerala State Coir Corporation Limited	<i>Indust</i>	257.54	..	..	..	257.54
39	The Kerala State Cashew Development Corporation Limited	-do-	3058.95	..	..	..	3058.95
40	Kerala Agro-Machinery Corporation Limited	<i>Agro</i>	161.46	..	..	..	161.46
41	Kerala State Coconut Development Corporation Limited	-do-	285.05	..	..	..	285.05
42	Foam Mattings (India) Limited	<i>Indust</i>	246.39	..	..	..	246.39
43	Kerala State Horticultural Products Development Corporation Limited	<i>Agro</i>	83.00	..	..	..	83.00
	Total		4423.58	169.56	..	24.36	4617.50
	Wood Based						
44	Forest Industries (Travancore) Limited	Industries	29.19	..	..	8.52	37.71
45	Travancore Plywood Industries Limited (Subsidiary of KSIE)	-do-	48.58	..	..	..	48.58

	5a	5b	5c	5d	5e	6a	6b	6c

	2.20	..	..	..	2.20	..	..	..
	42.57	..	..	156.11	198.68	..	..	10.00

	104.18	..	..	38.64	142.82	..	..	..
	158.10	..	..	..	158.10	10.00	15.00	..
	3315.00	..	..	..	3315.00	..	2270.00	..

	161.72	..	..	..	161.72	..	..	..
	53.70	..	..	..	53.70	10.00	10.00	..
	..	..	..	..	..	10.00	..	..
	3792.70	..	..	38.64	3831.34	30.00	2295.00	..
	30.75	..	..	38.67	69.42	..	..	..
	48.25	..	684.78	..	733.03	..	..	..

1	2	3	4a	4b	4c	4d	4e
46	Kerala State Bamboo Corporation Limited	-do-	340.86	..	..	..	340.86
47	Kerala State Wood Industries Limited (Subsidiary of KFDC)	Agri-culture	74.78	..	..	95.22	170.00
Total			493.41	..	..	103.74	597.15
<div>Textiles, Chemicals, Minerals, Clays, etc.</div>							
Textiles							
48	Trivandrum Spinning Mills Limited	Indu-stries	294.25	..	..	..	294.25
49	Kerala State Handloom Development Corporation Limited (KSHDC)	-do-	531.78	..	..	5.42	537.20
50	Kerala State Textile Corporation Limited	-do-	1413.53	..	..	25.00	1438.53
51	Kerala Garments Limited (Subsidiary of KSHDC)	-do-	..	..	48.00	..	48.00
52	Sitaram Textiles Limited	-do-	420.00	..	..	..	420.00
Total			2659.56	..	48.00	30.42	2737.98
Chemicals							
53	The Travancore-Cochin Chemicals Limited	-do-	1191.19	..	..	140.00	1331.19
54	Trivandrum Rubber Works Limited (Subsidiary of SFCK)	-do-	176.09	..	58.66	..	234.75
55	Kerala Soaps and Oils Limited (Subsidiary of KSIE)	-do-	144.99	..	40.60	..	185.59

	5a	5b	5c	5d	5e	6a	6b	6c
	94.00	..	..	..	94.00	5.00	5.00	..
	..	..	..	370.00	370.00	..	..	..
	173.00	..	684.78	408.67	1266.45	5.00	5.00	
	178.00	..	..	..	178.00	29.26	79.00	..
	540.93	..	..	..	540.93	79.17	133.06	10.00
	211.99	..	..	..	211.99	..	..	..
	4.40	..	17.72	..	22.12	..	..	..
	627.35	..	..	568.87	1196.22	..	..	..
	1562.67	..	17.72	568.87	2149.26	108.43	212.06	10.00

	678.38	..	481.13	..	1159.51	..	..	..
	74.10	..	794.73	169.27	1038.10	..	..	..

1	2	3	4a	4b	4c	4d	4e
56	Kerala State Drugs and Pharmaceuticals Limited (Subsidiary of KSIE)	-do-	30.00	..	400.00 328.00	..	758.00
57	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	Health	112.11	..	..	..	112.11
58	Kerala State Detergents and Chemicals Limited (Subsidiary of KSIE)	Indus-tries	..	..	154.63	..	154.63
59	Kerala State Salicylates and Chemicals Limited (Subsidiary of KSIE)	-do-	..	..	628.00	..	628.00
Total			1654.38	..	1609.89	140.00	3404.27
Minerals							
60	Travancore Titanium Products Limited	-do-	143.06	..	..	33.69	176.75
61	The Kerala Minerals and Metals Limited	-do-	3093.27	..	..	..	3093.27
62	Kerala State Mineral Development Corporation Limited	-do-	50.66	..	..	..	50.66
Total			3286.99	..	..	33.69	3320.68
Clays							
63	The Kerala Ceramics Limited	-do-	557.00	..	..	475.00	1032.00
64	Kerala Clays and Ceramic Products Limited	-do-	131.81	..	..	..	131.81
Total			688.81	..	..	475.00	1163.81

	5a	5b	5c	5d	5e	6a	6b	6c
	..	..	605.00	..	605.00	..	..	..
	13.40	..	..	115.00	128.40	5.00	..	..
	370.94	..	..	..	370.94	..	0.69	..
	167.12	..	776.00	..	943.12	..	..	..
	1303.94	..	2656.86	284.27	4245.07	5.00	0.69	..

	100.00	..	..	6439.26	6539.26	..	..	..

	100.00	..	..	6439.26	6539.26	..	..	..
	70.00	..	..	342.32	412.32	..	..	..
	11.89	..	..	12.95	24.84	..	..	..
	81.89	..	..	355.27	437.16	..	..	..

1	2	3	4a	4b	4c	4d	4e
	Cements						
65	The Travancore Cements Limited	-do-	26.00	..	..	24.00	50.00
66	Malabar Cements Limited	-do-	2599.87	..	..	..	2599.87
	Total		2625.87	..	..	24.00	2649.87
	Refractories						
67	Kerala Construction Components Limited	-do-	27.55	..	..	0.51	28.06
68	The Chalakudy Refractories Limited	-do-	346.51	..	..	0.13	346.64
69	Kerala Special Refractories Limited	-do-	291.23	..	..	..	291.23
	Total		665.29	..	..	0.64	665.93
	Welfare, Developmental and Others						
	Welfare						
70	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	Schedule Castes & Scheduled Tribes Development	1167.90	987.24	..	..	2155.14
71	Overseas Development and Employment Promotion Consultants Limited	Labour	36.79	..	..	..	36.79
72	Kerala Fishermen's Welfare Corporation Limited	Fisheries	42.00	..	..	..	42.00
73	Kerala State Handicapped Persons Welfare Corporation Limited	Social Welfare	125.60	..	..	..	125.60

	5a	5b	5c	5d	5e	6a	6b	6c

	275.55	..	..	1789.87	2065.42	..	..	..
	275.55	..	..	1789.87	2065.42	..	..	..
	32.46	..	..	10.55	43.01	..	..	..
	..	..	..	109.26	109.26	..	..	..
	107.00	..	..	..	107.00	..	..	..
	139.46	..	..	119.81	259.27	..	..	..
	..	..	..	1191.36	1191.36	206.63	..	200.00
	5.00	..	..	..	5.00	..	..	..
	195.75	..	..	..	195.75	..	..	..
	42.60	..	..	..	42.60	25.00	..	122.00

1	2	3	4a	4b	4c	4d	4e
74	Kerala State Development Corporation for Christian Converts from Scheduled Castes & Recommended Communities Limited	Schedule Castes & Scheduled Tribes Development	267.69	..	..	..	267.69
75	Kerala Artisans' Development Corporation Limited	Industries	59.31	..	..	..	59.31
76	Kerala School Teachers and Non-teaching staff Welfare Corporation Limited	General Education	50.00	..	..	..	50.00
77	Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited	<i>Indus</i>	42.00	..	..	..	42.00
78	Kerala State Women's Development Corporation Limited	Social Welfare	100.00	80.70	..	..	180.70
79	Kerala Police Housing and Construction Corporation Limited	Home	603.00	..	..	..	603.00
Total			2494.29	1067.94	..	..	3562.23
Developmental							
80	Handicrafts Development Corporation of Kerala Limited	<i>Indus</i>	155.24	59.00	..	..	214.24
81	The Kerala Land Development Corporation Limited	Agriculture	671.40	34.00	..	..	705.40
82	Kerala State Industrial Enterprises Limited (KSIE)	Industries	2347.29	..	..	26.74	2374.03
83	Kerala Small Industries Development Corporation Limited (SIDCO)	-do-	626.57	..	..	..	626.57
84	Kerala Livestock Development Board Limited	Agriculture	603.37	..	..	..	603.37

	5a	5b	5c	5d	5e	6a	6b	6c
	40.00	..	..	341.32	381.32	30.00	30.00	..
	41.32	..	..	..	41.32	8.00	2.00	..
	..	..	..	494.85	494.85	..	..	..
	..	..	..	..	..	16.00	..	..

	..	..	..	272.21	272.21	..	..	..
	324.67	..	..	2299.74	2624.41	285.63	32.00	322.00
	63.79	..	..	..	63.79	8.00	5.00	4.74
	1170.60	..	..	4422.04	5592.64	..	300.00	25.00
	3067.19	..	..	55.00	3122.19	..	1013.42	..
	91.15	..	..	114.93	206.08	..	..	..
	133.32	..	..	..	133.32	..	..	75.00

1	2	3	4a	4b	4c	4d	4e
85	Kerala State Poultry Development Corporation Limited	-do-	236.72	..	..	..	236.72
	Total		4640.59	93.00	..	26.74	4760.33
	Others						
86	Kerala Tourism Development Corporation Limited (KTDC)	General Administration	991.47	..	..	..	991.47
87	Kerala State Film Development Corporation Limited	Cultural affairs	1071.19	..	..	..	1071.19
88	Tourist Resorts(Kerala)Limited (Subsidiary of KTDC)	General Administration	..	..	429.91	..	429.91
	Total		2062.66	..	429.91	..	2492.57
	Fisheries						
89	The Kerala Fisheries Corporation Limited	Fisheries	484.75	..	..	..	484.75
90	Kerala Inland Fisheries Development Corporation Limited	-do-	16.44	..	..	..	16.44
	Total		501.19	..	..	..	501.19
	Meat Products						
91	Meat Products of India Limited	Agriculture	209.15	..	..	..	209.15
	Public Utilities						
92	Kerala Shipping and Inland Navigation Corporation Limited	Transport	675.89	..	..	3.07	678.96

	5a	5b	5c	5d	5e	6a	6b	6c
	..	..	..	..	..	20.00	..	..
	4526.05	..	..	4591.97	9118.02	28.00	1318.42	104.74
	149.10	..	..	230.00	379.10	70.00	30.00	
	..	..	..	..	..	30.00	..	..

	149.10	..	..	230.00	379.10	100.00	30.00	
	237.67	..	..	..	237.67	..	..	..

	237.67	..	..	..	237.67	..	..	..
	8.00	..	..	25.79	33.79	23.05	..	..
	..	..	..	102.85	102.85	75.00	..	..

1	2	3	4a	4b	4c	4d	4e
	Financial						
93	Kerala State Industrial Development Corporation Limited (KSIDC)	Industries	8925.35	..	..	..	8925.35
94	The Kerala State Financial Enterprises Limited	Taxes	300.00	..	..	..	300.00
95	Kerala Urban Development Finance Corporation Limited	Local Administration	51.00	..	..	40.91	91.91
96	Kerala Transport Development Finance Corporation Limited	Transport	2183.00	..	..	..	2183.00
	Total		11459.35	..	..	40.91	11500.26
	Trading						
97	The Kerala State Civil Supplies Corporation Limited	Food	856.00	..	..	..	856.00
98	Kerala State Industrial Products Trading Corporation Limited	<i>Industries</i>	22.60	..	..	..	22.60
99	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	Taxes	102.50	..	..	..	102.50
	Total		981.10	..	..	..	981.10
	Grand Total (Rupees in crores)		601.14	20.38	63.85	19.45	704.82

5a	5b	5c	5d	5e	6a	6b	6c
200.00	..	..	7410.38	7610.38	1498.30	..	..
..	..	..	..	..	150.00	..	..
100.00	..	..	4471.68	4571.68	..	100.00	..
..	..	..	..	..	763.00	..	..
300.00	..	..	11882.06	12182.06	2411.30	100.00	..
6859.00	67.00	..	..	6926.00	..	1775.00	..
..
..
6859.00	67.00	..	..	6926.00	..	1775.00	..
246.92	1.62	66.41	473.86	788.81	33.39	68.90	4.47

ANNEXURE

Summarised financial results of Government companies

(Referred to in paragraph 1.2.3.1.)

Sl. No.	Name of company	Name of department	Date of incorporation	Total capital invested at the end of the year (A)	Profit(+)/ Loss (-)
1	2	3	4	5	6
	Electricals, Electronics and Engineering				
1	Keltron Counters Limited (Subsidiary of KELTRON)	Industries	21.7.1964	835.18	(-) 133.58
	Textiles, Chemicals, Minerals, Clays etc.				
2	The Travancore-Cochin Chemicals Limited	-do-	8.11.1951	3213.14	(+)1313.90
3	Travancore Titanium Products Limited	-do-	18.12.1946	3475.07	(+) 96.75
4	Kerala Clays and Ceramic Products Limited	-do-	27.6.1984	169.19	(+) 24.10
5	Kerala Special Refractories Limited	-do-	5.11.1985	398.23	
	Plantation and Agro and Wood based Industries				
6	The Rehabilitation Plantations Limited	Rehabilitation	5.5.1976	2171.85	(+)1119.04
7	Oil Palm India Limited	Agriculture	21.11.1977	1373.08	(+) 592.09
	Welfare				
8	Kerala Police Housing and Construction Corporation Limited	Home	2.7.1990	875.21	
	Developmental				
9	Kerala State Industrial Development Corporation Limited (KSIDC)	Industries	21.7.1961	16335.73	(+)1794.97

Notes :

- A. Capital invested represents paid-up capital plus long term loans plus free reserves
 B. Except in the case of financial institutions, capital employed represents net fixed
 C. Capital employed represents the mean of the aggregate of the opening and closing

2A

which finalised their accounts for 1994-95

(Figures in columns 5 to 12 are rupees in lakhs)

Total interest -changed to profit and loss account	Interest on long term loans	Total return on capital invested (6+8)	Capital employed (B)	Total return on capital employed (6+7)	Accumulated loss	Percentage of total return on capital invested	Percentage of total return on capital employed
7	8	9	10	11	12	13	14
60.83	60.83	(-) 72.75	(-) 286.87	(-) 72.75	1138.41	..	..
1.65	..	1313.90	2599.49	1315.55	..	40.9	50.6
19.68	..	96.75	1684.09	116.43	..	2.8	6.9
1.74	1.74	25.84	168.86	25.84	..	15.3	15.2
(Commercial production not commenced)							
..	..	1119.04	1760.49	1119.04	..	51.5	63.6
0.18	0.18	592.47	840.14	592.47	..	43.1	70.5
(Commercial activities not commenced)							
880.99	880.13	2675.10	16961.52 (C)	2675.96	575.60	16.4	15.8

at the close of the year.

assets (excluding work-in-progress) plus working capital.

balances of paid-up capital, free reserves and borrowings.

ANNEXURE

Summarised financial results of Government companies which

(Referred to in paragraph 1.2.2.)

Sl. No.	Name of company	Name of department	Date of incorporation	Total capital invested at the end of the year (A)	Profit(+)/ Loss (-)
1	2	3	4	5	6
	For the year 1993-94				
	Electrical, Electronics and Engineering				
1	United Electricals Industries Limited	Industries	3.10.1950	401.12	(+) 77.03
2	Traco Cable Company Limited	-do-	5.2.1960	4600.56	(+)254.54
3	Kerala Electrical and Allied Engineering Company Limited	-do-	5.6.1964	4189.98	(-)738.19
4	Keltron Counters Limited (Subsidiary of KELTRON)	-do-	21.7.1964	688.63	(-)113.52
5	Kerala State Electronics Development Corporation Limited (KELTRON)	-do-	29.9.1972	15181.78	(+)195.54
6	Keltron Electro Cermics Limited (Subsidiary of KELTRON)	-do-	23.4.1974	509.79	(+)59.28
7	Keltron Magnetics Limited (Subsidiary of KELTRON)	-do-	1.3.1975	54.31	(-)23.70
8	Keltron Power Devices Limited (Subsidiary of KELTRON)	-do-	28.1.1976	1035.69	(-)283.86
9	Keltron Rectifiers Limited (Subsidiary of KELTRON)	-do-	28.3.1976	719.46	(-)119.86
10	The Metal Industries Limited	-do-	6.3.1928	38.32	(-)0.09
11	Steel Complex Limited (Subsidiary of KSIDC)	-do-	12.12.1969	997.07	(-)394.50
12	Steel Industrials Kerala Limited (SILK)	-do-	3.1.1975	3153.91	(-)142.62
13	Kerala Automobiles Limited	-do-	15.3.1978	1396.19	(-)14.19
14	Steel and Industrial Forgings Limited (Subsidiary of SILK)	-do-	1.6.1983	1590.29	(-)294.95

2B

Finalised their accounts for earlier years since last Report

(Figures in columns 5 to 12 are rupees in lakhs)

Total interest changed to profit and loss account	Interest on long term loans	Total return on capital invested (6+8)	Capital employed (B)	Total return on capital employed (6+7)	Accum- lated loss	Percentage of total return on capital invested	Percente of total return on capital employed
7	8	9	10	11	12	13	14
12.45	0.42	77.45	279.22	89.48	163.89	19.3	32.1
651.02	574.69	829.23	4445.93	905.56	645.34	18.0	20.4
613.90	322.17	(-)416.02	3475.32	(-)124.22	2017.10	..	..
108.70	108.70	(-)4.82	(-)152.19	(-)4.82	1003.24	..	..
2188.19	788.40	983.94	12536.15	2383.73	6661.27	6.5	19.0
21.79	13.07	72.35	282.58	81.07	291.60	14.2	28.7
14.30	10.17	(-)13.53	15.87	(-)9.40	67.63	..	..
231.15	225.97	(-)57.89	(-)629.57	(-)52.71	1836.33	..	..
135.81	109.92	(-)9.94	(-)287.38	15.95	1152.07	..	..
4.14	1.39	1.30	30.66	4.05	23.31	3.4	13.2
134.19	11.11	(-)383.39	19.06	(-)260.31	1596.35	..	..
149.79	30.46	(-)112.16	1530.28	7.17	663.89	..	0.5
172.93	112.65	98.46	145.90	158.74	1577.17	7.1	108.8
287.17	200.58	(-)94.37	321.33	(-)7.78	1479.02	..	..

1	2	3	4	5	6
15	Autokast Limited (Subsidiary of SILK)	Industries	21.5.1984	3812.14	(-)1037.91
	Textiles, Chemicals, Minerals, Clays etc.				
16	Trivandrum Spinning Mills Limited	-do-	1.11.1963	468.53	(-)85.13
17	The Travancore Cements Limited	-do-	9.10.1946	312.69	(+)125.24
18	Malabar Cements Limited	-do-	11.4.1978	5161.89	(+)842.79
	Plantation, Agro and Wood based Industries				
19	The Plantation Corporation of Kerala Limited	Agriculture	12.11.1962	1328.69	(+)631.08
20	The Travancore Sugars and Chemicals Limited	Industries	23.6.1937	51.00	(-)99.19
21	Forest Industries (Travancore) Limited	-do-	10.8.1946	57.83	(+)2.59
22	Travancore Plywood Industries Limited	-do-	1.11.1963	479.28	(-)93.75
	Welfare				
23	Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited	-do-	13.11.1985	27.50	(-)3.35
24	Kerala Police Housing and Construction Corporation Limited	Home	2.7.1990	848.00	
	Developmental				
25	Kerala State Industrial Enterprises Limited	Industries	25.1.1973	4537.79	(+)1.34
	Others (Public Utility)				
26	Kerala Shipping and Inland Navigation Corporation Limited	Transport	29.12.1975	703.33	(+)53.08
	Trading				
27	Kerala State Beverages (M&M) Corporation Limited	Taxes	23.2.1984	197.72	(+)133.66

	7	8	9	10	11	12	13	14
	536.34	455.80	(-)582.11	(-)982.98	(-)501.57	5264.56	..	..
	22.71	15.10	(-)70.03	(-)240.22	(-)62.42	766.52	..	..
	5.60	..	125.24	594.64	130.84	..	43.7	22.0
	385.80	353.81	1196.60	2919.49	1228.59	301.65	23.2	42.1
	3.39	3.39	634.47	5507.41	634.47	..	47.8	11.5
	17.93	..	(-)99.19	(-)74.28	(-)81.26	140.97	..	..
	4.39	..	2.59	83.19	6.98	..	4.5	8.4
	8.86	8.86	(-)84.89	(-)538.30	(-)84.89	1057.48	..	..
	0.30	0.30	(-)3.05	22.55	(-)3.05	10.64	..	..
	(Commercial activities not commenced)							
	258.71	258.65	259.99	4466.67 (C)	260.05	12.55	5.7	5.8
	13.07	13.07	66.15	744.10	66.15	..	9.4	8.9
	..	..	133.66	197.72	133.66	..	67.6	67.6

1	2	3	4	5	6
	For the year 1992-93				-
	Electrical, Electronics and Engineering				
1	Kerala Electrical and Allied Engineering Company Limited	Industries	5.6.1964	3576.52	(-)603.23
2	Kerala State Electronics Development Corporation Limited (KELTRON)	-do-	29.9.1972	3453.33	(+)113.45
3	The Metal Industries Limited	-do-	6.3.1928	38.32	(-)3.71
4	Kerala Hitech Industries Limited	-do-	19.6.1989	2770.05	
5	Sidco Mohan Kerala Limited (Subsidiary of SIDCO)	-do-	20.8.1980	48.44	(-)7.38
	Textiles, Chemicals, Minerals, Clays etc.				
6	The Pharmaceutical Corporation (IM) Kerala Limited	Health	8.9.1975	240.89	(-)28.26
	Plantation, Agro and Wood based Industries				
7	The Kerala Agro Industries Corporation Limited	Agriculture	22.3.1968	534.90	(-)94.68
8	Kerala State Bamboo Corporation Limited	Industries	21.7.1964	365.88	(+)30.62
	Welfare				
9	Overseas Development and Employment Promotion Consultants Limited	Labour	20.10.1977	41.79	(-)0.20
	Developmental				
10	Kerala Small Industries Development Corporation Limited (SIDCO)	Industries	6.11.1975	785.98	(-)126.43
	Financial				
11	The Kerala State Financial Enterprises Limited	Taxes	6.11.1969	4728.39	(+)49.00

	(6)	(7)	(8)	(9)	(10)
	...	...	...	...	26.69
	...	...	...	...	1.28@
	...	...	...	...	0.85
	...	...	0.25	0.22	0.22
	0.44	1.00	1.00	...	...
	4.93	...	...	...	...
	5.98	...	...	...	...
	2.82	...	...	...	...
	...	...	...	...	0.78
	2.20	...	...	...	...

	...	...	...	...	0.14
	...	...	...	...	0.01@
	...	...	...	...	52.24
	...	...	...	...	2.05@

(1)	(2)	(3)	(4)	(5)	
25	The Kerala Ceramics Limited	...	...	...
26	Malabar Cements Limited	...	...	...
27	Kerala State Development Corporation for Scheduled Castes & Scheduled Tribes Limited	...	...	...
28	Kerala State Development Corporation for Christian Converts from Scheduled castes & Recommended Communities Limited	...	...	...
29	Kerala School Teachers and Non-Teaching Staff Welfare Corporation Limited	...	...	...
30	Kerala Police Housing and Construction Corporation Limited	...	...	...
31	Handicrafts Development Corporation of Kerala Limited	...	...	...
32	The Kerala Land Development Corporation Limited	...	...	...
33	Kerala State Industrial Enterprises Limited(KSIE)	...	...	...
34	Kerala Small Industries Development Corporation Limited (SIDCO)	...	0.67	...	
		
35	Kerala Tourism Development Corporation Limited(KTDC)	...	...	...
36	Meat Products of India Limited	0.09	0.1	0.1	
		

	(6)	(7)	(8)	(9)	(10)
	...	3.28	3.28	3.28	3.28
	0.20	...	...	...	16.94
	...	0.23	...	13.66	11.91
	...	...	0.41	3.00	3.41
	...	0.39	...	...	5.04
	...	0.80	2.45	2.72	2.72
	...	0.02	...	...	....
	...	...	...	...	15.96
	...	...	...	...	0.55
	1.1	1.63	1.31	...	1.50
	...	0.06@	0.04@	...	0.03@
	...	...	...	1.25	
	0.1	0.28	0.28	0.13	0.13
	...	0.2@	0.01@	0.02@	0.02@

(1)	(2)	(3)	(4)	(5)	
37	The Kerala State Financial Enterprises Limited	...	...	...
38	Kerala Urban Development Finance Corporation Limited	...	...	...
39	Kerala Transport Development Finance Corporation Limited	...	...	...
40	The Kerala State Civil Supplies Corporation Limited	15.00 21.31*	15.00 ...	15.00 ...	
	Total	163.99 46.31*	165.80 38.00*	110.02 38.00*	

* Letters of credit

@ Interest on principal

	(6)	(7)	(8)	(9)	(10)
	...	2.00	2.00	...	29.23
	...	50.00	75.00	10.00	100.00
	...	21.62	1.00	3.36	44.72
	13.81	...	...	...	...

	204.72 38.00*	244.96 11.93@	233.08 11.25@	182.04 14.54@	554.15 44.98@

ANNEXURE 4

Statement showing capacity utilisation during 1993-94 and 1994-95

(Referred to in Paragraph 1.2.8)

Sl No.	Name of Company	Units	Installed capacity 1993-94 & 1994-95	Actual production during		Percentage utilised during	
				1993-94	1994-95	1993-94	1994-95
1	Keltron Counters Limited (Subsidiary of KELTRON)	Lakh pieces	10	0.32	0.25	3.19	2.53
2	Keltron Crystals Limited (Subsidiary of KELTRON)	Thousand numbers	2084	324.42	558.77	15.57	26.81
3	Keltron Component Complex Limited (Subsidiary of KELTRON)	Millions	150	98.71	104.86	65.81	69.88
4	Keltron Resistors Limited (Subsidiary of KELTRON)	Millions	142	90.58	91.90	63.79	64.72
5	Steel Complex Limited (SCL) (Subsidiary of KSIDC)	Tonnes	55000	174	Nil	0.32	Nil

6	Malabar Steel Re-rolling Mill Limited (Subsidiary of SCL)	Tonnes	12000	133	Nil	1.11	Nil
7	Steel Industrials Kerala Limited (SILK)	Tonnes	3000	-	2146.00	-	71.53
8	Astral Watches Limited (Subsidiary of KSIDC)	Lakh Numbers	3.5	2.26	2.49	64.57	71.14
9	Steel and Industrial Forgings Limited (Subsidiary of SILK)	Tonnes	7500	2439	3417.00	32.52	45.56
10	Autokast Limited (Subsidiary of SILK)	Tonnes	18000	2517	3383.00	13.98	18.79

ANNEXURE

STATEMENT SHOWING SUMMARISED FINANCIAL RESULTS OF STATUTORY
HAVE BEEN FINALISED SINCE THE LAST REPORT

(Referred to in paragraph 1.3.1.3)

Sl. No.	Name of the Corporation/ Board	Name of the department	Date of incorporation	Period of accounts	Total capital invested at the end of the year (A)
1	2	3	4	5	6
1	Kerala State Electricity Board	Power	1.4.1957	1994-95*	1556.35
2	Kerala State Road Transport Corporation	Transport	15.3.1965	1993-94* 1994-95*	167.56 206.32
3	Kerala Industrial Infrastructure Development Corporation	Industries	23.2.1993	1994-95*	32.88**
4	Kerala Financial Corporation	Finance	1.12.1953	1994-95*	358.27
5	Kerala State Warehousing Corporation	Agriculture	20.2.1959	1990-91 1991-92 1992-93*	6.59 6.70 7.05

Notes :

- A. Capital invested represents paid up capital plus long term loans plus free reserves at the close of the year.
- B. Except in the case of Kerala Financial Corporation, capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, long term loans and free reserves. In respect of others, capital employed represents net fixed assets plus working capital.

* Figures are provisional

** Represents grant received from the State Government.

5

CORPORATIONS FOR THE YEAR(S) FOR WHICH ANNUAL ACCOUNTS

(Figures in columns 6 to 12 represent rupees in crores)

Profit(+)/ Loss (-)	Total interest charged to profit and loss account	Interest on long term loans	Total return on capital invested (7+9)	Capital employed (B)	Total return on capital employed (7+8)	Percentage of total return on capital invested	Percentage of total return on capital employed
7	8	9	10	11	12	13	14
(+)21.88	159.71	159.71	181.59	905.18	181.59	11.7	20.1
(-)28.95	25.23	25.23	(-)3.72	(-)84.64	(-)3.72	-	-
(+) 0.10	23.17	23.17	23.27	(-) 22.31	23.27	11.3	-
Commercial activities not commenced							
(+) 1.88	34.80	34.80	36.68	344.21	36.68	10.2	10.7
(-) 0.87	0.32	0.32	(-) 0.55	6.07	(-)0.55	-	-
(-) 0.76	0.37	0.37	(-) 0.39	5.87	(-)0.39	-	-
(-) 0.76	0.39	0.39	(-) 0.37	5.40	(-)0.37	-	-

