Report of the
Comptroller and Auditor General
of India

for the year ended March 2003

Union Government (Commercial)

Public Sector Undertakings

Reviews on some of the activities of selected PSUs

No. 4 of 2004

CONTENTS

PREFACE

A reference is invited to the prefatory remarks in Report of the Comptroller and Auditor General of India – Union Government No.1 (Commercial) 2004 where a mention was made that reviews on the performance of Companies/Corporations by the Comptroller and Auditor General of India are presented in separate Reports.

This Report contains the reviews on some of the activities of the following PSUs:

Name of the Ministry/Department	Title of the Review
Ministry of Chemicals and Fertilizers, Department of Fertilizers	Project Implementation, Production Performance and Energy Conservation by Rashtriya Chemicals and Fertilizers Limited
Ministry of Civil Aviation	Pay Packages and Perks of Indian Airlines Limited
Ministry of Commerce and Industry	Iron Ore Trade by MMTC Limited
Ministry of Consumer Affairs, Food and Public Distribution	Procurement and Milling of Paddy in the Punjab Region of Food Corporation of India
Ministry of Defence	Marketing Activities of Bharat Earth Movers Limited
Ministry of Environment and Forest	Red Oil Palm Project and Katchal Rubber Project of Andaman and Nicobar Islands Forest and Plantation Development Corporation Limited
Ministry of Heavy Industry and Public Enterprises	Marketing Activities of HMT Watches Limited
Ministry of Petroleum and Natural Gas	(a) Purchase, Transportation, Marketing of Natural Gas and Extraction of Liquid Hydrocarbons by GAIL (India) Limited (b) Saurashtra Exploration Project of Oil India Limited

Ministry of Railways	Operational Performance of Container Terminals of Container Corporation of India Limited
Ministry of Shipping	Shipbuilding Activities of Hindustran Shipyard Limited
Ministry of Social Justice and Empowerment	Functioning of Social Sector Companies - National Scheduled Castes Finance and Development Corporation, National Backward Classes Finance and Development Corporation, National Minorities Development and Finance Corporation, National Safai Karamchari Finance and Development Corporation and National Handicapped Finance and Development Corporation
Ministry of Steel	Performance of Plant and Equipment, Marketing and Implementation of Projects – National Mineral Development Corporation Limited.

OVERVIEW

This volume of Audit Report represents reviews on 13 thematic areas of operation involving Public Sector Undertakings under 12 Ministries. These themes were selected in audit for review on the basis of their relative importance in the functioning of concerned organisation. The total financial implication of these reviews is Rs.8140 crore.

MINISTRY OF CHEMICALS AND FERTILIZERS DEPARTMENT OF FERTILIZERS

Rashtriya Chemicals and Fertilizers Limited

❖ **Project Implementation, Production Performance and Energy Conservation**

A review of project implementation, production performance and energy conservation of the Company revealed that the Company failed to achieve the desired results in the implementation of some of the schemes due to faulty project formulations and selection of inappropriate technology. Besides this, the Company could not utilise its installed capacity optimally and consumption of raw materials and energy was far in excess of designed norms. The review of completed projects, production performance etc. brought out that:

- The Company's share in all India production of fertilizers in terms of nitrogen content came down from 11.14 per cent in 1994-95 to 7.36 per cent in 2001-02.
- While there was cost and time overrun in 9 projects out of 26 projects executed during the period covered under the review, 13 projects entailed time overrun and 2 projects involved cost overrun. Remaining 2 projects were completed as scheduled and within the sanctioned cost.
- Inappropriate selection of technology/consultants resulted in loss of Rs.12.61 crore. The entire expenditure incurred on CO plant by the Company had to be written off.
- Over-ambitious, unrealistic projections and incorrect assessment of probable competition rendered investment of Rs.42.32 crore in Purge Gas Recovery plant economically unviable.
- Defective formulation of project with over reliance on a single customer and creation of excess capacity without proper market survey resulted in an investment of Rs.11.27 crore on Dimethyl Acetamide plant largely unfruitful. Effort to utilise the plant even on a limited extent led to a net loss of Rs.6.93 crore.
- The Company assessed loss of Urea production due to shortage of gas during the years from 1992-93 to 2002-03 at 20.79 lakh MT.

- Due to equipment breakdown in Ammonia plants during 1997-2003, the Company lost production of 6.01 lakh MT urea leading to loss of profit of Rs.31.57 crore.

- Excess consumption of raw materials amounted to Rs.1337.81 crore as compared to design norms in Ammonia and Urea plants during the years from 1994-95 to 2002-03.

- Excess consumption of energy varied between 2.31 to 36.48 per cent compared to design norms in Ammonia and Urea plants during 1995-2003.

- The Company incurred an extra expenditure of Rs.2.10 crore due to excess consumption of energy even after incurring Rs.18.22 crore for improving energy utilisation in Methanol Plant.

MINISTRY OF CIVIL AVIATION

Indian Airlines Limited

❖ **Pay Packages and Perks**

- Indian Airlines Limited (Company) formulated various schemes for the payment of wages, allowances and productivity linked incentives (PLI) to its employees during the last five years ended March 2003 without linking them to financial performance of the Company, continuance of which would have adverse impact on the financial viability and sustainability of the Company on short and long-term basis. Despite the increased payment of PLI, the overall profitability of the Company did not improve. As the Company did not follow its approved wage policy, this resulted in outflow of resources in excess of inflow. Thus, the Company made total PLI payment of Rs.1449.02 crore during April 1998 to March 2003 which exceeded the losses of Rs.585.83 crore incurred during above period. Although the number of employees of the Company had decreased by 10.93 per cent during the period 1998-99 to 2002-03, the total employee cost increased by Rs.143.05 crore. The Company had to pay increased cost of employees out of additional revenue of Rs.708.57 crore generated from the periodical upward revisions of fare.

- The Company has paid productivity allowance/fixed productivity allowance/special productivity allowance amounting to Rs.248.12 crore from April 1998 to March 2003 without measurable linkage to the performance level achieved by the employees. The Company also paid Rs.13.57 crore to its Cabin Crew and Pilots as out of pocket expenses over and above the terms of settlement entered into with their respective unions.

MINISTRY OF COMMERCE AND INDUSTRY

MMTC Limited

❖ **Iron Ore Trade**

- MMTC Limited[1] (Company) was set up in October 1963 as an agency for export of minerals, ores and concentrates and importing metals including iron and steel, fertilizers and precious metals.

- Although the Country's export of iron ore has increased from 316.80 lakh MT to 480.20 lakh MT during last five years, the Company's share of export reduced from 33 per cent in 1998-99 to 27 per cent in 2002-03. Profit of the Company from the export of iron ore reduced to Rs.73.08 crore in 2002-03 from Rs.93.14 crore in 2000-01.

- The Company could not meet the needs of the foreign buyers because of its inability to provide iron ore of required specification. The Company installed a crushing and screening plant at Banihati in August 2001 at a cost of Rs.2.95 crore to meet the demand partially. As the cost of operation of the plant was abnormally high, the Company suffered a loss of Rs.4.33 crore in the year 2002-2003.

- The Company suffered a loss of Rs.29.92 crore over a period of 5 years ending March 2003 towards shortage of 4.69 lakh MT of iron ore.

- The Company incurred Rs.48.94 crore towards demurrage on various vessels during the period from 1998-99 to 2002-03.

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Food Corporation of India

❖ **Procurement and Milling of Paddy in the Punjab Region**

- Review of procurement and milling of paddy in the Punjab region of the Corporation revealed that the paddy procured was below Fair Average Quality and the Corporation suffered a loss of Rs.120.60 crore in milling as well as in disposal of the same. The Custom Milled rice was short delivered to the Corporation due to allowing driage allowance, which was not as per the recommendation of the Expert Committee. As a result there was a loss of Rs.162.83 crore to the Corporation.

- The State Government and its agencies were reimbursed custody and maintenance charges of Rs.103.21 crore without ensuring that the same were actually incurred. There was also an excess payment of Rs.146.69

[1] *Erstwhile Minerals and Metal Trading Corporation Limited*

crore towards transportation charges to the State Government and its agencies.

- There was a loss of Rs.107.43 crore to the Corporation due to short delivery of 15.55 lakh MT of levy rice during 1997-98 to 2001-02 by the millers.

- The condition of the Mandis was far from satisfactory despite the fact that the Market Committees collected Rs.1436.12 crore towards market fee and RD cess during 1998-99 to 2001-02 for improving the conditions of the Mandis in the State. Therefore, the very purpose of collection of market fee and RD cess was not achieved.

MINISTRY OF DEFENCE

Bharat Earth Movers Limited

❖ **Marketing Activities**

- The Company did not conduct any market survey during the last 5 years ending March 2003 resulting in procuring/manufacturing spares/equipment which it could not utilise/sell. The inventories as on March 2003 were 41 per cent of the value of production. Due to inaccurate market projections, the production capacity created to manufacture diesel engines and cylinder blocks remained under-utilised.

- The Company's core activity comprises manufacturing and sale of earthmoving equipment, yet its share in the field declined due to its inability to offer competitive prices and to cope with competition. The main reason for incurring losses in manufacturing and sale of earthmoving equipment was its failure to take appropriate cost reduction measures.

- Despite having full-fledged distribution network, with adequate manpower, the Company injudiciously engaged private agencies for securing orders for its products resulting in avoidable expenditure.

- The Company has not evolved any policy with regard to taking up of R&D projects. As such it has not been able to successfully introduce R&D products in the market.

- There were delays on the part of the Company in supplying equipment to the customers. As such the latter withheld payments/levied liquidated damages.

- BCCL, a sick subsidiary, defaulted in making payment to the Company even though the Company continued to supply equipment/spares on credit to it.

MINISTRY OF ENVIRONMENT AND FOREST

Andaman and Nicobar Islands Forest and Plantation Development Corporation Limited

❖ **Red Oil Palm Project and Katchal Rubber Project**

Andaman and Nicobar Islands Forest and Plantation Development Corporation Limited (Corporation) was incorporated on 21 January 1977 with the objective of developing and exploiting commercially the forestry sector especially the inaccessible areas in Little Andaman and North Andaman Islands. The Corporation has mainly three lines of activities viz. (i) Forestry, (ii) Red Oil Palm (ROP) Project and (iii) Rubber Project. Out of the above following two activities have been brought under review:

Red Oil Palm Project

The Project was sanctioned and entrusted to the Corporation by the Government of India (GOI) in the year 1979 for raising 2400 hectares to be extended to 5000 hectares in the second phase. Prior to that, Andaman Forest Department had already raised plantation over an area of 160 hectare during 1975-76 which was also transferred to the Corporation. Up to 1985-86, ROP plantation was raised over a total area of 1593 hectares including 160 hectares. Thereafter no progress on plantation was made as GOI had imposed a ban in January 1986 on further expansion of plantation of ROP in these Islands. The performance of the project always remained poor and loss of Rs.35.31 crore was incurred during the last five years ending March 2003 due to low yield of Fresh Fruit Bunches as compared to the projected yield. It further incurred a loss of Rs.2.24 crore during the above years due to extraction of oil from Fresh Fruit Bunches lower than the International Standards. The Central Agricultural Research Institute (CARI) made a scientific study during February 1996 and felt in their report that no major environmental impact was being caused with the ROP plantation in Little Andaman. However, due to the ban, the project could not be expanded. Committee on Public Undertaking during their study tour (January 2001) to the Corporation opined that Government should take note of the CARI recommendations. However, nothing has been done in this regard so far.

Katchal Rubber Project

This project was approved by GOI in the year 1968 for rehabilitation/settlement of Tamil repatriates from Sri Lanka. Initially it was undertaken by the Rubber Board, later on transferred to Ministry of Agriculture and finally transferred to the Corporation on 1 April 1983. A total 614.84 hectare of land was involved in the plantation of Rubber trees. The performance of the project never remained satisfactory during the period of report. Most of the plants under this project were planted during the period from 1968 to 1979 and as such have become old and the yield has gone down as the Rubber trees yield latex for about 25 to 28 years. Though replantation was proposed, the same was not carried out due to huge losses of the project and future uncertainty about the prices of raw rubber and also in view of the Hon'ble Supreme Court's orders of May 2002. Prior to that only a small portion of 30 hectare was replanted by incurring an expenditure of Rs.52.44 lakh. The losses of the project ranged between Rs.1.05 crore to Rs.1.86 crore during the last five year ending March 2002. M/s. Tata Consultancy Services in their report of May 2002 and COPU in their recommendations of July 2001 have recommended closure of this activity, as in the opinion of COPU, it is a rehabilitation project and should not be run by a commercial Corporation.

MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

HMT Watches Limited

❖ **Marketing Activities**

- The impact of grey/spurious market has been severe on HMT Watches due to its high brand equity. Outsourcing of appearance parts and watches under HMT brand name without adequate checks was found to be a major contributing factor for the growth of grey/spurious market for HMT watches.

- Inaccurate market projections resulted in accumulation of stock and also accumulation of debts due to setting up Redistribution stockists (RDSs) sales without valid order.

- The Company had to compromise its dominant role as producer of high brand equity watches vis-à-vis RDSs and had to relax credit policy to its disadvantage.

- The selection of a Vendor for outsourcing the complete watches is questionable as it ignored all prescribed procedures including Central Vigilance Commission guidelines in this regard. The justification for outsourcing of complete watches was not based on any cost-benefit study/analysis. The documentation involved in outsourcing agreement/transactions was not transparent. The whole exercise from justification of outsourcing to selection of vendor and further transactions lacked transparency.

MINISTRY OF PETROLEUM AND NATURAL GAS

GAIL (India) Limited

❖ **Purchase, Transportation, Marketing of Natural Gas and Extraction of Liquid Hydrocarbons from Natural Gas**

- The specification of quality of gas to be supplied by the Ravva Joint Venture through satellite field was reduced. This resulted in an extra benefit of Rs.3.75 crore to the Joint Venture.

- The gas was purchased from Panna-Mukta and Tapti Fields operated by Private Sector Joint Venture, at 119 per cent of the International Price by fixing formula advantageous to the Joint Venture, while other Joint Venture was being paid the International price. This resulted in an additional payment of Rs.212.86 crore to the Joint Venture.

- Gas from the Tapti Field having Calorific Value (CV) of less than 9000 K cal. was being accepted at the normal price (without discount) as the Gas Purchase and Sale Agreement was yet to be executed (September 2003). The loss suffered on this account was Rs.43.68 crore.

- Gas was purchased from JVs at a price higher than the sale price and the difference was adjusted from the price paid to ONGC. Higher cost of gas purchase from JVs amounting to Rs.3477 crore up to March 2003 was thus subsidised at the cost of ONGC and was not disclosed in the budget of the respective years.

- Defective metering of supply from HBJ pipeline resulted in short billed quantity of 1848.173 billion K/cal valuing Rs.66.23 crore from April 1999 to March 2003.

- Despite shortage of actual availability of gas, allotment and supply of gas to Reliance Industries was increased without recovering transportation charges and by making cuts in the supply to priority sectors like Power generation and Fertilizer. This has resulted in loss of Rs.20.74 crore to the Company.

- The LPG Plant at Usar was set up based on estimated gas availability of 5 MMSCMD. The Company went ahead in implementing the plant at a cost of Rs.297.80 crore without a mid term appraisal even when the actual availability of gas in terms of quality and quantity was not adequate to meet the Plant's requirement. The capacity utilisation of the Plant approximating 16.09 per cent was not adequate even to recover the operating cost. The investment had, thus, become infructuous.

- The Lakwa Plant was based on incorrect estimate of quality and quantity of gas availability. The Plant was commissioned at a cost of Rs.247.93 crore in October 1998 and it could achieve only 29.93 per cent capacity utilisation in 2002-2003. This resulted in under utilisation of its capacity.

- The price of Natural Gas, raw material for LPG production was highly subsidised. During the period from October 1997 to March 2003 price of gas increased by 33 per cent only while LPG price was increased up to 259.17 per cent. This resulted in gain of Rs.1346.67 crore in respect of two Plants.

- Due to defect in the tender evaluation system, M/s. GEI Engineering, the supplier of Air Cooled Heat Exchanges in other Plants of the Company, was technically disqualified. This resulted in extra expenditure of Rs.91 lakh.

Oil India Limited

❖ **Saurashtra Exploration Project**

- Oil India Limited awarded the drilling contract to a contractor having past record of unsatisfactory performances. Non execution of drilling work as per the contractual obligation by the contractor defeated the very purpose of drilling the wells and the desired benefit could not be achieved. This resulted in infructuous expenditure of Rs.74.03 crore apart from involving the Company in an arbitration case, the final award of which was awaited (September 2003).

MINISTRY OF RAILWAYS

Container Corporation of India Limited

❖ **Operational Performance of Container Terminals**

- Container Corporation of India Limited commenced its operations in November 1989 for providing multimodal transport to international and domestic cargo within the country and abroad by all modes. As on 31 March 2003, the Company has 44 Inland Container Depots, of which 23 also served as Domestic Container Terminals (DCTs), and seven exclusive DCTs. The operations of the container terminals include container handling, stacking, and dispatch/clearance. Analysis of performance of the terminals revealed following deficiencies.

- There were overall shortfalls in handling traffic by all the terminals of the Company as compared to projections made in the corporate plan for the last five years ended 31 March 2003.

- Even after a decade of its existence, the Company's business from international traffic was mainly concentrated on North India-Mumbai corridor. While contribution of the Western and Southern regions showed declining trend during the last five years ended 31 March 2003, the contribution from the Eastern, Central, South-Central and the North-West regions ranged between 1.4 to 9.8 per cent.

- The Company's business from domestic traffic was mainly from Northern, Southern and Eastern regions. The Company was yet to justify existence of DCTs at many places, even after a decade of its existence and creation of a separate domestic division.

- The Company neither fixed designed capacity of terminals, nor fixed the terminal-wise targets. While many of the terminals have not been performing at desirable levels, there was no effective system to assess the viability of these terminals.

- There were shortcomings in the award of contracts for hiring handling machines. The requirement of the machines was not properly assessed and the machines were not put to optimum use. This has resulted in extra expenditure of Rs.8.64 crore.

MINISTRY OF SHIPPING

Hindustan Shipyard Limited

❖ **Shipbuilding Activities**

- Review of the Shipbuilding Activities of the Company by Audit revealed that for the construction undertaken in respect of the 12 vessels and delivered during the years between 1994-95 and 2002-2003, the core activity of the Company viz., shipbuilding became uneconomical in view of the fact that in all the vessels, the Company sustained overall loss of Rs.306.16 crore (excluding the cost of interest and depreciation). In respect of 3 vessels, the Company suffered negative contribution to the extent of Rs.29.50 crore. Consequently, the overall losses of the Company accumulated to Rs.1103.43 crore with negative net worth of (-) Rs.981.62 crore as on 31 March 2003.

- Though the Company's shipbuilding capacity was enhanced to 6.5 pioneer vessels per annum under Stage-II Modernisation Programme during the years 1982-83 to 1991-92 at a capital cost of Rs.82.18 crore, the capacity was reduced to 3.5 pioneer vessel per annum subsequently.

- Even against the reduced capacity of 3.5 pioneer vessels per annum, the Company could not utilize even 50 per cent of it in any single year during the period under review. Consequently, it resulted in low capacity utilisation, which was between 13.14 per cent (1994-95) to 41.71 per cent (1996-97) of the reduced capacity and also low productivity compared to the norm.

- The Company was facing poor order book position. However, it failed to work out economic advantages appropriately and could not take up the job in respect of 7 vessels due to its poor marketing efforts.

- Out of the 12 vessels covered in the Review, only 4 vessels were major and other 8 vessels were smaller in size, particularly with reference to the ship construction facilities provided in the Company.

- All the 12 vessels were delivered with abnormal delay ranging between 10 to 109 months compared to originally agreed schedules and as a result the customers recovered Rs.11.52 crore (9 vessels) towards liquidated damages for delayed delivery, besides incurring additional expenditure of Rs.4.73 crore (12 vessels) towards Builder's Risk Insurance during the delayed period.

- Despite excess man power and low capacity utilisation, the Company went ahead in sub-contracting/off-loading certain jobs to outside agencies in a number of cases and thereby incurred expenditure of Rs.24.73 crore during the years 1994-95 to 2002-03.

- Net excess consumption of steel as compared to the designed/standard/estimated net consumption resulted in additional expenditure of Rs.4.05 crore in respect of 9 vessels.

- Inappropriate financial negotiations with a customer resulted in payment of additional liquidated damages of Rs.4.52 crore and loss of Rs.81.73 lakh by agreeing to TT buying rates against the practice of TT selling rates in respect of vessel No.1135.

MINISTRY OF SOCIAL JUSTICE AND ENPOWERMENT

National Scheduled Castes Finance and Development Corporation (NSFDC), National Backward Classes Finance and Development Corporation (NBCFDC), National Minorities Development and Finance Corporation (NMDFC), National Safai Karamchari Finance and Development Corporation (NSKFDC) and National Handicapped Finance and Development Corporation (NHFDC)

❖ **Functioning of Social Sector PSUs**

GOI floated five Companies to promote developmental activities for benefit of members of targeted groups and invested a sum of Rs.1081.40 crore as equity capital (March 2002). All the five social sector Companies have disbursed funds amounting to Rs.2042.31 crore to 9.53 lakh beneficiaries up to March 2002. Review of the functioning of these Companies revealed the following:

- Disbursement of funds to the SCAs/NGOs has been low as compared to the available funds. The funds available from internal resources were more than the amount of loans disbursed in all the Companies, except NSKFDC. Despite non-utilisation of the available funds, the GOI almost regularly released equity capital to the Companies.

- There were several deficiencies at all stages of implementation of the schemes such as release of funds without fulfillment of stipulated conditions and without ensuring utilisation of the funds released earlier.

- Since the Companies did not effectively monitor the utilisation of funds by the SCAs and no system existed for effective monitoring of the progress of the business of the beneficiaries, there were diversions, non-utilisation and parking of funds for other purposes by the SCAs. In this way, the objectives for which the funds were disbursed to the

SCAs have not been achieved by the Companies. Funds amounting to Rs.277.60 crore were lying unutilised with the SCAs as on 31 March 2002.

- The recovery of loans from the SCAs was not satisfactory in the case of NSKFDC and NHFDC. Further, the recoveries made by the SCAs from ultimate beneficiaries was very poor in all the Companies. On certain occasions repayment of overdue amounts were adjusted by the Companies against the future disbursements to the SCAs. There were also cases of refund of funds by the SCAs without utilisation.

- There was no mechanism to evaluate the economic impact on beneficiaries, who have been granted loan by these Companies so as to ensure the fulfillment of the objectives for which the Companies have been established.

MINISTRY OF STEEL

❖ **National Mineral Development Corporation Limited**

Performance of Plant and Equipment, Marketing and Implementation of Projects

Introduction

The National Mineral Development Corporation Limited was incorporated on 15 November 1958 with the main objective of exploring and exploiting mineral resources (other than oil, natural gas and coal). The Company started its operations with a 2 million tonne capacity of sized iron ore by development and operation of Kiriburu Iron Ore Project, Bihar and has now grown into a 15.5 million tonne capacity organisation with three major iron ore mines. It is the largest producer and exporter of iron ore in the country. The present review covers the developments subsequent to 1989 and with particular reference to performance of plant and equipment, marketing and implementation of projects during the period 1994-95 to 2002-03.

Plant and Equipment Performance

Review of performance of various plant and equipment (P&E) deployed in all the mines of the Company revealed that the actual utilisation of P&E was far below the Bureau of Industrial Costs and Prices (BICP) norms. The actual utilisation of P&E was also less than the Company's own benchmark norms. Despite under utilisation, the Company resorted to excess procurement of HEM equipment valued Rs.41.22 crore.

Marketing

A review of operations of commercial department of the Company revealed that on account of certain deficiencies in sale contracts with MMTC, the Company had foregone revenue of Rs.41.88 crore.

Project Implementation

As a part of expansion and diversification, the Company had taken up various projects. A review of execution of the projects revealed that work orders were issued for construction of civil works on forest land without obtaining forest clearance and also purchase orders were issued for procurement of various P&E without linking the progress of civil works resulting in idling of equipment, expiry of warranty period. It was also noticed that there were time and cost overruns in the execution of projects besides incurring infructuous expenditure on certain projects.

MINISTRY OF CHEMICALS AND FERTILIZERS DEPARTMENT OF FERTILIZERS

CHAPTER : I

Rashtriya Chemicals and Fertilizers Limited

Project Implementation, Production Performance and Energy Conservation

Highlights

The Company's share in all India production of fertilizers in terms of Nitrogen content came down from 11.14 per cent in 1994-95 to 7.36 per cent in 2001-02 due to its failure to expand capacities/ modernise facilities.

(Para 1.1)

There was cost and time overrun in nine completed projects, time overrun in thirteen projects and cost overrun in two projects. A review of completed projects revealed non-achievement of desired results, faulty project formulation and selection of inappropriate technology etc.

(Para 1.3)

Purge Gas Recovery Plant was commissioned in December 1996 at a cost of Rs.42.32 crore on the basis of unrealistic projections. This along with the fall in the price of Argon on account of increased competition rendered the project economically unviable.

(Para. 1.3.1)

The Company allowed the contractor to take up modification in Di-Ammonium Phosphate (DAP) plant without getting the design and drawing approved by the consultants. This resulted in time overrun of 14 months and cost overrun of Rs.3.64 crore in completion. There was further delay of 17 months in putting it into use, on account of resistance from contract labour, which was finally settled by offering VRS compensation of Rs.5.84 crore. As a result, the Company could not achieve the saving of Rs.2.31 crore as anticipated.

(Para 1.3.2)

The Company had to spend Rs.18.82 crore on Dimethyl Formamide Plant (DMF) against original estimated cost of Rs.5.91 crore as there were delays in engaging consultants and deficiencies in detailed engineering of equipment furnished by the consultants. An amount of Rs.12.61 crore incurred on the Carbon Monoxide plant of the project had to be written off, as the technology was inappropriate. The Company had to incur an additional expenditure of Rs.9.50 crore for manufacturing of DMF with methyl formate instead of carbon monoxide. The Company incurred loss of Rs.10.65 crore in the production of DMF till 2002-03.

(Para 1.3.3)

The Company set up Dimethyl Acetamide (DMAC) plant at a cost of Rs.11.27 crore with an installed capacity of 5000 MT per annum (MTPA), against the original Detailed Project Report (DPR) capacity of 3000 MTPA. The actual demand was about 500/600 MTPA. The projection was based solely on increase in demand on expansion of activities of a single customer and that too without any commitment from the customer. Consequently, the Company incurred a net loss of Rs.6.93 crore during the years from 1993-94 to 2002-03.

(Para 1.3.4)

Project for process optimisation with advance control to reduce energy consumption/cost of production of Ammonia, with an outlay of Rs.3.55 crore, scheduled to be completed by April 1996 was actually completed in March 2003. Though erection of field instruments was completed during May 1996 to March 1997 and total expenditure incurred on the project was Rs.3.10 crore, the same could not be commissioned due to technical problems encountered in Mass Spectrometer. Consequently, the Company had to forgo the envisaged benefit of Rs.3.78 crore on account of saving in energy consumption for the past six years ended 31 March 2003.

(Para 1.3.5)

The Company incurred an extra expenditure of Rs.2.00 crore due to purchase of 21,900 MT of Ammonia from outside sources during the years 1994-1996 as the Ammonia Plants failed to achieve the designed capacity during the above period.

(Para 1.4.3)

While capacity utilisation of other gas based Urea plants in private and public sector ranged between 104 to 144 per cent during 1997-98 to 2001-02, the capacity utilisation of Thal plant of the Company ranged between 87 to 98 per cent.

(Para 1.4.4)

The Company assessed loss of Urea production due to shortage of gas during 1992-93 to 2002-03 to 20.79 lakh MT. Audit scrutiny revealed that avoidable reasons as given below also contributed to the loss.

(i) Excess consumption of gas in Ammonia plant ranging from 1025 to 1068 SM3 per MT against the designed norm of 983 SM3 and

(ii) Failure to initiate measures to improve the consumption level of equipment.

(Para 1.4.5)

The Company lost production of 6.01 lakh MT of Urea on account of equipment breakdown in Ammonia plants during 1997-2003 leading to loss of profit of Rs.31.57 crore. Non carrying out of preventive maintenance and delay in taking decisions regarding major repairs, replacement of equipment etc. proved detrimental to the plant health and adversely affected the productivity.

(Para 1.4.6)

Excess consumption of raw material amounted to Rs.1337.81 crore as compared to designed norms in Ammonia and Urea plants during years from 1994-95 to 2002-03.

(Para 1.4.7)

Excess consumption of energy varied between 2.31 to 36.48 per cent as compared to design norms in Ammonia and Urea plants during 1995-96 to 2002-03.

{Para 1.4.8 (1)}

The Company incurred an extra expenditure of Rs.2.10 crore due to excess consumption of energy even after incurring Rs.18.22 crore for improving energy utilisation in the Methanol Plant.

{Para 1.4.8 (2)}

1.1 Introduction

Rashtriya Chemicals and Fertilizers Limited (RCF) came into existence on 6 March 1978 with registered office at Mumbai on re-organisation of the Fertilizer Corporation of India Limited (FCI), whose Trombay Unit, West-South Marketing Zone, and Liaison office were transferred to RCF.

The main objective of the Company is to manufacture Fertilizers such as Urea, Suphala and Ammonium Nitrate Phosphate and industrial products like Methanol, Ammonium Bicarbonate, Nitric Acid, Sulphuric Acid, Phosphoric Acid, Ammonia, Sodium Nitrate/Nitrite, Methylamines, Dimethyl Formamide, Dimethyl Acetamide, and Argon.

Following table shows the Company's share in all India production during 1994-2002 in respect of various fertilizers in terms of Nitrogen content.

(Figures in lakh MT)

Year	All India production	RCF production	Percentage of RCF share in production
1994-95	79.44	8.85	11.14
1995-96	87.69	8.96	10.21
1996-97	85.93	7.98	9.28
1997-98	100.83	8.92	8.84
1998-99	104.77	8.77	8.37
1999-00	108.73	9.36	8.61
2000-01	109.43	8.26	7.55
2001-02	107.68	7.92	7.36

The Company's share came down from 11.14 per cent in 1994-95 to 7.36 per cent in 2001-02. The fall was due to:

(i) reduction in installed capacity of the Company from 10.00 lakh MT per annum (ltpa) to 9.55 ltpa in April 1995 because of closure of an aged plant at Trombay and

(ii) increase in the production in the country from 79.44 ltpa in 1994-95 to 107.68 ltpa in 2001-02.

Ministry stated (May 2001) that the Company did not add any new production capacities, whereas many new fertilizer-manufacturing companies came up and also some of the existing companies enhanced their capacities. They added that the Company's Thal-III expansion was under active consideration awaiting Government clearance, after which, its share would increase. Ministry agreed that failure of the Company to expand capacities/modernise facilities in time had resulted in its competitors going ahead.

The Company has two operating Units, viz. Trombay and Thal Projects. Division is headed by the Director (Technical) and assisted by General Managers of respective Units.

1.2 Scope

The review aimed at evaluation of the performance of the Company in the fields of Project implementation, production performance and energy conservation during the period 1992-93 to 2002-03. The review analysed implementation of various schemes and non-achievement of installed capacity in major production areas.

Results and recommendations of the audit have been featured in succeeding paragraphs:

1.3. Project Implementation

During the period 1992-93 to 2002-03 the Company had executed 26 projects involving a capital outlay of Rs.697.81 crore.

While nine of the twenty-six projects entailed both cost and time overruns, in thirteen projects only time overrun was involved and two projects entailed only cost overrun. Remaining two projects were completed as scheduled and within the sanctioned cost. Cost overrun ranged from Rs.3 lakh to Rs.29.96 crore and time-overrun up to 83 months. Apart from cost and time overrun, instances of non-achievement of desired results, faulty project formulation and selection of inappropriate technology etc., were noticed as discussed in succeeding paragraphs:

1.3.1 Purge Gas Recovery Plant (PGR) at Trombay

The Company decided (June 1990) to install a PGR plant at Trombay for recovery of Ammonia, Hydrogen and Pure Argon from purge gases (gases vented out to reduce pressure) from its Ammonia plants. The project was expected to break even at 28.8 per cent capacity utilisation with an annual return of 54.5 per cent on capital employed. The estimated cost of the plant was Rs.35 crore.

M/s. Linde AG, Germany (LAG) and M/s. Linde Process Technologies, India (LPT) were engaged (December 1992) for basic engineering package and detailed engineering services required at the time of erection respectively. Based on the offer from LAG and LPT the cost was revised to Rs.45 crore (November 1992) with foreign exchange component of DM 12.257 million (Rs.25.03 crore). The project was to commence on 16 December 1992 and to be completed within 24 months (15 December 1994). The plant was, however, commissioned in December 1996 at a cost of Rs.42.32 crore with time overrun of 24 months.

The recoveries from the plant during 1996-97 to 2002-03 were far less than the projections, as detailed below:

Item	Projected	Actuals							Shortfall						
		96-97	97-98	98-99	99-00	00-01	01-02	02-03	96-97	97-98	98-99	99-00	00-01	01-02	02-03
Argon (Million NM3)	2.8	0.8	1.03	0.85	1.09	1.29	1.39	1.38	2.0	1.8	1.95	1.71	1.51	1.41	1.42
Ammonia (MT)	2264	1224	1385	1127	1290	1546	1328	1370	1040	879	1137	974	718	936	894
Synthesis Gas Mixture (Ammonia equivalent in MT)	17833	5827	7964	6194	9191	11981	9957	9330	12006	9869	11639	8642	5852	7876	8503

Ministry stated (May 2001) that though the project was initially conceived for production of Argon, it being a profitable business, subsequently pollution control was also envisaged under the Ammonia and Suphala modification scheme and both the objectives were integrated. Hence converter of ammonia plant was changed in November 1995, which increased its conversion efficiency and resulted in lesser availability of purge gases, thus, adversely affecting the viability of PGR plant.

The above contention of the Ministry is not tenable as the Management was aware of the need for carrying out modification in Suphala plant for pollution control, which would reduce the generation of argon as early as in August 1989 i.e. prior to implementation of PRG plant. Thus, the installation of full-fledged PGR plant at a cost of Rs.42.32 crore with argon recovery facility was not in order.

As against net sales realisation of Rs.83 per NM3 of Argon (the main product extracted from PGR Plant) envisaged in the DPR, actual sales realisation steeply declined from Rs.50 per NM3 in 1995 to Rs.20 per NM3 in 1999 and to Rs.24 per NM3 in 2003.

Ministry stated (May 2001) that projections were based on market survey conducted prior to taking up of project. However, the subsequent announcement by the Government of de-licensing of argon manufacturing resulted in more competition.

The above contention of Ministry is not tenable as unrealistic projections and incorrect assessment of competition while conducting the market survey led to an investment of Rs.42.32 crore becoming economically unviable.

1.3.2 Modification of Di-Ammonium Phosphate (DAP)/Muriate of Potash Handling System

Suphala Plant and the Silos[1] for its raw materials (Di-Ammonium Phosphate/ Muriate of Potash), were 750 metres apart. Raw materials were, thus, transported by using trucks and by deploying contract labourers (engaged through Mathadi Labour Board) at an estimated average expenditure of Rs.88

[1] *Container for storage*

lakh per annum. Spillage of materials while transporting also caused a loss of Rs.75 lakh per annum.

With a view to eliminate the truck movements and avoid manual feeding, the Company decided (June 1992) to implement modification in handling system for mechanised feeding of raw materials. Accordingly, the Company awarded the work to M/s. Marshall Sons and Company (India) Limited (MSIL) on a turnkey basis with completion period of one year at a lump sum amount of Rs.5.36 crore.

The terms of contract provided that MSIL should get drawings and designed approved by Consultants viz., Project and Development India Limited (PDIL). However, MSIL started work before approval of the design and drawings by PDIL and had to change the design subsequently, which involved increase in quantities of structural steel and concrete work and shifting alignment of hoppers for which MSIL claimed extra amount. As the Company did not agree to pay any extra amount, MSIL abandoned (June 1993) the work. The Company referred the matter for arbitration, the outcome of which was awaited (August 2003).

The balance civil and structural work was awarded to M/s. National Building Construction Corporation Limited at the risk and cost of MSIL and the work for mechanical supplies, erection and commissioning was given to M/s. Konel Corporation at a total cost of Rs.6.29 crore. The work was completed in August 1994 at a cost of Rs.9 crore. There was time overrun of 14 months and cost overrun of Rs.3.64 crore as compared to original estimates.

Ministry stated (May 2001) that RCF did not have required expertise in civil design and did not know the consequences of starting work without approval of design. The above contention of the Ministry is not tenable, as the Company should have insisted on getting the drawings and design approved before handing over the site especially in view of lack of expertise with them.

The system was, however, commissioned only on 1 February 1996 i.e. after a further delay of 17 months. The delay was attributed to resistance from contract labour, which was finally settled (December 2002) by offering VRS compensation of Rs.5.84 crore to 451 Mathadi Workers. As the project was conceived in 1992 the problems regarding resistance from contract labour could have been foreseen well in advance and resolved before completion of the project viz. August 1994. Thus, delay of 17 months in resolving labour problems after completion of project deprived the Company of the anticipated savings of Rs.2.31 crore in the handling of raw materials apart from the cost overrun of Rs.3.64 crore.

1.3.3 Dimethyl Formamide Plant (DMF)

Methylamine Plant of the Company was running at 50 per cent of its installed capacity because of insufficient down stream use. Board approved (April 1986) installation of 2500 MT per annum DMF plant at Thal at an estimated cost of Rs.5.91 crore based on Techno Economic Feasibility Report (TEFR). The estimated cost on account of general cost escalations, adverse exchange variations etc., was revised to Rs.9.88 crore in November 1989 and again to Rs.14.97 crore in November 1992 based on modifications and procurement of additional components suggested by consultants M/s. KTI, USA. While revising the estimated cost of the project in November 1992 it was, however, expected that the project would pay back the investment in 2.8 years as the selling price of DMF had gone up from Rs.47, 000/- to Rs.60, 000/- per MT. The plant was to be commissioned by October 1990.

TEFR had identified two processes for manufacture of DMF, one by reacting Dimethylamine with Methyl Formate and another by reacting Dimethylamine with Carbon Monoxide (CO). The Company opted for the second process being the most economical one, which required setting up of CO separation plant.

The Company engaged M/s. KTI for know-how and basic engineering for CO separation plant (US $ 0.24 Million) and M/s. KTI India for giving detailed engineering for CO plant (Rs.16 lakh). The Company did not call for tenders while engaging Consultants.

Ministry stated (May 2001) that though it could have been the right approach to go for tendering, the Company had gone for literature survey for identifying the supplier on the consideration that there was no plant of such small capacity in the world. They added that as it was found that M/s. KTI had set up several plants of larger capacity, the Company considered them the right choice for small capacity plant. The reply is not tenable, as relying on available literature without ensuring its adequacy was not in order, especially since M/s. KTI had no proven track record in setting up smaller plants as admitted by Ministry.

On carrying out the modification suggested by M/s. KTI, it was noticed that the main bottleneck for commissioning the plant was the capacity of refrigeration unit, which could be operated only at 70 per cent capacity. As the modification of refrigeration unit would have involved heavy expenditure the Company asked (March 1993) M/s. KTI to commission the plant at 70 per cent capacity. Repeated attempts to commission the plant did not succeed till January 1995. The Company incurred an additional expenditure of Rs.3.5 crore (US $ 1.1 million) due to design deficiencies and lodged a claim on M/s. KTI for the said amount. Maximum liability for problems in successful performance and demonstration of the plant under the agreement was only US $ 24,000 (10 per cent of cost of technical know-how). Hence the claim could not be enforced. Ministry stated (May 2001) that the agreement was in line with any other international agreement, which put a cap on over all liquidated damages.

In view of the continued failure in execution of the CO plant, the Board accorded (July 1996) approval for writing off the entire expenditure of Rs.12.61 crore (up to March 1999). Thus, inappropriate selection of technology/ consultants (M/s. KTI) resulted in loss of Rs.12.61 crore.

Ministry while admitting audit observation stated (May 2001) that M/s. KTI technology was not proven with respect to small capacity plant.

Meantime, the DMF plant was completed (July 1991) at a cost of Rs.6.21 crore (in addition to Rs.12.61 crore for CO plant). As the CO Plant was not ready, the Company commenced production of DMF by resorting to the first process by purchasing Methyl Formate. As the production cost through

Methyl Formate route was more by Rs.22000 per MT, the Company had to incur an additional expenditure of Rs.9.50 crore in manufacture of DMF till the new CO plant came up.

Subsequently, the Company, based on engineering design provided by M/s. Acide Amine Technologies, USA, commissioned (February 1998) a new CO plant with the capacity of 1200 NM3 per hour at a cost of Rs.45.80 crore to meet the requirement of DMF plant as well as other plants. However, the Company incurred a loss of Rs.10.65 crore in production of DMF till 2002-03.

Ministry stated (May 2001) that though projects were taken up to generate profits, once the investment was made and the plant had been set up, it was economically a better option to operate it instead of closing down so that fixed cost was recovered. The reply evades the question whether the initial decision itself was flawed or whether the expenditure could have been avoided had the Company gone for a proven technology.

1.3.4 Dimethyl Acetamide (DMAC)

DMAC is a value added chemical product manufactured from Dimethyl Amine and Acetic Acid. Demand for the same was assessed to go up from 1620 MT in 1990-91 to 3040 MT in 1994-95. This was on the assumption that certain new and expansion projects for Acrylic Fibre planned by M/s. J. K. Synthetics Ltd., who was one of the main consumers accounting for 75 to 80 per cent of the demand for the item, would go on stream by then. The other consumers included Polyester, Drug and Pharmaceutical industries. The Company, hence, prepared a DPR to install a 3000 MTPA plant at Thal at a cost of Rs.18.02 crore. Though there was only one potential buyer, no tie-up was made with them.

Ministry agreed (May 2001) that it would have been the right approach if a long-term tie up agreement was made with potential buyers but unfortunately the Company did not do so considering the reputation of J.K. Synthetics Ltd. This only goes to indicate that the Board of Directors of the Company did not secure their huge investment by entering into some agreement with J.K. Synthetics Ltd.

The DPR envisaged a profit break-even at 30.8 per cent capacity utilisation and a return of 50.34 per cent per annum on capital employed at 90 per cent capacity utilisation. The internal rate of return was 59 per cent. It was, however, decided to set up a 5000 MTPA plant as the technology and engineering fee was same for a 3000 as well as 5000 MTPA plants, and additional capital cost was only Rs.1.00 crore. Board approved the project in December 1991. Though the maximum projected demand was only 3040 MTPA, the Company decided to set-up a 5000 MTPA plant.

Ministry replied (May 2001) that 5000 MTPA Plant was set up in view of prospect of expanding market. The reply is not tenable as no prospect of expansion of market was brought out in the feasibility study or any studies carried out thereafter.

The plant was commissioned in September 1993 at a cost of Rs.11.27 crore and commercial production started in January 1994. Meanwhile two units of M/s. J.K Synthetics Ltd., major consumer of the item, were closed down leading to non-materialisation of the projected demand in DPR. Marketing Division of the Company, found (August 1998) that market for DMAC was about 500/600 MTPA only.

At the time of approval of the project, it was clarified to the Board that even in the event of reduction in custom duty on DMAC the project would be viable. However, it was not found correct as successive reduction in custom duty on DMAC had adversely affected the Company as imports became cheaper at Rs.46,695 (March 1999) as against the selling price of Rs.86,743 per MT envisaged in the DPR. The rates of custom duty and profit/loss made by the Company were as under.

Period	**93-94**	**94-95**	**95-96**	**96-97**	**97-98**	**98-99**	**99-00**	**00-01**	**01-02**	**02-03**
Rate of duty in per cent	85	50	40	30	35	35	35	35	25	25
Sale Price (Rs. Per MT)	79200	63864	72162	67283	58796	67366	61401	61802	57376	60252
Profit(+)/ (loss(-) (Rs. crore)	(-)1.85	(-)0.19	1.30	(-)0.38	(-)2.49	(-)0.30	(-)0.03	(-)1.43	(-)1.18	(-) 0.38

Capacity utilisation of the plant ranged between 3 per cent and 27 per cent during 1993-2003. Further, the Company had to reduce the selling price substantially to attract customers and incurred net loss of Rs.6.93 crore on sale of DMAC during the years from 1993-94 to 2002-03 after adjusting the profit earned during the year 1995-96. The Company during the years from 1998-99 to 2002-03, could sell DMAC ranging between 524 MTPA and 1348 MTPA as against an anticipated demand of 3040 MTPA.

Management stated (April 1999) that demand for DMAC was assessed correctly in DPR but it did not materialise due to closure of two units of major customer M/s. J.K. Synthetics Ltd. They, however, admitted (April 2000) that they should not have set up a plant with only one major consumer. Ministry while accepting the audit observations added (May 2001) that it was not possible to correctly assess the extent of custom duty reduction, which had gone down drastically from 85 per cent in 1994-95 to 25 per cent in 2001-02.

Thus, defective formulation of a project with over reliance on a single customer and creation of excess capacity without proper market survey resulted in investment of Rs.11.27 crore on the project becoming largely unfruitful. Efforts to utilise it even to a limited extent led to a net loss of Rs.6.93 crore during the years from 1993-94 to 2002-03.

1.3.5 *Process Optimisation with Advance Control for Trombay-V Ammonia Plant*

The Company decided (April 1989) to implement a Project for 'Process Optimisation with Advance Control' at an estimated cost of Rs.3.55 crore to reduce energy consumption in production of ammonia. Against the scheduled date of completion of entire work by 30 April 1996, the project was actually commissioned in March 2003. The Company envisaged benefit of Rs.1.34 crore per annum due to (i) saving of Rs.63 lakh per annum through energy saved (1 per cent) and (ii) increased production of ammonia at Rs.71 lakh per annum. The project involved:

(i) End-to-end Study

(ii) Performance Evaluation and Optimisation and

(iii) Advance Control for the Plant.

The Company engaged (October 1990) M/s. Haldor Topsoe, Denmark for execution of entire work with date of completion as 30 April 1996. Erection of field instruments, Mass Spectrometer (an instrument used for measuring different constituent of gas) and mini Distribution Control System was completed during May 1996 to March 1997. Though the Company incurred Rs.3.10 crore on the project, the system could not be commissioned in time due to technical problems encountered in Mass Spectrometer on account of faulty design.

The Management stated (January 2000) that only energy saving was envisaged as per the agreement with M/s. Haldor Topsoe and no increase in production was envisaged by implementing the system. Ministry stated (May 2001) that increase in production was an integral part of energy savings and therefore, this was not mentioned separately. They added that the reason for the incomplete system lying idle was failure of Mass Spectrometer supplied by M/s Anglo Scientific, recommended by the main contractor HTAS.

Failure of the Company to get the faulty equipment rectified/replaced in time resulted in delay in commissioning of the complete system costing Rs.3.10 crore for more than 6 years without any return on investment made, apart from foregoing estimated saving of Rs.3.78 crore on account of energy saving as accepted by the Management/Ministry.

1.4 Production performance and energy conservation

1.4.1 General

The Company has 19 operative plants at two locations, 14 at Trombay and 5 at Thal. Product range at each location was as under: -

Products	Trombay	Thal
A. Finished Products		
(i) Nitrogenous (N) Fertilizer	Urea	Urea
(ii) Complex Fertilizer	Nitro Phosphate – NPK (Suphala)	-
	Ammonium Nitrate Phosphate (ANP)	-
B. Industrial Products	Methylamines	Methylamines
	Methanol	D.M.F.
	Concentrated Nitric Acid	D.M.A.C.
	Sodium Nitrate/Nitrite	-
	Ammonium Bicarbonate	-
C. Intermediary Products	Ammonia (2)	Ammonia
	Phosphoric Acid	-
	Nitric Acid (2)	-
	Sulphuric Acid.	-

1.4.2 Capacity Utilisation

Details of capacity utilisation with reference to designed and budgeted capacity, including shortfall in production with value thereof in respect of various plants during 1994-95 to 2002-03 are given in Annexure-1. It was also observed that budgeted production in respect of Six Plants {Ammonia I and V, Phosphoric acids, Nitric acid I, Sulphuric acid and Ammonium Nitrate Phosphate (ANP)} of Trombay unit and two Plants (Ammonia and Di- methl Acetamide) of Thal unit for most of the years were fixed below the designed capacity, which indicated that serious efforts were not being made to achieve the designed capacity.

Ministry stated (May 2001) that achievement of designed production is possible if there are no external constraints such as inadequate supply of associated gas, power, and process water and no imposed limitation due to market constraints. The above contention of the Ministry is not tenable; as the Company by making alternate arrangement for fuel, power and enhancing its market activity could have achieved the designed production.

Capacity utilisation of ANP plant ranged from 66-86 per cent of the designed capacity.

Ministry stated (May 2001) that capacity utilisation of ANP was low as the plant was obsolete and having outdated technology. The reply is not tenable as capacity utilisation at 66 per cent during 1995-96 was the lowest during last nine years and it indicated that part replacement did not succeed. Due to failure of the Synthesis Gas Compressor, the Company suffered loss of production of 1.37 lakh MT of Ammonia during the years from 1992-93 to 1996-97, 1999-2000 and 2000-01.

1.4.3 Bought out/Imported Ammonia

As the Ammonia Plants failed to achieve the designed capacity, the Company was forced to purchase 26,539 MT of Ammonia for Rs.15.21 crore from outside sources during the years 1994-95 to 1998-99 for use as input for other products. The Company incurred extra expenditure of Rs.2.00 crore on the quantity of 21,900 MT purchased from outside sources during 1994-95 and 1995-96 as purchase cost was higher than the cost of production. Ministry concurred (May 2001) with the Management's view that the purchase of Ammonia was made for production of phosphate fertilizers, which had positive contribution. The reply is not tenable as the Company could have avoided the purchase and extra expenditure consequent thereto had its plants worked to full capacity.

Capacity utilisation of the Urea plants was as under:

Plant	Designed Capacity in MT		Capacity utilisation in per cent							
		94-95	95-96	96-97	97-98	98-99	99-2000	00-01	01-02	02-03
Urea I Trombay	99000	70	Plant shut down from 1 April 1995 on grounds of its outliving.							
Urea V Trombay	330000	83	73	88	96.06	82	92	88	12	6
Urea Thal	1485000	93	101	82	94	97	100	90	98	104

Shortfall was attributed by Management to: (i) limitation in the feed of Ammonia and CO2, (ii) leakage in Carbamate Condenser tube (Trombay), (iii) leakage in Stripper Liner (Trombay) (iv) shortage of water (v) power failure (vi) insufficiency in associated gas supply and (vii) steam limitation. The above contention of the Management is not tenable as the Company by carrying out the preventive maintenance/ replacement of defective carbonate condenser tubes/ stripper liner in time and making alternate arrangement for fuel, power etc. could have enhanced its capacity utilisation.

1.4.4 Capacity utilisation vis-à-vis similar plants

Capacity utilisation by similar Urea plants using associated gas as feedstock during 1997-98 to 2001-02 was as under:

(Figures in 000' MT)

		1997-98		1998-99		1999-00		2000-01		2001-02	
Plant	**Capacity**	**Production**	**Percentage of capacity utilisation**	**Production**	**Percentage of capacity utilisation**	**Production**	**Percentage of capacity utilisation**	**Production**	**Percentage of capacity utilization**	**Production**	**Percentage of capacity utilisation**
NFL (Vijapur)	1452.00	1661.00	114	1716.60	118	1716.30	118	1664.20	115	1624.20	112
KRIBHCO (Hazira)	1452.00	1771.50	122	1516.60	104	1557.40	107	1630.50	112	1694.10	117
IFFCO (Aonla)	1452.00	1672.00	115	1689.60	116	1578.60	109	1672.10	115	1570.40	108
Indo Gulf Fert. (Jagadishpur)	726.00	933.80	129	1020.00	141	1042.00	144	879.40	121	850.10	117
Chambal Fert.(Kota)	774.80	969.60	125	956.80	123	946.20	122	853.70	110	857.70	111
Oswal Chemical (Shahjahanpur)	726.00	930.00	128	890.70	123	871.60	120	837.00	115	840.60	116
RCF Thal	1485.00	1402.00	94	1412.80	97	1456.80	98	1295.80	87	1451.15	98

Management attributed the low capacity utilisation by the Company in comparison to other plants in private/ public sector to the fact that Thal being the first 1350 MTPA plant set up in India, most of the equipment were procured indigenously for the first time due to foreign exchange constraints. They added that they had no cushion in plant capacity unlike the other Companies, whose plants had come up later. Ministry endorsed (May 2001) the Management's view. Reply is not tenable, as the Company had also created additional capacity on implementation of Retrofitting project at Thal in June 1997, which had not shown the desired results.

1.4.5 Shortage of Gas

Major reason for shortfall in production of Urea was stated to be shortage of Gas. The percentage of shortfall of supply of gas in Trombay Division ranged between 4.94-25.99 SM3 and 0.16-47.57 SM3 between 1992-93 and 2002-03 in Thal Division. Management assessed loss of production due to shortage of gas to 20.79 lakh MT.

The original agreement between the Company and Oil and Natural Gas Commission (ONGC) expired in 1988 and no fresh agreement was signed immediately but supply of gas continued. A new agreement was signed in September 1996 between the Company and Gas Authority of India Limited (GAIL) (to whom the marketing activities of gas were handed over by ONGC with effect from 16 May 1992) with a reduced entitlement of 3.15 (as against 4.6) MMSCMD for Thal Unit (including 0.15 for Heavy Water Plant). The agreement signed in September 1996 had also expired in December 2002. GAIL during the years 1998-99 onwards, could not supply even 3.15 MMSCMD on regular basis as per details given below:

Year	Gas supplied in SM3	Average supply per day SM3	Average supply in MMSCMD
1998-99	103,07,34,468	31,23,438	3.12
1999-00	95,09,02,218	28,81,521	2.88
2000-01	84,50,19,278	25,60,664	2.56
2001-02	68,41,59,361	20,73,210	2.07
2002-03	65,73,11,291	19,91,246	1.99

It was observed that consumption of gas in the Ammonia Plants at Thal was very high compared to design norms in all the years. Against the design norm of 983 SM3 per MT of Ammonia, actual consumption varied from 1025 to 1068 SM3.

Management stated that the quality of gas with respect to its composition and net calorific value (NCV), which were important parameters for using the gas as feed stock, also started deteriorating apart from the reduction in quantity. As against contracted NCV of 9250 Kcal/SM3, the gas became lean (with as low a NCV of 8850 Kcal/SM3) from 1992-93, and further deteriorated to 8650 Kcal/SM3 by 1998-99. Deterioration in quality of gas resulted in higher quantity requirement.

Ministry stated (May 2001) that the Company had to purchase indigenous machinery for Thal Plants, which had poor efficiency and consumed more gas than design value. The reply is not tenable, as the Company should have taken tough measures to improve consumption level of equipment and went in for alternative fuel.

An additional 0.60 MMSCMD of Gas was allocated on fallback basis to the Company in July 1995. But this was not made available. Availability of Gas at Uran dwindled further towards the end of 1996 and a fresh distribution pattern was worked out by the Gas Linkage Committee, appointed by Government of India, on pro-rata basis without giving any weightage to type of industry or process involved, which was not favourable to the Company.

Legal opinion obtained (January 1999) by the Company indicated that the agreement made by the Company and the GAIL was heavily loaded in favour of GAIL. Neither was there any clause in it, which made it mandatory for GAIL to supply contracted quantities of gas, nor did it provide for recovery of any liquidated damages or penalty in case of any short fall in supply. Gas was to be supplied subject to availability and seller's ability to supply. The Company was unable to safeguard its interests while signing the agreement.

Management stated (April 2000) that they had extensively interacted with ONGC/GAIL to improve supply of gas and the matter was also taken up with the Government at the level of Secretary, but without any avail. The addition of new consumers at supply points accentuated the problem of getting gas at appropriate pressure before the pipeline reached the Company, as the Company was at the farther end of the pipeline. Though there was a ban on adding new consumers, one consumer (M/s. Kalyani Konkan Sponge Iron Plant) was added and 0.75 MMSCMD gas was allocated to them in early 1999, while the shortage of the Company was only 0.50 MMSCMD.

1.4.6 Down Time Analysis[2]

Ammonia being an intermediary product is required as input material in Urea production. It is also used in Suphala (15:15:15) and Ammonium Nitrate Phosphate (20.8:20.8:0) production. Overall performance of Urea, Suphala (15:15:15) and ANP (20.8:20.8:0) Plants depends on the efficiency level of the Ammonia Plants. It was seen that Ammonia Plant operations suffered forced shutdowns on account of equipment failure, process problems and non-availability of critical equipment, gas, raw water etc.

The stream days (number of days expected to run) lost against the designed norm of 300/330 days in various plants at Trombay and Thal Divisions for the year 1997-98 to 2002-03 (Six-Year) are indicated in the Annexure-2. The total stream days lost, item wise were:

Reasons	Stream days lost
a) Controllable	
(i) Equipment failure and process problems	951
(ii) Raw material and material handling problem	825
Total	**1776**
b) Uncontrollable	
(iii) Utilities external	1882
(iv) Planned shutdown	1171
(v) Less off-take	289
(vi) Others	155
Total	**3497**

Urea Plants at Trombay and Thal lost production of 6.01 lakh MT of Urea during 1997-2003 because of non-availability of Ammonia owing to equipment breakdowns and process problems in Ammonia Plant. Loss of profit consequent thereto worked out to Rs.31.57 crore. Failure to carry out timely preventive maintenance and delay in major repairs/replacement of equipment proved detrimental to the plant health and adversely affected productivity.

Ministry stated (May 2001) that Trombay plants were of old vintage and breakdowns were inevitable inspite of preventive maintenance. They added that CO2 compressor and drive turbine of all three urea plants at Thal were overhauled from time to time and major equipment like Syngas Compressor, Drive Turbine, Primary Reformer Tubes in ammonia plant etc. were modified/replaced as a part of revamp. The Reformed Gas (RG) boilers of both ammonia plants were also replaced. Reply cannot be accepted in view of the fact that though some of the equipment/ parts were replaced from time to time, there were considerable delays. Timely replacements could have eliminated the breakdowns.

RG boiler of Ammonia Plant at Thal Division was installed in 1985. Due to frequent failure of the boiler, the Company incurred a loss of production of 76070 MT during 1992-2001 valued at Rs.26.09 crore. Loss of profit consequent thereto worked out to Rs.3.70 crore.

Ministry stated (May 2001) that replacement of RG boiler was an expensive proposition and hence re-tubing of the boilers was done whenever necessary

[2] *Time during which plant is not in operation*

and replacement of the boiler was planned as a part of revamp. They added that RG boiler for Line I was replaced in January 1999 and that for Line II in May 1999. However, the retrofitting/revamping decision itself was delayed.

1.4.7 Raw Material Consumption

Some of the Ammonia, Associated Gas, Nitric Acid, Rock Phosphate, MAP, DAP, KCL, and Sulphuric Acid are major raw materials used in manufacture of various products of the Company.

The consumption of raw material (Associated Gas, Water and Power, etc.) was much higher than the designed norms in all the years during 1994-95 to 2002-03 (Annexure-3) and the value of excess consumption amounted to Rs.1337.81 crore (at cost). Ministry stated (May 2001) that design norms were based on ideal operating parameters for few days continuous operations and as such could not be achieved on annual basis. They added that in Thal plants, design parameters could not be achieved even during Guarantee Test Run, as critical equipment were not meeting the design and Trombay Plants were very old and frequent breakdowns were unavoidable. Reply that design norms were not practicable as they were based on ideal operating parameters for few days is not acceptable as design norms are expected to be achieved during regular operation.

1.4.8 Energy Consumption

(1) Table below indicates the design norms, FICC norms and actual energy consumption (per MT of production) in respect of major plants

	Design Norms	95-96	96-97	97-98	98-99	99-2k	2k-01	01-02	02-03
I. Trombay Division									
(i) Ammonia-I	10.82	11.83	11.33	11.28	11.07	11.22	10.43	11.64	12.28
(ii) Ammonia-V	10.93	14.28	14.03	13.31	13.22	12.58	12.25	12.48	12.12
(iii) Urea-V	7.95	10.85	10.33	9.59	9.62	9.27	8.96	9.64	9.17
II.-Thal Division:									
(i) Ammonia	8.11	9.56	9.75	9.40	9.55	9.41	9.52	9.89	9.64
(i) Urea	6.03	7.23	7.34	7.14	7.14	7.11	7.13	7.24	6.95

The energy consumption had always been more than the design norms in Ammonia (except during the year 2000-01 for Ammonia-I) and Urea Plants and excess consumption ranged between 2.31 to 36.48 per cent (Trombay).

Management attributed the higher consumption to mechanical and instrumentation problems. However, no remedial action was taken in many of the cases.

(2) In the case of Methanol Plant, though remedial action was taken, it could not achieve the desired results. The Company replaced the compressors and synthesis loop in the Methanol plant with modern technology and modified the front end for better energy recovery and optimum utilisation (June 1991) at a cost of Rs.18.22 crore. Though the objective of the scheme was specifically to bring down the energy consumption to 9 Mkcal per MT, design norms set by M/s Haldor Topsoe, the supplier of the technology was 9.26 Mkcal per MT and the guarantee test was conducted to confirm it. The Company could not achieve even the designed norms during the years 1996-

97 to 1999-2000 and the extra expenditure on excess consumption worked out to Rs.2.10 crore.

Ministry stated (May 2001) that consumption had come down to 9.08 Mkcal in 2000-01 onwards on replacement/modification of reformer tubes, compressor valves, etc. The very fact that the norms were achieved till 1995-96 and the consumption level was brought down in 2000-01 onwards goes to prove that it was achievable on sustained basis.

1.5 Conclusions

Due to non-addition of new capacities/ modernisation of existing facilities in time the Company's share in all India production of fertilizers in terms of nitrogen contents came down from 11.14 per cent in 1994-95 to 7.36 in 2001-02. Out of twenty-six projects, which were implemented during the period covered under the review, nine projects entailed cost and time overrun, in thirteen projects only time overrun was involved and two projects entailed only cost overrun. There was excess consumption of energy up to 36.48 per cent and raw material amounting to Rs.1337.81 crore as compared to designed norms in Ammonia and Urea plants. Due to non-availability of ammonia owing to equipment breakdown and process problems in Ammonia Plant, the Urea Plants at Trombay and Thal suffered loss of profit amounting to Rs.52.30 crore.

1.6 Recommendations

(i) Concrete steps to increase the production of the Company by creating new capacities/ modernising the existing facilities are needed to increase the Company's share in all India production of fertilizers

(ii) With a view to avoid cost and time overrun, there is urgent need for substantial improvement in the project implementation, planning and management and internal control system by the Company.

(iii) The Company needs to initiate urgent steps to arrange adequate supply of gas so as to enhance its production with reference to designed capacity.

(iv) There is urgent need to have a system to ensure that operation of plant does not suffer on account of unplanned/forced shutdown on account of equipment/ process failures and non-availability of critical inputs/spares/equipment.

MINISTRY OF CIVIL AVIATION

CHAPTER : II

Indian Airlines Limited

Pay Packages and Perks

Highlights

Total employee cost of the Company increased by Rs.143.05 crore and the cost per employee by 30.83 per cent during the period from 1998-99 to 2002-03 although the number of employees of the Company had decreased by 10.93 per cent. Additional employee cost was met from revenue generated from the periodical upward revision of fare.

(Para 2.3.1)

Despite the increased payment of Productivity Linked Incentives (PLI) from Rs.239.70 crore in 1998-99 to Rs.344.07 crore in 2002-03, the overall profitability of the Company did not improve. The total PLI payment of Rs.1449.02 crore made during April 1998 to March 2003 exceeded the losses of Rs.585.83 crore incurred by the Company during above period.

(Para 2.4.1)

The Company paid fixed productivity allowance/special productivity allowance amounting to Rs.248.12 crore from April 1998 to March 2003 without linkage to the performance level achieved by the employees. This was against the Wage policy that any increase in emoluments was to be based on increased productivity and savings and the inflow as a result must exceed the outflow.

The Company paid flying allowance to the pilots/flight engineers while they were on privilege leave that resulted in irregular payment of Rs.3.91 crore.

The Company made unjustified payment of flying allowance of Rs.2.79 crore to the Cockpit crew even when they were not undertaking flying duty and were travelling with passengers from one base station to other base station for operation of the return flight.

Though layover allowance had been merged with productivity allowance, the Company made irregular payment of Rs.3.22 crore towards layover allowance over and above the productivity allowance.

(Para 2.4.3)

The Company paid Rs.8.12 crore towards payment of Professional Development Allowance although the Company was already reimbursing expenditure incurred by employees on the technical and professional literature.

The Company paid Rs.13.57 crore to its Cabin Crew and Pilots as out of pocket expenses over and above the terms of settlement entered with their Unions which already catered for these expenses.

(Para 2.5.1)

2.1 Introduction

Indian Airlines Limited (Company) had been facing competition in its business ever since promulgation of the open sky policy by the Government of India, which had allowed operation by private operators in the domestic aviation sector. In the face of the competition, the Company has to continuously strive for reducing its operating cost to safeguard its financial viability. A properly formulated and implemented remuneration policy thus becomes necessary in line with the long and short term financial interests of the organisation.

The salient feature of the Company's wage policy (approved in October 1999) was to jointly strive to arrive at a settlement through bilateral discussions and conclude wage negotiations within the frame work and guidelines issued by the Department of Public Enterprises (DPE), with due regard to ensuring substantial improvement in productivity and operation efficiency. The principle of various settlements as embodied in the wage policy was to ensure that all increases were to be paid on increased productivity/savings and the inflow as a result of these must exceed the outflow as consequence of increased emoluments. There was no laid down procedure for fixation/revision of pay and allowances and the productivity-linked incentives (PLI) nor periodicity prescribed for holding negotiations for arriving at various settlements. The Company had thus been entering into separate bilateral agreements with various unions/associations of the workmen from time to time (Annexure-4). The agreements were embodied subsequently in the Financial Rules for the purpose of regulation of payments after Board's approval.

Further, the employees of the Company were entitled to 103 different types of allowances for various intended usages and purposes such as computer allowance, attendance allowance etc. which were linked to productivity parameters and were paid after finalisation of PLI agreements with various associations. Over and above these, a package of benefits/amenities were available to the employees of the Company in the form of perquisites viz. leased/self leased residential accommodation, boarding and lodging arrangement during flight or halt etc. The Company also had a policy to reimburse certain expenditure which were taken to be incurred by the employees such as out of pocket expenses at foreign stations, holiday pay, overtime allowance etc.

The Management in its reply (October 2003) outlined its genesis as a national carrier and the ensuing competition with the advent of open sky policy, which resulted in poaching of trained and skilled manpower, particularly in the categories of pilots and the engineers by the private operators. This resulted in lower availability of aircrafts and their utilization with consequent shrinkage of the market share of the Company. Productivity Linked Incentive settlements were introduced with Indian Commercial Pilots Association (ICPA) and subsequently with other association of workmen in the above background.

2.2 Scope of Audit

The present review covers the formulation and processing of major components of employee remuneration i.e. pay and allowances, perquisites, voucher payments and incentives such as PLI over the period of last five years from 1998-99 to 2002-03. The records of Industrial Relations, Finance, Personnel and Operational Departments located in Corporate office in New Delhi pertaining to the process of finalisation of the agreements were scrutinised in Audit with a view to check the effectiveness of the Management in containing the higher staff cost and its linkage with the productivity. The regulation of payments was also test checked in audit at the Regional Headquarters of the Company located at Mumbai, Chennai, Kolkata and New Delhi.

The audit comments on the PLI scheme and other issues related to staff emoluments were included in the Report of the Comptroller and Auditor General of India for the year ended March 1999- Union Government (Commercial) No.4 of 2000, Chapter-I. The irregularities pointed out vide the above Report continued to persist as far as formulation and processing of PLI scheme was concerned. Staff emoluments continued to increase as additional allowances such as layover allowance, out of pocket allowance, Professional Development allowance, lecture allowance etc. had been introduced since then.

2.3 Emoluments cost

2.3.1 During the period 1998-99 to 2002-03 even though the number of employees decreased by 10.93 per cent the employees cost both per capita and total increased sharply. During this period, the total employees cost increased by Rs.143.05 crore (up 16.34 per cent) and the cost per employee by 30.83 per cent.

Management stated (October 2003) that the typical range of labour cost as a proportion of total operating cost of similar stage airlines was between 25 to 30 per cent.

The comparison is not acceptable as Indian Airlines should compare its labour cost with its competitors in the domestic market viz. Jet Airways and Sahara Airlines who had far lower proportion of staff cost to operating cost ranging between 7.35 to 11.71 per cent (Table-2.3.2). The market, which the Management cited, caters to a different segment.

2.3.2 An analysis was carried out by Audit of the emoluments being paid by Indian Airlines vis-a-vis by other domestic operators. The key financial indicators of performance in comparison with cost of emoluments are listed in the table below:

(Rs. in crore.)

	Indian Airlines				Jet Airways				Sahara Airlines			
Year	Operating Revenue	Operating Expenses	Cost of Emoluments	4 as % of 3	Operating Revenue	Operating Expenses	Cost of Emoluments	8 as % of 7	Operating Revenue	Operating Expenses	Cost of Emoluments	12 as % of 11
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13
1998-99	**3423.57**	**3129.33**	**875.45**	**27.98**	**1597.03**	1584.65	116.48	7.35	297.21	303.23	33.04	10.90
1999-00	**3549.17**	**3349.36**	**919.39**	**27.45**	**1982.34**	1904.82	163.45	8.58	339.17	351.24	41.14	11.71

2000-01	**3793.34**	**3878.66**	**982.14**	**25.32**	**2500.33**	2393.14	220.01	9.19	519.39	527.21	45.40	8.61
2001-02	**3769.91**	**3868.86**	**998.53**	**25.81**	**2526.29**	**2053.79**	**228.21**	**11.11**	N.A.	N.A.	N.A.	N.A.

(Figures in **bold** have been sourced from balance sheets of companies and rest of the figures are based on a DGCA publication)

The Company claimed that the percentage of staff cost to operating cost had come down to 23.8 per cent in 2002-03 from 25.81 per cent in the previous year. Considering other major components of operating expenditure, this undue and grossly high ratio even at achieved level of 23.8 per cent worked as a major disadvantage to the Company. It was 14.70 to 20.63 per cent higher than what was paid by its competitors even as the Company continued to incur losses.

The Management in its reply (October 2003) stated that percentile increase in the cost of emoluments, excluding the change necessitated on accounting policy, in the year 2001-2002 (over the year 1998-99) was only 14.06 per cent in case of the Indian Airlines Limited whereas the cost of emoluments in case of Jet Airways have gone up by 95.92 per cent during the period from 1998-99 to 2001-2002.

The reply is not acceptable as in the year 1998-99, Jet Airways had a fleet strength of 11 aircrafts and had handled 11,041 passengers per day with 35.5 per cent of market share; by the year 2000-2001 the number of aircrafts of Jet Airways had increased to 30, number of passengers carried to 16,233 per day and its market shares was 45.8 per cent. Thus consistent with the expansion in the market the staff emoluments had also reflected an increase which was unlike the case of the Company. As to the reply that percentile cost of emolument to total operating expenditure had declined, during this period the fuel cost, insurance charges and navigation charges had also increased significantly and therefore the total operating expenditure. Thus in spite of having captured 45.8 per cent of the market share in the passenger carriage, Jet Airways in the year 2001-2002 reflected 11.11 percentile as a proportion of cost of staff emoluments to operating expenditure against 25.81 per cent of the Company.

2.3.3 Periodic increase in fares to compensate for the increased outgo towards employee remuneration

In the preceding five years ending March 2003 the Company had enhanced the general passenger fares on 4 occasions which resulted in increase in fares by 37 per cent on an average.

The increase of staff remuneration cost by Rs.143.05 crore was ranked highest after the increase in the fuel cost amongst the major components of operational expenditure viz. landing and RNFC charges, fuel, repair and maintenance, insurance. The revenue generated out of periodic fare revision carried out by the Company apart from fuel cost was thus being directed towards meeting the high cost of the employees.

Management admitted (October 2003) that increase of employees cost in absolute terms was highest after the increase in the fuel cost. In the light of the fact that the Company had started incurring losses from the year 2000-01, it should have evolved appropriate policies with regard to staff emoluments, it being the only controllable input.

2.4 Productivity Linked Incentive Schemes

In November 1993 the Company introduced productivity linked incentive (PLI) for extending benefit in shape of incentives based on productivity parameters to pilots represented by ICPA. The above PLI benefit was then extended to the other associations of workmen as given in Annexure-4 during the period between May 1994 and March 1998.

Deficiencies noticed in formulation and processing of the PLI are discussed below:

2.4.1 Non adherence to the wage policy of the Company

The wage policy of the Company as approved (October 1999) by the Board stipulated that any increase in emoluments were to be based on increased productivity and savings and the inflow as a result must exceed the out flow. The PLI schemes formulated by the Company as submitted to the Board did not indicate savings/inflow in comparison to expenditure incurred on account of increased PLI. Key parameters of overall performance such as Profitability, load factor was also not considered by the Company for the purpose of evaluation of performance while processing PLI incentive in any of the schemes as given in the table below:

Year	Profit/Loss (-) (Rs. in crore)	Total No. of Employees	Profit/Loss(-) per employee (Rs. in lakh)	Total PLI (Rs. in crore)	Load Factor (capacity utilisation) per cent
1998-99	14.17	21922	0.06	239.70	63.1
1999-00	51.42	21173	0.24	267.89	66.0
2000-01	(-)159.17	20554	(-)0.77	269.77	67.4
2001-02	(-)246.75	20012	(-)1.23	327.59	62.9
2002-03 (Provisional)	(-)245.50	19527	(-)1.26	344.07	64.5
Total	**(-)585.83**			**1449.02**	

From above it is evident that over all profitability of the Company did not improve despite payment of increased PLI. On the contrary the Company started incurring losses from 2000-01.

Management in its reply (October 2003) stated that the parameter of Available Tonne Kilometer (ATKM), Revenue Tonne Kilometer (RTKM), aircraft utilisation as well as Technical Dispatch Regularity (TDR) have improved which otherwise would have gone down if the PLI had not been introduced in the Company and the losses that have been incurred by the Company could not be attributed to PLI scheme. Reasons for the loss were stated by the Company to be non-neutralisation of the impact of the cost of inputs and drop in market shares due to decline in the capacity.

Reply of the Management ignores the fact that the Company should not aim for neutralisation of the cost of inputs by resorting to fare increase in a competitive market. Efforts should have, therefore, been made to limit the expenditure on controllable inputs. As the PLI was mandated to be derived out of enhanced income/saving, the parameters so selected in the formulation of the PLI scheme should have included revenue generated/profit earned.

2.4.2 PLI payment on flawed and uncapped bench mark

The Company paid the variable component of PLI to the employees on the basis of the achievement of predetermined performance level under performance parameters prescribed as per the settlement reached with respective categories of workmen.

(i) A comparison of the average performance level achieved by the Company prior to the introduction of the PLI as indicated in the table below also reveals that the performance levels set out for PLI were lower than average performance levels.

	Parameters	**Union entitled to**	**Effective from**	**Average performance prior to PLI**	**Base performance level for payment under PLI**
1	On time performance	ACEU (Non tech) ARO/FOOA, AGIA, IAOA,	1.1.1995 1.1.1996	65.92 %	60 %
2	Average No. of Pax Carried/ day	ACEU (Non tech) ARO/FOOA, AGIA, IAOA,	1.1.1995 1.1.1996	20865 Nos.	19001 Nos.
3	Average Annual flying hours per aircraft	IAOA, ARO/ FOOA, AGIA AIAEA IATA	1.1.1996 1.7.2001(revised) 1.7.2002 (revised)	2255 hours 2862 hours 3055 hours	2000 hours 2300 hours 2300 hours
4	Technical dispatch regularity	AIAEA IATA	1.7.2001 (revised) 1.7.2002 (revised)	97.19% 98.56%	96.50 % 96.50 %

By definition, incentive should be motivation to the employees to perform better, i.e. above the average. Pegging of the base of the incentive below the average performance level tantamount to rewarding the employees for achieving average performance itself.

Management stated (October 2003) that the base level of performance in respect of each parameter was fixed at one or more higher steps in the agreement, entered into with AIAEA in July 2001, as compared to the base level of performance of the year 1996 agreement. The Management did not extend reasons as to why the base level of performance was not higher than performance level already achieved. Reply was also silent on parameters of performance for unions other than AIAEA.

(ii) The parameter of average fleet utilisation per aircraft per year was to be considered for release of PLI to employees represented by AIAEA and IATA associations. The base level was fixed at 2300 flying hours per aircraft per annum up to which no incentive was required to be released. No maximum ceiling of above parameters was, however, prescribed. If the above parameters had exceeded 3100 an additional amount ranging between Rs.175 to Rs.1460 per month was to be released per additional block of 50 hours. The parameter was also not correlated to any increase in revenue. It was observed that though the number of passengers flown on average per day had declined from 20959 in 2000-01 to 19323 in 2002-03 the average annual utilisation per aircraft had shown an increase from 2862 to 3298. The uncapped parameters by itself, therefore, did not yield any revenue while an amount of Rs.8.96 crore was released towards additional incentive.

Management stated (October 2003) that the capping was not made as the productivity had increased and the purpose was to ensure higher utilisation. The reply did not attend to the Audit contention that the uncapped parameter was not linked to any increase in revenue.

2.4.3 Irregular release of Productivity Linked Incentives/Allowances

Deficiencies in formulation and processing of productivity linked incentives/allowances, leading to irregular and unjustified payments of flying/productivity allowances aggregating to Rs.258.37 crore are tabulated below:

Date of commencement of allowance (associations to which it pertains)	Range of payment made as per settlements	Terms of settlements as arrived with Associations	Nature of irregularity/ deficiency as noticed in Audit	Amount of irregular/ unjustified payment in Rs. in crore (Period of audit observation)
Flying allowance February/ April 2001 (ICPA, IFEA)	Rs.1935 to Rs.4650 per day	The entitlement to receipt of flying allowance even during privileged leave up to a maximum of 30 days in a year at a rate of 1 ½ hour of assumed flying per day of leave.	In contravention of the basic tenets of the Company's wage policy as no incremental output was received against the outgo.	3.91 (April 2001 to March 2003)
Flying allowance November 2002 (ICPA)	Rs.1935 to Rs.5475 per hour	No distinction was made in the rates of flying allowance, if in case pilots of the Company were to operate aircrafts on behalf of Air India in the domestic sector.	Payment of flying allowance to the pilots undertaking flights for Air India in domestic sectors was made at the rate of 150 per cent of the normal flying hours taking the plea that after operation of such flights, pilots had to remain idle for 3 consecutive days due to FDTL[1] restrictions which was incorrect.	0.33 (November 2002 to March 2003)
Flying allowance January 1996 (ICPA and IFEA)	Rs.838.50 to Rs.2372.50 per hour	Payment of flying allowance to the cockpit crew at the rate of 65 per cent of the normal flying allowance even when they were not operating the flight and were travelling as SOD[2].	As the pilots were not actually performing flying duties and were travelling with passengers, the payment of flying allowance lacked basis and was thus irregular.	2.79 (April 2002 to March 2003)
Layover allowance February 2001 (ICPA)	Rs.1000 to Rs.1500 per night	Applicable when a pilot, night halted in a hotel for a minimum 8 hours and touched at any period of time between 00:00 hours and 05:00 hours before or after operation of a flight.	Payment of productivity allowance commenced in January 1996 had replaced all such previous allowance being paid including layover allowance and its re-introduction thus without assignment of additional duty or amendment to operation manual was unjustified as all expenses for stay in hotels were being paid by the Company.	3.22 (February 2001 to March 2003)

[1] ***Flight Duty Time Limitation***

[2] ***Staff on duty***

Fixed/ Special productivity allowance May 1994 to July 1996 ACEU (Cabin Crew, Tech), ICPA, IAEA, IFEA, IATA, Executives	Rs.675 to Rs.45140 per month	Payment of a fixed sum on monthly basis as productivity allowance.	Payments were introduced without any measurable linkage to the performance levels of the employees and these allowances had acquired a nature of graded fixed payments.	248.12 (April 1998 to March 2003)

The Management either did not address the contention of Audit or stated (October 2003) that the total compensation was evolved as a package and it was not appropriate to justify the payment of each allowance separately

2.5 Allowances, perquisites and voucher payments.

Apart from fixed basic pay, productivity allowance and productivity linked incentives the employees of the Company were also being paid various allowances which were introduced from time to time. The total number of allowances being released to various categories of employees were computed to be as high as 103 (Annexure-5).

Perquisites that has been introduced from time to time were further enhanced through various settlement and were in deviation to the approved wage policy of the Company as there was no linkage with any measurable increase in the out come of the work being performed.

Over and above these allowances and perquisites the Company had also been making payment against vouchers towards reimbursement of cost or against rendering of specific services. The above payments had been introduced during various periods but it had not been reviewed to reduce expenditure on these heads.

Deficiencies noticed in the payments of above are discussed below:

2.5.1 Irregular/unjustified release of allowances and voucher payments

Range of payment made as per settlements/ Date of commencement (associations to which it pertains)	Terms of settlements as arrived with Associations	Nature of irregularity/ deficiency as noticed in Audit	Amount of irregular/ unjustified payment - Rs. in crore (Period of audit observation)
Lecture Allowance			
Rs. 100 to Rs. 250 per lecture. April 1994/Dec.02 (AIAEA/AGIA)	At the time of release of allowance maximum number of lectures that could be delivered in a year had been prescribed and the payment was required to be released in six bimonthly instalments.	Proof of having delivered the lectures was not insisted upon at the time of release of above amount and instead of bimonthly payments a fixed sum equivalent to maximum lectures that could be delivered in a year was pro rata paid through monthly pay roll itself.	5.57 (1998-99 to 2002-03)
Flight Performance Monitoring Allowance (FPMA)			
Rs. 200 per day	Payment of flight compensatory allowance was	No specific distinction was made at the time of release of FPMA and it	0.11 (2001-02 to

April 2001 (IFEA)	commenced (June 1989) for carrying out specific duties of monitoring of flights. Subsequently for undertaking similar duties allowance titled FPMA was introduced.	was also not on record as to why a separate allowance had to be introduced for similar duties. Thus, both the allowances were being paid concurrently for the same duties.	2002-03)
Professional Development Allowance (PDA)			
Rs. 200 to Rs. 925 per month Jan. 1992 (AIAEA)	A fixed monthly sum was released as PDA over and above reimbursements towards procurement of technical/professional literature and periodicals.	As reimbursement of professional and technical literature was being made, introducing PDA was unjustified as the intended purpose of payment of PDA was being covered under the reimbursement of technical/professional literature and periodicals. The release of PDA was also not linked to acquisition of specific competence/ proficiency by the employees.	8.12 (1998-99 to 2002-03)
Reimbursement of Entertainment/ Sales Promotions expenses			
Rs. 250 to Rs. 2750 April 1991 (Executives above Manager)	A fixed graded sum was being released on monthly basis towards sale promotion/entertainment expenses.	Proof of having incurred the expenditure on furtherance of sales and promotion was not insisted upon and benefit that accrued to the Company on promotion of its image or boosting of the sales was also not co-related.	4.6 (2000-01 to 2002-03)
Out of pocket Expenses			
US $ 30/ 20 February 1996/ Dec.1997 (ICPA/ACEU-Cabin crew)	No settlement with Union.	The above release of payment was made on the basis of executive instructions and was neither covered in terms of the settlement nor was approved by the Board of Directors of the Company. Further the fixed productivity linked incentive (Jan.1996/Oct.97) had replaced all previously paid allowances including reimbursement of incidental expenditure.	13.57 (2000-01 to 2002-03)

The Management in its reply (October 2003) did not refute the facts and stated that in case of FPMA and PDA total compensation was evolved as package and it was not appropriate to justify each allowance separately.

2.5.2 Expenditure on Holiday Pay and Overtime Allowance

As per the terms of agreement entered with different association of workmen, overtime allowance and holiday pay were released to staff as well as officers up to grade 12. It had also been agreed that overtime allowance will be payable after 38/44 hours per week of normal service, for staff at the rate of 150 to 200 per cent of pay and dearness allowance and for technicians and engineers at the rate of Rs.45 to Rs.125 per hour. Similarly, the holiday pay was payable on closed holidays including Saturdays and Sundays for all categories of staff excluding technical staff up to grade 12. An analysis in Audit revealed that the total hours booked on overtime increased from 46.52 lakh in 1999-2000 to 50.15 lakh in 2002-2003 and expenditure on the same increased from Rs.31.4 crore to Rs.42.25 crore during the above period. Similarly, expenditure on holiday pay increased from Rs.5.53 crore in 1999-2000 to Rs.6.90 crore in 2002-03. The expenditure on holiday pay and overtime in the year 2002-03 constituted 23 per cent of the expenditure incurred by the Company on payment towards Basic Pay and DA for all its employees.

The Company sanctions productivity allowance, variable productivity allowance and PLI to these employees. Thus a separate compensation was not justified.

Management stated (October 2003) that due to progressive reduction in employee strength, number of employees have to work at odd hours and on weekly offs/holidays and on account of above parameters such as ATKM and aircraft utilization had continuously increased. Reply is not acceptable as the flying hours was the basis for release of various incentives including PLI and therefore for achievement of higher flying hours a separate compensation by release of OTA and holiday pay was not justified.

2.6 Conclusions

Indian Airlines Limited formulated various schemes for the payment of wages, allowances and productivity linked incentives (PLI) to its employees during the last five years ended March 2003 without linking them to financial performance of the Company, continuance of which would have adverse impact on the financial viability and sustainability of the Company on short and long-term basis.

Despite the increased payment of PLI from Rs.239.70 crore in 1998-99 to Rs.344.07 crore in 2002-03, the overall profitability of the Company did not improve. This was against the Wage policy that any increase in emoluments was to be based on increased productivity and savings and the inflow as a result must exceed the outflow.

Total employee cost of the Company increased by Rs.143.05 crore and the staff cost per employee by 30.83 per cent during the period from 1998-99 to 2002-03 although the number of employees of the Company had decreased by 10.93 per cent. Additional employee cost was met from revenue generated from the periodical upward revision of fare.

The Company has paid fixed productivity allowance/special productivity allowance/layover allowance etc. amounting to Rs.258.37 crore from April 1998 to March 2003 without linkage to the performance level achieved by the employees.

2.7 Recommendations

a) The Company should review the applicability and relevance of payment of different allowances and rationalise the same. Payments made to employees should be co-related with purpose for which these allowances are being released.

b) In line with the approved wage policy the PLI schemes should have parameters, which have direct linkages to increases in revenue/savings/profit.

c) Adhoc and interim amendments through executive instructions in schemes of PLI which results in increased outgo and duplication of incentives which are already incorporated in PLI should be stopped.

In a competitive aviation sector, the Company has to continuously strive for minimizing the cost of controllable inputs so that the cost of the services remains economical. In the light of the adverse financial position which confronts the Company, the existing policy of incentives and allowances needs an urgent review.

The review was issued to the Ministry in September/October 2003; their reply was awaited (October 2003).

MINISTRY OF COMMERCE AND INDUSTRY

CHAPTER : III

MMTC LIMITED

Iron Ore Trade

Highlights

Share of export of iron ore by MMTC Limited has been reduced from 33 per cent in 1998-99 to 27 per cent in 2002-03 although the Country's export of iron ore has increased from 316.80 lakh MT to 480.20 lakh MT during the same period.

(Para 3.4.1)

Export of iron ore to traditional overseas buyers like Japan and South Korea went down significantly from 2001-02, as the Company could not supply the quality of iron ore as specified by the buyers.

(Para. 3.4.2)

Profit of the Company from the export of iron ore has been reduced to Rs.73.08 crore in 2002-03 from Rs.93.14 crore in 2000-01.

(Para.3.4.3)

The Company lost Rs.4.33 crore in 2002-03 in execution of export order, as cost of operation of crushing and screening plant set up by the Company at Banihati was abnormally high.

(Para. 3.5.3)

The Company has an outstanding amount of Rs.18.76 crore receivable from NMDC on account of reimbursement of demurrage, adjustment of shortages, non-recovery of letter of credit, confirmation charges and non-recovery of financing cost.

(Para. 3.5.4)

The Company has suffered a loss of Rs.29.92 crore over a period of 5 years ending March 2003 towards shortages of 4.69 lakh MT of iron ore.

(Para.3.6.1)

The Company is yet to receive Rs.3.89 crore from Railways on account of volume Discount Scheme for the years 1997-98 to 2000-01.

(Para.3.6.4)

The Company incurred Rs.48.94 crore towards demurrage on various vessels during the period from 1998-99 to 2002-03.

(Para.3.6.5)

The Company is yet to realise Rs.2.86 crore due to non-raising of final invoices and ineffective pursuance of despatch money for timely loading.

(Paras 3.7.2 and 3.7.4)

3.1 Introduction

MMTC Limited[1] (Company) was set up in October 1963 as an agency for exporting from India of minerals, ores and concentrates and importing metals including iron and steel, fertilisers and precious metals. All exports of iron ore were controlled by MMTC up to August 1992 after which low-grade iron ore of Redi origin was decanalised. At present, the Company is the canalising agent only for iron ore having iron content over 64 per cent.

3.2 Organizational structure

The activities pertaining to export of iron ore are looked after by the Director (Minerals) who supervises the operations headed by General Manager at Regions located at Bellary, Bhubneshwar, Chennai, Goa, Kolkata and Visakhapatanam from where the export of iron ore is effected. The policy decision relating to export etc is supervised by a committee of 5 full time functional Directors called Sales Purchase Committee. Board of Directors of the Company consists of a Chairman-cum-Managing Director, 5 full time Directors and 8 part time Directors.

3.3 Scope of Audit

Export of iron ore constituted 20 per cent of the total turnover of MMTC. The present review examined operational efficiency, economy and effectiveness of the activities of the Company relating to procurement as well as export of iron ore for the five years ending 31 March 2003. Accordingly, records of the 6 Regional Offices of the Company located at Bellary, Bhubneshwar, Chennai, Goa, Kolkata and Visakhapatanam were scrutinized alongwith the records pertaining to planning and related coordination activities at the Corporate Office of the Company.

3.4 Export of iron ore by the Company

3.4.1 Government companies such as National Mineral Development Corporation Limited (NMDC), Kudremukh Iron Ore Company Limited, MMTC Limited and the private mine owners of Goa, Hospet and Nalda account for the export of iron ore. Although the Country's export of iron ore has increased from 316.80 lakh MT to 480.20 lakh MT during last five years due to their combined efforts, the Company's share declined from 33 per cent in 1998-99 to 27 per cent in 2002-03 as can be seen from table below:

Year	India's iron ore export (In lakh MT)	Total quantity procured (In lakh MT)	MMTC's export (In lakh MT)	MMTC's share in India's export (In per cent)
1998-99	316.80	105.85	103.26	32.59
1999-00	329.10	117.14	116.19	35.30
2000-01	374.90	148.90	148.48	39.60
2001-02	416.40	105.00	141.62	34.01
2002-03	480.20	119.5	128.25	26.71

3.4.2 The table below indicates the targets of export of iron ore of the Company and actual fulfillment of these targets along with country wise break up for last five years: -

[1] *Erstwhile Minerals and Metal Trading Corporation Limited*

Quantity in lakh MT

Year	Export		Country wise Break-up				
	Targets	Actual	Japan	China	South Korea	Pakistan	Others
1998-99	120.00	103.26	55.28	25.24	17.16	5.18	0.40
1999-00	96.50	116.19	54.84	40.36	15.30	5.22	0.47
2000-01	113.50	148.48	57.33	66.33	17.30	6.90	0.62
2001-02	135.50	141.62	52.78	64.77	18.78	5.29	-
2002-03	145.00	128.25	47.57	61.72	13.25	5.71	-

From above it is evident that the export of iron ore to almost all the countries has shown a decreasing trend after 2000-2001.

The Management attributed (September 2003) the overall decline in export to Japan and South Korea due to change in their product specifications which although, being in the notice of the Company could not be done due to non attainment of full production by the Banihati crushing plant established by the Company for this purpose and inability of the private mine owners to supply the iron ore of requisite specification.

3.4.3 The total turnover achieved through export of iron ore with related break up of element wise cost of procurement and realization is given in Annexure-6. From the Annexure it is evident that profit of the Company from the export of iron ore has been reduced to Rs.73.08 crore in 2002-03 from Rs.93.14 crore in 2000-01.

The decline in share of exports of iron ore and margin earned were due to deficiencies in system of procurement, deficiencies in system of handling, transportation, weighment, accountal of shortages and deviations done by the Company from regulations in contracts with overseas buyers, as discussed in the succeeding paragraphs.

Management stated (September 2003) that the iron ore procurement policies are being overhauled and continuous dialogue is being made with ports and railways for improvement of the infrastructure facilities.

3.5 Procurement of Iron ore

3.5.1 The Purchase Division of Corporate Office of the Company prepares annual procurement plan of iron ore keeping in view the export targets and previous year's closing stocks etc. Out of the total procurement of iron ore, 32.59 to 60.28 per cent was procured from NMDC and 26.50 to 37.40 per cent from private mine owners located in Southern Sector and 5.45 to 21.03 per cent from private mine owners located in Eastern Sector and others.

3.5.2 Review of the year wise and grade-wise targets fixed and achieved during the last five years ending March 2003 in respect of Regional Office, Bellary which is the main procurement region for iron ore revealed that the Company failed to achieve the targeted procurement in all the years except 2001-02. The deficit in procurement of various items ranged between 2.18 per cent and 80.8 per cent.

The Management in its reply (September 2003) stated that below target procurement was on account of switch in specifications made by the buyers of Japan and South Korea.

The reply is not acceptable as the Company was holding long term supply contracts and was aware from September 1999 that from 2001-02 the buyers required a different specification and appropriate advance action should have been initiated by the Company to meet the new procurement specifications. No reasons were extended by the Company for the below target procurement for the year 2002-03.

3.5.3 Operation of crushing and screening plant at Banihati

The Company installed a crushing and screening plant at Banihati in August 2001 at a cost of Rs.2.95 crore to generate calibrated lumps of required size of basic grade/High-grade. The feed for the plant was lumpy ore and after crushing and screening of the same, the plant was projected to produce calibrated ore and fines in the ratio of 60:40.

A test check revealed that 4.72 lakh MT of calibrated ore and fines were produced during 2002-03 after crushing 4.85 lakh MT of lumpy iron ore. As the procurement cost of the feed and the processing cost was higher[2] than the realisable value of the calibrated iron ore the Company suffered a loss of Rs.4.33 crore during 2002-03.

The Management while accepting (September 2003) that they had incurred extra expenditure of Rs.82.54 lakh in processing lumpy ore for calibrated basic grade (CBG) and calibrated high grade (CHG) in comparison with the procurement prices in domestic market, however, stated that on an overall basis the crushing plant operation was profitable in export market. Contention of the Management is not tenable, as the profitability statement of the plant furnished by the Management with its reply had assumed a higher sales price than prevalent sale price by Rs.102.48 per MT of CBG and Rs.84.91 per MT of CHG. It had also underestimated the costs by Rs.48.95 per MT in respect of CBG and Rs.54.99 per MT in respect of CHG due to non-inclusion of processing losses, handling losses, negotiation charges of Letter of Credit, haulage and tripling charges and short charging of processing cost etc.

Thus the fact remains that the Company suffered a loss of Rs.4.33 crore during 2002-03.

3.5.4 Non-recovery of dues from National Mineral Development Corporation (NMDC)

The Company had a long-standing supply arrangement with NMDC for quantities of iron ore procured from Donimalai and Bailadila meant for export to Japan and China from Vizag and Chennai ports. Mechanism evolved by these two Public Sector Undertakings for transacting the business was to hold meetings and record the various decisions taken in a Record Note of Discussion (RND), which was utilized for regulation of various terms settled. The modalities of supply were revised in August 2001 and a new arrangement was made effective from April 2001. As per the new arrangement the entire reward as well as risk involved were to be on NMDC's account and the Company was to aid the NMDC in obtaining the contracts and to carry out

[2] By Rs.61.48 per MT in respect of calibrated high grade (CHG)and Rs.96.85 per MT in respect of calibrated basic grade (CBG).

coordination activities for which 3 per cent service charges only was required to be retained by the Company from the sale proceeds collected. Consequent to this, the profitability of the entire operations declined.

It was observed in Audit that the Company had outstanding amounts from NMDC relating to reimbursement of demurrage (Rs.47.54 lakh); adjustment of shortages (Rs.15.69 crore); non-recovery of letter of credit confirmation charges from NMDC (Rs. 61.50 lakh) and non-recovery of financing cost (Rs.1.98 crore). These were not brought to finality at the time when the fresh modalities were negotiated. Consequently above outstanding issues aggregating to Rs.18.76 crore are yet to be settled.

The Management in its reply stated (September 2003) that the new modalities were adopted consequent to a decision of Union Cabinet, which had authorised a Committee of Secretaries to look into the revised contractual arrangements. The Management, however, was not able to explain non-negotiation of outstanding amounts receivable from NMDC at the stage when the revised modalities were under finalisation.

3.5.5 Undue benefit on account of error in computation of High Speed Diesel (HSD) rates

As per terms of settlement reached with private mine owners, the Company was extending an yearly hike in the basic price payable on transportation in respect of procurement of iron ore and hike in the rates of HSD was to be considered separately over and above the hike in the base rates. However, the Company in the year 2000-01, did an error in the calculations by applying the escalation on base rates plus HSD cost. Consequently an amount of Rs.12.26 lakh was overpaid to private mine owners as HSD was also paid separately. The Management stated (September 2003) that the payment on account of HSD incidence was as per the contract. Reply is not correct, as errors in calculation had led to overpayment.

3.6 Handling and Transportation

3.6.1 Losses due to shortages of iron ore

The Company procures iron ore from Bellary, Hospet, Nalda and Goa locations from private mine owners and the same was transported to the ports of Goa, Chennai, Paradeep and Haldia for export. The above involved loading/unloading at designated places, storage and transportation, which resulted in shortages due to the movements involved. The Company accounted for the shortages by adjusting it from the closing stock on the basis of an yearly exercise of physical verification. Annexure-7 gives the shortages adjusted in the closing stock of various Regional Offices in comparison to the exports handled. The percentage of shortage to the exports ranged between 0.20 and 8.34 in the various Regions. As a result it has suffered loss of Rs.29.92 crore over a period of 5 years ending March 2003.

The Management stated (September 2003) that there was no fool proof system of weighment of iron ore loaded into the wagons and even with the latest equipment, the estimation can be made to the nearest quantity and therefore the actual shortage/excess could be ascertained at the time of actual liquidation of stocks.

The process of assessment and computation of shortages, however, had several deficiencies as a result of which the reliability of the stock shown appeared doubtful as discussed below.

(a) Non-adherence to the prescribed procedure of Bureau of Indian Standards (BIS)

Iron ore being bulk commodity is weighed based on volumetric method as prescribed in BIS standard 5842 – 1986 (Method For Measuring Bulk Density of Iron Oxides, Lump Ores, Sinter and Pellets). As per standard, a sample was required to be constructed out of the heaps of iron ore for purpose of measurement of density. Results of this sample analysis are required to be extrapolated for entire heap by conversion of volume, which is measurable into weight.

(i) It was observed in Audit that the Company had not directed the Assayers appointed at various regions for physical verification to adhere to the above standard of BIS and therefore different Assayers at different regions had carried out the physical verification adopting varying methods. Reports of the physical verification did not mention adherence to the BIS. It was further observed in Audit that contrary to the practice as stipulated in the BIS the Assayers were adopting a compression factor on the plea that bottom layers of the iron ore were subjected to compression force. Consequently, volume of iron ore was increased by the rate of compression factor applied thereon, which ultimately resulted in increase in weight of iron ore stored.

(ii) Audit scrutiny revealed compression factor ranging between 4 and 25 per cent in the year 2001-02 and between 5 and 25 per cent in the year 2002-03 was utilised in Bellary and Goa Region. As a result, iron ore of 5.45 lakh MT was inflated to 6.58 lakh MT in the books of accounts of the Company in the last two years. Thus adoption of compression factor not prescribed by BIS increased the weight of iron ore by 1.13 lakh MT valuing Rs.2.40 crore.

Management in its reply (September 2003) did not give any proper justification for non adherence to the specific BIS standard.

(b) Absence of proper system with regard to computation of shortages

It was noticed in Audit that the information supplied by the various regions to the Corporate Office of the Company with regard to shortages on the basis of quantity handled had a non-uniform base. Goa and Bellary region considered opening stock plus the arrivals during the year. Bhubneshwar region considered exports and stock on transfer apart from the iron ore in transit. The Chennai Region was additionally considering stocks on loan and stocks claimed. The Kolkata region, however, was only considering total sales made for computing the quantity handled. It was further observed that while computing the quantity handled, even the iron ore procured through suppliers from FOBT (Free on Board and Trimmed) contracts i.e. up to loading on to the ship, was also considered although the entire operation of handling and transportation was being done by the supplier. The percentile figure of the shortages lacked basis and thus were not comparable and reliable.

The Management stated (October 2003) that the regions have been advised to strictly follow the instructions so that uniformity is maintained in computation of shortages.

3.6.2 Loss on account of leveling of plot area with iron ore

The Company had in its possession a plot area of 10920 sq. mts. in Kolkata, and in order to level the surface 11348.38 MT of iron ore was utilised. No reason was available on records as to why only iron ore was required for the purpose of leveling and no other medium such as sand/earth work soil could be used. The Company subsequently had to hand over (between April 2001 to May 2002) 50 per cent of the above plot to the Haldia Port Trust alongwith the stock of embedded iron ore of stated quantity of 5674 MT of the value of Rs.22.36 lakh.

Management stated (September 2003) that it had lodged a claim (September 2003) on Haldia Port Trust for 50 per cent value of embedded stock for recovery.

3.6.3 Failure to levy penalty for shortfall in handling

The Company entered (October1996) into an agreement with M/s. Agencia Commercial Maritima (ACM), an agent for loading into steamers in midstream and its transportation to barge unloader. As per the agreement, if the Agent failed to transport a minimum of 7000 MT per day, the Company was to impose a penalty at Rs.3 per MT on the shortfall noticed.

A test check of payments made by the Company during the period 2000-01 to 2002-2003 at Goa region revealed that though the quantity transported by barges remained lower than the minimum contractual rate, the Company failed to make any deduction towards penalty as per terms and conditions of the agreement. Reasons were not found on record for not affecting recovery for shortfall in transportation by barges. As a result, the Company suffered a loss of Rs.28.22 lakh.

Management admitted (October 2003) that there was a necessity to amend the relative provisions of the agreement and the same would be done at the stage of renewal. The fact remains that contractual deduction had not been made.

3.6.4 Failure to avail volume discount on the railway freight

The volume discount scheme (VDS) introduced (December 1997) by Railways were meant to provide discount ranging between 6 to 12 per cent on incremental traffic offered by customers and for this purpose a letter was required to be furnished giving the details of quantity proposed for movement by the customers in the year.

A scrutiny in Audit revealed that the Company failed to derive maximum benefit out of the above scheme as it failed to furnish either the mandatory letter of intimation containing the proposed traffic movement to be made by them or documentary evidence establishing benchmark/incremental traffic. As a result an amount of Rs.50 lakh was disallowed by the Railways for the year 1998-99 in respect of Chennai Region due to non furnishing of letter of willingness and Rs.3.39 crore was disallowed by the railways for the years 1997-98, 1999-2000 and 2000-01 in three regions (Chennai, Bhubaneshwar and Goa) on account of non fixation of benchmark before commencement of traffic.

Management stated (October 2003) that joint verification had been held for finalising the incremental traffic and Railways had sent a proposal to their Board seeking approval/clarification. Fact remains that the claim of Rs. 3.89 crore was pending realization for more than 2 to 5 years.

3.6.5 Payment of demurrage

The Company was liable to pay demurrage to the overseas buyer in case it failed to adhere to schedule of loading of vessels specified in the contract. The table below indicates the quantum of iron-ore exported and the amount of demurrage incurred by the Company during the last five-years period from 1998-99 to 2002-03.

Year	Export		Amount of demurrage (Rupees in lakh)	Per MT demurrage (Rupees)
	Quantity (lakh MT)	Value (Rupees in lakh)		
1998-99	103.26	85729.51	363.91	3.52
1999-00	116.19	87467.76	545.59	4.70
2000-01	148.48	119854.75	1288.22	8.68
2001-02	141.62	122368.76	1527.00	10.78
2002-03	128.25	107521.52	1169.40	9.12
Total	**637.80**	**522942.3**	**4894.12**	**7.68**

It may be seen from above that the demurrages incurred were Rs.3.52 per MT in 1998-99. The same had increased to Rs.10.78 per MT in 2001-02.

The Management stated (October 2003) that an element of demurrages has been included in the costing and demurrages that have been levied in the various years have not exceeded the above. Reply is not acceptable as in a competitive market the Company should strive for reduction of controllable costs by adopting proper procedures for procurement, planning and coordination so as to gain higher margins.

Audit scrutiny of the number of vessels incurring demurrages in the various regions revealed that the percentage of vessels that incurred demurrage at Chennai had increased from 58 in 1998-99 to 90 per cent by the year 2002-03. Similarly at Paradeep Port the same had increased from 31 per cent in the year 1998-99 to 80 per cent in the year 2002-03. The average vessels that incurred demurrage was computed to be 137 in 2002-03. Further, a test check in Audit revealed that an amount of Rs. 1.12 crore had to be paid as demurrages during 2002-03 solely on account of non-convergence of iron ore at Chennai, Goa and Haldia ports.

Management admitted (October 2003) that demurrage was paid on account of non-convergence of iron ore at the port but added that they recovered Rs.37.32 lakh from the suppliers of iron ore. Contention of the Management about the recovery of Rs.37.32 lakh is not tenable as the recovery made by the Company had been unilateral without acceptance of the supplier who have disputed the same stating that the incidence of demurrages were attributable to the Company.

Reasons for undue delay in loading of the vessels and payment of demurrages of Rs.4.05 crore during May 2000 to October 2002 at Goa, Paradeep and Chennai ports could not be commented for want of proper records. The details of these cases are given in Annexure - 8.

3.7 Dues from Overseas buyers.

3.7.1 An analysis in Audit revealed that an amount of Rs. 119.52 crore was outstanding as on 31 March 2003 from the overseas buyers and the same constituted 163.5 per cent of the profit earned through exports of iron ore during the year 2002-03.

The Management stated (October 2003) that out of Rs.119.52 crore, shown as outstanding as on 31 March 2003, they had recovered an amount of Rs.93.07 crore by the end of September 2003 and the balance outstanding amount of Rs.26.45 crore would be adjusted against Rs.40.10 crore payable to the buyers towards demurrage and agency commission.

The reply is not tenable, as the Management is yet to obtain confirmation of adjustment from the buyers. Further as admitted by the Management, the buyers of China and Pakistan were not inclined to remit the 5 per cent sale value of the individual shipments unless confirmation/acceptance of demurrages and commission was made by the Company.

The outstanding amount was on account of deficiencies in the system of regulation of contract terms by the Company as described below:

3.7.2 Non-raising of final invoices

As per the contract, a final invoice constituting 5 per cent of the value was required to be raised, if in case discharge port results were not furnished by the buyers within 60 days from the date of arrival of the vessel at the discharge port. In deviation to the above, the Company had not raised the 5 per cent invoice involving a sum of Rs. 2.56 crore in 18 cases pertaining to the period from June 2001 to March 2003.

The Management stated (October 2003) that it had realized an amount of Rs.41 lakh in respect of 3 shipments, while in 5 shipments, it was being settled through reconciliation/umpire analysis. The fact remained that the Company could not realize Rs.2.15 crore in 15 shipments due to delay in following the system prescribed.

3.7.3 Non-invoking of the umpire analysis

As per the contract, if there were to be variations beyond or equal to 0.5 per cent in the contents of Fe between load port and discharge port results, the final invoice was required to be raised on the basis of a further analysis by an umpire. In deviation to the above, the clause for umpire analysis was not invoked in 4 cases pertaining to shipment transacted between August 1998 and March 2002. Consequently, the Company had to accept a deduction of Rs. 1.51 crore made by the buyers.

The Management stated (October 2003) that it had been their experience that the results of umpire analysis were more or less identical with the disport results. No details were, however, forwarded by the Company to prove their contention that the result of umpire analysis remain identical to the disport results.

3.7.4 Failure to earn despatch money

As per the contract, the Company was eligible to receive despatch money if in case loading of vessel was completed by them before the agreed lay days[3] Though the Company effected despatches before the agreed lay days in 34 shipments pertaining to period January 1979 to February 2001, it failed to realise the despatch money amounting to Rs. 71.28 lakh from the overseas buyers due to ineffective pursuance.

Management admitted (October 2003) that in 24 of the shipments the recovery was difficult and in balance shipments either a write off proposal was under contemplation or an overall settlement was being planned from the overseas buyers. The fact remained that the Company was put to loss due to ineffective pursuance of the despatch money.

3.8 Conclusions

Share of export of iron ore by MMTC Limited has been reduced from 33 percent in 1998-99 to 27 per cent in 2002-03 although the Country's export of iron ore has increased from 316.8 lakh MT to 480.20 lakh MT during the same period. The Company failed in its endeavour to meet the demands of buyers of Japan and South Korea as neither the Banihati plant established for the purpose attained full capacity nor was its economics of production profitable to the Company. The Company incurred Rs.48.94 crore towards demurrages on various vessels during the period from 1998-99 to 2002-03 and also suffered a loss of Rs. 29.92 crore over a period of 5 years ending March 2003 towards shortages of 4.69 lakh MT of iron ore. As a result, profit of the Company from the export of iron ore has been reduced to Rs. 73.08 crore in 2002-03 from Rs. 93.14 crore in 2000-01.

3.9 Recommendations

a) In the light of competition and falling share in the market, the Company has to devise appropriate policies and systems for procurement, handling, transportation and coordination with port and railway authorities to retain its market share. The Company should frame a specific credit policy for extension of loans and advances to the private mine owners and strengthen procedures for ensuring recoveries.

b) The Company should take immediate steps to reduce the costs of operations of crushing and screening plant at Banihati as it had lost Rs. 4.33 crore in the year 2002-03 in the processing of the exports orders.

c) Proper advance planning with monitoring at appropriate level should be introduced to keep a tab over the product specification forecasted by the overseas buyers and to meet with the same.

d) The Company should fix permissible percentage of shortages specific to a movement and procedure for weighment.

---

[3] *No. of days allowed by the Charterer of the vessel for loading/discharging a cargo*

The review was issued to the Ministry in September/October 2003; their reply is awaited (October 2003).

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

CHAPTER : IV

Food Corporation of India

Procurement and Milling of Paddy in the Punjab Region

Highlights

During 1997-98 and 1998-99 the Corporation procured 5.01 lakh MT of paddy which was of inferior quality/short in weight. Of this 2.00 lakh MT could not be milled and had to be sold in the market through tender resulting in a loss of Rs.74.92 crore on its disposal. There was also a storage loss of Rs.33.33 crore. On account of milling the paddy on FCI pattern instead of on DFSC pattern, there was a loss of Rs.12.35 crore.

(Paras 4.4.2 and 4.5.1)

The Corporation waived off Mandi shortages of Rs.2.99 crore during 1997-98 to 2000-01 by allowing driage which was unwarranted.

(Para 4.4.3)

By allowing driage over and above the out-turn ratio of 67 per cent as recommended by the Expert Committee in respect of Custom Milled rice, the Corporation suffered a loss of Rs.143.67 crore being the value of 1.49 lakh MT of rice received short. Further there was an avoidable payment of Rs.19.16 crore due to extending driage allowance.

(Para 4.5.2)

Though the State Government and its agencies have not incurred custody and maintenance charges, the Corporation paid Rs.103.21 crore leading to avoidable payment of subsidy by Government of India (GOI). The Corporation also made an excess payment of Rs.146.69 crore towards transportation charges to the State Government and its agencies.

(Paras 4.5.3 and 4.5.4)

The Corporation incurred loss of Rs.107.43 crore due to short delivery of 15.55 lakh MT of levy rice during 1997-98 to 2001-02 by the millers.

(Para 4.6.2)

The condition of the Mandis was far from satisfactory despite the fact that the Market Committees collected Rs.1436.12 crore towards market fee and RD cess during 1998-99 to 2001-02 for improving the conditions of the Mandis in the State. Thus, the funds collected were not utilised for the purpose for which they were collected.

(Para 4.7)

4.1 Introduction

Food Corporation of India (FCI), the State Government of Punjab and its agencies and private millers/traders purchase paddy, brought by the farmers to Mandis, at Minimum Support Price (MSP) fixed by GOI. The purchases are made through the commission agents known as 'Katcha Arthias'. The Mandis have been established and maintained by the Market Committees setup under

Punjab Agriculture Produce Markets Act, 1961. The paddy purchased by the State Government and its agencies is stored in millers' premises whereas the paddy purchased by FCI is transported to godowns from where it is issued to millers for milling. The paddy is milled to convert it to rice and transported back to the godowns of the Corporation. The rice obtained by FCI in this method is known as Custom Milled Rice (CMR). GOI fixes the rates for CMR payable to State Government and its agencies comprising of Statutory charges (Mandi charges which include market fee, commission, RD cess and purchase tax) and Non-Statutory Charges (Mandi labour charges, transportation, driage[1], interest, milling, custody and maintenance charges). Under the 'Punjab Rice Procurement (Levy) Order 1983' millers/traders are also required to deliver to FCI a prescribed percentage of rice milled out of paddy purchased by them at rates fixed by GOI. Rice delivered under this method is known as 'Levy rice'.

4.2 Organisational Structure

The Regional Office Punjab (RO) of FCI is entrusted with the task of procurement, storage, preservation and movement of foodgrains by FCI in the State of Punjab and is headed by a Senior Regional Manager. The Region has been divided into 12 District Offices and 171 Depots each headed by a District Manager and an Assistant Manager respectively. The Quality Inspectors and Technical Assistants of Depots posted at Mandis are the authorised representatives of FCI for purchase of paddy from the farmers/Katcha Arthias and are responsible for the quantity and quality of stocks purchased.

4.3 Scope

The review covers the procurement of paddy by the Regional Office of the Corporation, the State agencies and private millers in the State of Punjab and its conversion to Custom Milled Rice in four out of 12 Districts of the State viz., Ferozepur, Patiala, Sangrur and Ludhiana which accounted for 51 per cent of the total paddy procured during 1997-98 to 2001-02. It also covers levy rice delivered by millers under Punjab Procurement (Levy) Order, 1983.

4.4 Procurement of Paddy

The Corporation, the State Government and its agencies procured paddy of prescribed specifications at Minimum Support Price fixed by GOI. The table below indicates market arrivals and procurement of paddy during 1997-98 to 2001-02.

(Quantity in lakh MT)

Year	Market arrivals	Corporation	State agencies	Traders
1997-98	98.43	28.74 (29%)	41.86 (43%)	27.83 (28%)
1998-99	94.71	23.97 (25%)	35.68 (38%)	35.06 (37%)
1999-2000	110.40	24.45 (22%)	58.55 (53%)	27.40 (25%)
2000-01	111.23	28.33 (25%)	58.57 (53%)	24.33 (22%)
2001-02	114.05	23.95 (21%)	70.47 (62%)	19.63 (17%)

[1] *Reduction in moisture content*

The paddy procured by the Corporation, the State Government and its agencies is converted to rice. In the conversion process substantial expenditure is incurred by FCI, the State Government and its agencies, which is finally borne by GOI. There were shortages in delivery of CMR and Levy rice by millers to FCI. However, the mechanism evolved involving FCI/State Government to monitor the working of the system has not been effective leading to avoidable payment of subsidy by GOI, which are dealt with in subsequent paragraphs.

4.4.1 Damaged/Unmillable Paddy

The Corporation procured 27.54 lakh MT of paddy during 1997-98 and 1998-99 in the districts Ferozepur, Patiala, Sangrur and Ludhiana of which 5.01 lakh MT of paddy was of inferior quality/short in weight.

4.4.2 Of 5.01 lakh MT of defective paddy procured, 2.00 lakh MT of paddy was unmillable and had to be sold through tenders in the market. There was delay even in the sale of unmillable paddy, which was spread over three years leading to increased losses. On sale of 0.25 lakh MT (average rate Rs.3519 per MT), 0.32 lakh MT (average rate Rs.3288 per MT) and 0.89 lakh MT (average rate Rs.2498 per MT) paddy during the years 1999-2000, 2000-01 and 2002-03 respectively the Corporation suffered a loss of Rs.74.92 crore. (difference between the economic cost and value realised). Further, there was storage losses amounting to Rs.33.33 crore being the cost of 0.42 lakh MT. However, recovery for balance 0.12 lakh MT damaged paddy was effected from Punjab State Warehousing Corporation because it was stored in their godowns.

The reply of the Management (October 2003) that the action was taken /being taken against the officials involved in procurement, show that the paddy procured was either sub-standard/rendered sub-standard/damaged due to delayed lifting from Mandis.

4.4.3 Action plan of the Corporation for Kharif procurement operations provided that the Quality Inspectors/Technical Assistants entrusted with the procurement of paddy from Mandis were responsible for its quantity and quality. They were solely responsible and accountable for any Mandi shortages. It was seen that out of 8620 MT of Mandi shortages, the recovery of 5206 MT valuing Rs.2.99 crore were waived off during 1997-98 to 2000-01 by allowing 0.38 to 1 per cent driage for delay of 2 to 30 days in lifting of paddy from Mandis.

The Management stated (October 2003) that in order to avoid litigation with the Kutcha Arhtias, the Corporation decided to allow the driage allowance for the delays on the lifting of paddy from Mandis to depots. Waiving off of shortages on the pretext of driage within 2 to 30 days of procurement of paddy was not in order as the driage in paddy occur during the later part of season due to weather conditions.

4.5 Custom Milling of Paddy

4.5.1 There are two methods by which paddy procured by FCI is milled by millers viz., DFSC and FCI patterns. Under DFSC pattern paddy is issued on the basis of procurement book weight minus two per cent driage discount and rice of prescribed specifications and yield is accepted in lieu thereof on payment of fixed milling charges. In FCI pattern paddy is issued on 100 per cent weighment basis and raw rice of prescribed specifications plus one per cent in excess of the prescribed yield is received. The Corporation had to resort to milling on actual weighment basis in respect of 3.01 lakh MT of paddy purchased during 1997-98 and 1998-99 and received only 1.83 lakh MT of rice as against 1.98 lakh MT receivable under DFSC pattern. The loss on account of short recovery of rice was worked out to Rs.12.35 crore.

The Management stated (October 2003) that both the patterns of milling were adopted to get the paddy milled expeditiously. The reply is not tenable, since the paddy was to be got milled under FCI pattern, only when the millers were reluctant to mill the paddy on DFSC pattern. Thus, milling of paddy under FCI pattern resulted in short recovery of rice.

A review of the contract agreements entered into with rice millers by State Government and Corporation and the incidentals fixed by GOI revealed the following: -

4.5.2 Unintended benefit to millers

During the yearly kharif plan meetings held in Ministry of Food, New Delhi, Rice Millers Associations as well as State Governments had raised the issue regarding reduction in out-turn ratio of rice from paddy due to mix in cultivation of various varieties. On this basis, GOI asked (September 1993) the Corporation to get trial milling of paddy done through various Research Institutes in association with concerned State Governments and Rice Millers' Associations. Three research institutes conducted study in 10 States during October 1993 to August 1994. In respect of paddy cultivated in Punjab the study was conducted by CFTRI, Mysore during October 1993 to January 1994. The out-turn ratio for raw paddy obtained in trial milling in Punjab Region was 69 per cent.

The Expert Committee constituted (September 1994) by GOI for scrutinising the reports of the Research Institutes, recommended (November 1994) a minimum of 67 per cent out-turn for raw paddy after considering the difference of two per cent driage already being allowed in Punjab; whereas the actual out-turn noticed was 69 per cent. It further recommended uniform out-turn ratio for raw paddy at 67 throughout the country for both levy and custom milled paddy without allowing any driage allowance. GOI, however, continued to allow 2 per cent driage up to 1998-99 and thereafter one per cent on custom milled paddy over and above the out-turn ratio of 67 per cent.

The Corporation in respect of paddy procured by the State Government and its agencies, received 65.66 per cent (due to allowing 2 per cent driage during 1998-99) and 66.33 per cent (due to allowing 1 per cent driage during 1999-2000 to 2001-2002) of custom milled rice for each quintal of paddy delivered to millers as against 67 per cent receivable as per the recommendations of the Expert Committee. Thus 1.49 lakh MT of rice was short received and the loss suffered on this account worked out to Rs.143.67 crore in respect of 'A' grade rice during the years 1998-99 to 2001-02. Further, the Corporation, in respect of paddy procured by it, obtained 67 per cent of rice for custom milling of its own paddy but paid to millers 1 per cent of MSP as driage allowance. Due to payment of driage allowance, millers were benefited to the extent of Rs.19.16 crore during 2000-01 and 2001-02.

The Management stated (October 2003) that a policy decision was taken to fix the out-turn ratio uniformly throughout the country. The fact, however, remains that GOI allowed an out-turn ratio for CMR that was lower than that obtained for Levy rice. Besides, the uniform rate recommended by the expert committee was 67 per cent for both Levy and CMR where as the rate allowed was lower.

4.5.3 Custody and maintenance charges

The Paddy procured by the State Government and its agencies is stored in the premises of rice millers. A review of the agreements by the State Government and it agencies with the millers revealed that there exist no specific clause for reimbursement of custody and maintenance charges to the millers. As per residual para 4(viii) of the agreement, the miller shall be paid for the services not included in the milling charges at the rates adopted by the GOI. In this regard it is observed that the State Government and its agencies had also not made payments towards custody and maintenance charges to the millers.

However, the GOI allowed such charges at Re.0.92 per quintal per month during 1997-98 to 1999-2000 to the State Government and its agencies without obtaining documentary evidence. While issuing final rates for the year 1999-2000 in March 2002, GOI directed that custody and maintenance charges would be payable by the Corporation subject to production of a certificate by the State Government that they had actually incurred the expenditure. However, no such certificate has been obtained as a result of which the payment of custody and maintenance charges for the years 1997-98 to 2001-02 on paddy amounting to Rs.103.21 crore (including provisional amount of Rs.31.66 crore for the years 2000-01 and 2001-02) was irregular and led to avoidable payment of the subsidy by GOI to this extent.

The Management stated that no agency would render services free of cost. The contention of Management is not tenable, as there was no clause in the agreement providing for such payments. Besides, even the GOI orders were not complied with and payments were released without obtaining documentary evidence.

4.5.4 Transportation charges

The Corporation incurs transportation charges on paddy from Mandis to its godowns for storage in the first instance and later on for transporting paddy to miller for milling beyond 8 kms

The Corporation incurred Rs.30.13 crore, Rs.31.68 crore and Rs.32.64 crore during 1997-98, 1998-99 and 1999-2000 respectively for transportation of paddy from Mandis to godowns and for the distance beyond 8 Kms from godowns to milling places as per the agreements entered into with the millers. Though the agreements entered into by the State Government and its agencies with the millers provided for reimbursement of the same irrespective of distance involved in transporting the paddy, the State Government had not submitted the details of the actual expenditure incurred on transportation, to GOI for fixation of final rates. However, transportation charges were finally allowed to State Government and its agencies on the basis of expenditure incurred by the Corporation during the year 1997-98 and with an adhoc increase during 1998-99 and 1999-2000. This was not in order since the State Government and its agencies incurred no such expenditure as they do not transfer paddy to godowns and paddy is lifted directly by the millers. The State Government and its agencies, therefore, should have been allowed the transportation charges incurred by FCI at best for the distance beyond 8 Kms only.

The transportation charges paid to millers by the Corporation beyond 8 Kms in Sangrur and Ferozepur districts per quintal of paddy worked out to Re.0.42 in 1997-98, Re.0.19 in 1998-99 and Re.1.00 in 1999-2000 but Rs.10.47, Rs.11.52 and Rs.13.40 were reimbursed in the respective years to State Government and its agencies on the basis of total transportation charges incurred by FCI. As a result there was an excess payment of Rs.146.69 crore for the years 1997-98 to 1999-2000.

GOI while fixing the provisional rates for the year 2000-01 did not allow any transportation charges. For the year 2001-02 it was mentioned that transportation charges would be reimbursed on actual basis for transportation of paddy for a distance beyond 8 Kms. This substantiates the Audit view that the payments were avoidable. Thus, the reimbursement of transportation charges without documentary evidence for the years 1997-98 to 1999-2000 was not in order.

The Management stated that the sample of two districts for the purpose of arriving at transportation charges incurred by the Corporation was not adequate. The reply is not sustainable due to the fact that the Management had not furnished relevant data for the Region as a whole in support of their contention.

4.5.5 Short delivery of common rice

According to the 'Punjab Rice Procurement (Levy) Order 1983, every licenced dealer/miller has to deliver prescribed percentage of each variety of rice purchased or otherwise acquired by him for sale to the Corporation. The miller is also under obligation to mill stocks of paddy held by the Corporation, State Government or its agencies.

It was not ensured that the provisions of the said order were enforced strictly. As a result, the millers short delivered common rice to the extent of 7.42 lakh MT during the years 1998-99 to 2001-02.

4.6 Levy Rice

4.6.1 Sections 3 and 4 of the 'Punjab Rice Procurement (Levy) Order, 1983 stipulate that every licenced miller and dealer shall sell to the Government at the procurement price such percentage as may be specified by the Government of each variety of rice conforming to the specifications purchased or otherwise acquired by him for the purpose of sale

A review of paddy purchased and levy rice delivered by the millers revealed the following: -

4.6.2 Short delivery of Levy Rice

The GOI specified that 75 per cent of rice milled out of paddy purchased by millers/traders should be delivered as levy rice. However, the millers were allowed to deliver levy rice beyond the prescribed percentage at their discretion during 1999-2000.

The millers delivered 3.15 lakh MT (30 per cent) against 10.62 lakh MT of common rice due from them during the years 1997-98 to 2001-02. Similarly, 4.11 lakh MT (26 per cent) of grade 'A' rice was delivered during 1998-99, against 15.63 lakh MT due. During the year 1997-98, 2000-01 and 2001-02 millers delivered 3.44 lakh MT of grade 'A' rice over and above the prescribed percentage.

The millers, thus, short delivered 15.55 lakh MT of levy rice during 1997-98 to 2001-02. As the provisions of (Levy) order were not enforced strictly, the Corporation has incurred a loss of Rs.107.43 crore being the difference in rates of levy and custom milled rice and the subsidy payable by GOI increased to that extent.

The Management while accepting the fact that there was bound to be differences between CMR price and Levy rice price, stated that the provisions of Levy Order are to be enforced by the State administration and the Corporation had no role in the matter.

The reply is not tenable because the Corporation being the nodal agency of GOI should have taken up the issue of short delivery of levy rice by millers either with the State Government or GOI to ensure the provisions of the levy order were complied

4.7 Other topics of interest

Condition of Mandis

The Market Committees have been charging two per cent, on the value of the agricultural produce sold in the notified market area, as market fee for development and maintenance of Mandis since April 1974 (except @ three per cent during 1 May 1978 to 4 May 1979). The Committees also collect Rural Development (RD) Cess under the 'Punjab Rural Development Act 1987 for the purposes specified in the Act for rural development @ one per cent from April 1987 and @ two per cent from October 1993. The Corporation paid Rs.1436.12 crore on account of market fee and RD Cess on the procurement of paddy and wheat during the years 1998-99 to 2001-02.

However, it was not ensured that the amounts so collected were utilised for improving the condition of the Mandis as evident from the reports of Central Government teams that visited (October 1997) Mandis of Ferozepur, Patiala and Amritsar districts. The teams reported that Market Committees are charging 4 per cent on the foodgrains purchases by Government, but the facilities provided were unsatisfactory. During October 1997, a team of officers of the Corporation also visited some Mandis in Patiala, Ludhiana and Jallandhar. The team reported that the Mandis in Punjab were not provided with facilities and in several Mandis there was no pucca flooring.

GOI while communicating the rates of incidental charges of custom milled rice for the years 2000-01 and 2001-02 in October 2000 and November 2001 respectively stipulated that final payment of market fee and RD cess would be subject to furnishing of utilisation certificate, to the effect that the amount collected was actually utilised for the purpose for which it was collected, from the concerned audit agency. However, the Corporation as a nodal agency of GOI had not taken any concrete action despite the fact that the utilisation certificates for the year 2000-01 is still due. Therefore, it is imperative that necessary measures were taken to ensure that the huge amounts collected by the Market Committees are utilised for the purpose for which they were collected so as to improve the infrastructure of Mandis in the Region.

The Management stated (October 2003) that though it was not obligatory on the part of the buyer to obtain such certificate from the Market Committee/Board, the SRM, Punjab had, however, been requested to obtain such utilisation certification.

The reply of the Management is not tenable, since FCI as the nodal agency of GOI for procurement of paddy should not only follow GOI instructions issued in this regard but also ensure that these instructions are complied with by other agencies involved in the procurement.

4.8 Conclusions

1) The Corporation procured 2.00 lakh MT of paddy which could not be milled on quality considerations and had to be sold in the market through tender resulting in a loss of Rs.74.92 crore on its disposal.

2) On account of allowing excess driage allowance the Corporation suffered a loss of Rs.143.67 crore being the value of 1.49 lakh MT of rice received short. Further, there was an avoidable payment of Rs.19.16 crore on account of payment of driage allowance.

3) Though the State Government and its agencies have not incurred custody and maintenance charges, the Corporation paid Rs.103.21 crore leading to avoidable payment of subsidy by GOI. The Corporation also made an excess payment of Rs.146.69 crore towards transportation charges to the State Government and its agencies.

4) There was short delivery of 15.55 lakh MT of levy rice during 1997-98 to 2001-02 by the millers. As a result the Corporation incurred loss of Rs.107.43 crore.

5) The Market Committees collected Rs.1436.12 crore towards market fee and RD cess during 1998-99 to 2001-02 for improving the conditions of the Mandis in the State. However, the condition of the Mandis as observed by various teams was far from satisfactory and as such it is evident that the funds collected were not utilised for the purpose for which they were collected.

4.9 Recommendations

1) The procurement mechanism needs to be strengthened and officials involved be made more vigilant and accountable in purchase of poor quality of paddy and its transportation so that the losses are minimised.

It should be ensured that the extant instructions issued for procurement and transportation of paddy to Depots on day to day basis are followed scrupulously so as to avoid deterioration in the quality of the paddy

2) GOI may also review the extent of driage allowance granted (one per cent) in the light of Expert Committee's recommendations and field trials.

3) The reimbursement of various incidentals like custody and maintenance charges and transportation charges incurred on procurement of paddy to the State government and its agencies are regulated properly as per the rules to avoid excess payments.

4) The Corporation being a nodal agency of GOI either on its own or with the help of various Government agencies should evolve a mechanism by which the provisions of Levy order are enforced strictly for compliance by the millers and there is no short delivery of rice.

5) The Corporation either on its own or through its Administrative Ministry should ensure that the substantial amounts collected by the Market Committees are utilised for the purpose for which they are being collected so that proper infrastructure facilities are created in the Mandis for the benefit of the farmers and the loss of foodgrains on this account is minimised.

The review was issued to the Ministry in May 2003; their reply was awaited (October 2003).

MINISTRY OF DEFENCE

CHAPTER : V

Bharat Earth Movers Limited

Marketing Activities

Highlights

No market survey was conducted during the period from 1998-99 to 2002-03 leading to imperfect market assessment and manufacture of equipment/spares in excess of requirement. This resulted in accumulation of inventories worth Rs.722.58 crore as on March 2003. Manufacturing and sale of earthmoving equipment and spares decreased from 89 per cent in 1996-97 to 64 per cent in 2002-03 mainly due to the Company's inability to offer competitive prices. Due to inaccurate market projections, the production capacity created to manufacture diesel engines and cylinder blocks remained grossly under-utilised.

(Para 5.4)

The Company made avoidable payment of Rs.5.62 crore as remuneration to agents for securing orders and doing liaison work inspite of having strategically located Regional Offices and District Offices in the vicinity of its major customers.

(Para 5.5)

Due to non-compliance of credit policy, the Company suffered loss of Rs.1.68 crore.

(Para 5.7)

The Company paid liquidated damages of Rs.7.04 crore due to delay in deliveries.

(Para 5.12)

Due to delay in preferring claims for supplies made, the Company lost Rs.4.21 crore being the interest on blocked up funds.

(Para 5.14.1)

The Company failed to collect C/D forms in respect of sales amounting to Rs.165.35 crore thus becoming liable to pay the difference in CST amounting to 6 per cent of sale value.

(Para 5.14.3)

The Company is facing additional demand of Rs.8.44 crore from sales tax authorities towards additional sales tax and penalty due to non submission of C/D forms etc.

(Para 5.14.4)

5.1 Introduction

Bharat Earth Movers Limited (Company), Bangalore, was incorporated on 11 May 1964 as a fully owned Government Undertaking under the Ministry of Defence for manufacturing earthmoving equipment (EM), defence aggregates, trucks, engines, rail coaches and DC & AC electrical multiple units. The Company also sells spare parts, mostly bought out items, which account for 24 per cent of its total sales. The major customers are Coal India Limited, Ministry of Defence, Ministry of Steel and Ministry of Railways, which together constitute more than 90 per cent of sales. The major competitors are Larsen & Toubro, Hindustan Motors, Escorts JCB Limited, Caterpillar, Komatsu and Telco. The marketing activities of the Company for equipment (except rail coaches) and spares are managed by Marketing Division at Corporate Office. The rail products are marketed by Bangalore Complex.

5.2 Scope of Audit

The review broadly covers the marketing activities of the Company for the period 1998-99 to 2002-03 which mainly include market projections, credit policy, pricing, participations in tenders, appointment of dealers / agencies, sales and realisation of debt.

5.3 Organisational setup

The Marketing Division is headed by a Director, assisted by two Executive Directors. At field level, the Company has ten Regional Offices and fifteen District Offices for procurement of orders, sales and after-sale services and realisation of debts. The Company has a separate International Marketing Division for exports.

5.4 Market Strategy and Projection

(a) The Company's production of Defence equipment and Railway coaches are based on orders. The markets for earthmoving equipment and spares are highly competitive and steps for procurement/manufacture of equipment/spares are taken based on market projections.

The Company did not conduct any market survey during the period from 1998-99 to 2002-03. The Company's market assessments are based on its interactions with the existing and prospective customers on their demand and future plans. These assessments went wrong mainly due to uncompetitive pricing and as the Company's production plans were based on imperfect market assessment, it ended up procuring/manufacturing equipment/spares which it could not utilise/sell. This resulted in accumulation of inventories including stock of raw materials, spares and finished goods. The Company had inventories worth Rs.722.58 crore as on 31 March 2003, which was abnormally high at 41.49 per cent of total value of production. The Company wrote off Rs.78.33 crore towards obsolescence during the period from 1998-99 to 2002-03. Inventories as on 31 March 2003 costing Rs.63.47 crore have not moved for more than one year. On an average the Company has to bear

Rs.8 crore per annum being interest charges at prime lending rate on the funds locked up due to holding of such inventories.

The Management stated (July 2003) that market survey was a continuous process and the same was conducted through its Regional and District Offices. However, no documentation was available in this regard.

(b) Though, the Company's core activity comprises manufacturing and sale of earthmoving equipment and spares thereof, their share in the Company's total sales decreased from 89 per cent in 1996-97 to 64 per cent in 2002-03, whereas sales to Defence customers increased from 6 per cent to 35 per cent in the same period. The Company's share had considerably declined in case of excavator, wheel loaders and motor graders from 28 per cent, 14 per cent and 100 per cent in 1996-97 to 11 per cent, 13 per cent and 44 per cent in 1998-99 and further declined to 7 per cent, 9 per cent and 30 per cent in 2002-03. The equipment-wise market share is given in Annexure 9. It is faring poorly in its core area of earthmoving equipment due to its inability to offer competitive prices and to cope with competition in this sector in the absence of an effective marketing strategy despite having Regional and District Offices with full-fledged sales and service staff, strategically located in the vicinity of its major earth-moving equipment customers.

The Management admitted (July 2003) its inability to offer competitive prices vis-à-vis imported equipment.

(c) Though, up to the year 1998-99 railway products were the mainstay of Bangalore Complex, its facilities remained grossly under-utilised due to non receipt of orders for rail coaches from Railways during the years 1999-00, 2001-02 and 2002-03 due to high prices of coaches manufactured by it, compared to the cost of coaches supplied by Integral Coach Factory / Rail Coach Factory under the Ministry of Railway. The Company did not make any efforts to compare and analyse cost differences between coaches manufactured by the Company and Rail Coach Factories and to take cost reduction measures.

Due to inaccurate market projections, the production capacity created to manufacture diesel engines and cylinder blocks remained under-utilised as detailed below:

Based on market projections in 1990-91 the Company established facilities in its Mysore Complex for the manufacture of 2400 diesel engines and 250 engines for Tatra vehicles per annum, for use in the equipment manufactured by it. However, even up to 2002-03 out of 33 models of earth-moving equipment in its production range, only 13 models were equipped with BEML engines due to customer preference. Total number of engines manufactured during the last five years was as under: -

Year	1998-99	1999-00	2000-01	2001-02	2002-03
No. of engines	335	226	215	270	217

Thus, due to inability of the Company to sell equipment with its own engines, as per market projection, the facilities created to manufacture 2400 engines per annum were under-utilised.

The Company had created in 1998 production facility (Flexible Manufacturing System – FMS) to manufacture 1500 cylinder blocks, a major aggregate of the engine, despite the underutilised capacity of the engine itself. The actual production of cylinder blocks using FMS was 386 nos., 379 nos., 209 nos. 276 nos. and 247 nos. during 1998-99 to 2002-03 respectively. Evidently, market projections leading to establishment of the FMS production facility had been widely off the mark. This resulted in underutilisation of capacity created at a cost of Rs.25.79 crore.

The Management stated (July 2003) that by capturing gen-set/engine market and fitting BEML engines on equipment which are presently being fitted with other engines, substantial increase is expected in the volume of engines. However, such efforts have not been successful so far and in fact there has been decline in capacity utilisation.

5.5 Distribution Network

The Company has strategically located its Regional Offices and District Offices in the vicinity of its major institutional customers for sale of equipment and spares and after-sale service, manned by 1835 employees. The Company also appoints authorised dealers, agents and liaison agencies for sale of its products and collection of debts. The review revealed that despite putting in place a full-fledged distribution network, with adequate manpower, the Company injudiciously engaged private agencies, leading to avoidable expenditure, as detailed below:

(a) The Company has been outsourcing undercarriage items of earthmoving equipment from M/s. Inter Tractor, Germany (IT). M/s. W.B. Engineers International Private Limited, Pune (WBEI), was representing IT in India. To eliminate competition in undercarriage items the Company entered into an agreement with IT in August 1998 for exclusive marketing rights of IT products within the Indian Territory, Nepal and Bhutan. The agreement was periodically extended up to 31st March 2003. The Company also entered into a separate agreement (August 1998) with WBEI for marketing the undercarriage parts and components suitable for fitment on all the models of BEML bulldozers and excavators and to expedite collection of sale proceeds at a remuneration of 4.5 per cent of net sale value. There was no prior approval from the Board of Directors of the Company for hiring the agency. When the matter was brought before the Board of Directors of the Company, the Board decided not to intervene in the matter as a decision had already been taken by the executive authority. The payment of remuneration of Rs.5.00 crore to WBEI during the period from 1998-99 to 2002-03 was avoidable due to the following reasons:

i) Since the Company was having exclusive marketing rights there was no need to appoint an agency to market the products of IT, which amounted to duplication of efforts.

ii) As more than 90 per cent of the Company's sales were to institutionalised customers and its Regional and District Offices are situated in the vicinity of these institutionalised customers, the decision to engage a private agency to market its products and to expedite collection of sale proceeds was imprudent and unnecessary.

iii) The hiring of WBEI did not help the Company as the sales of undercarriage items and components came down from Rs.55.49 crore in 1997-98 prior to the appointment of WBEI to Rs.33.61 crore in 2002-03.

iv) Although M/s. WBEI had agreed to expedite collection of the sale proceeds, the agreement did not provide for levy of any penalty for delay. There were huge delays ranging from six months to one year in collection of sale proceeds.

The Management stated (July 2003) that M/s. WBEI had deep penetration in various coal companies and established itself as a reliable supplier for the undercarriage item and by entering into business relationship agreement with M/s. WBEI it prevented M/s. WBEI from competing with the Company. The Company had diverted its manpower to monitor sales and service on supply of equipment under World Bank Contract. The reply is not acceptable on the grounds pointed out above. Further, the diversion of its sales and service personnel was also not justified considering decrease in sales of earthmoving equipment from 1080 in 1997-98 to 543 in 2002-03, even with World Bank contract. However, the Management has decided to gradually phase out the services of WBEI over a period of time by effecting the sales of undercarriage business directly.

(b) M/s. Ajay Enterprises, Raipur *suo motu* introduced itself to the Company as a mining contractor having excellent contacts at various levels in Government Undertakings like Coal India Limited and its subsidiaries, Steel Authority of India Limited and National Mineral Development Corporation Limited by addressing a letter dated 23rd February 1999 to Director (Marketing), of the Company and offered its services from generating orders to realisation of funds at a minimum remuneration of 5 per cent of sale proceeds. On the same day i.e., 23rd February 1999 the case was processed for appointment of M/s. Ajay Enterprises as liaison agency. It was stated *inter alia* in the note that:

1) Bilaspur based subsidiary of Coal India Limited i.e., South Eastern Coalfields Limited (SECL) did not physically lift the materials kept ready against orders at Bilaspur depot under one pretext or other.

2) There was enormous delay in / postponement of placing orders for additional demands and introduction of liaison agency might go a long way to remedy the situation.

3) The Company discreetly undertook a survey of agencies and found M/s. Ajay Enterprises as suitable for liaising with SECL mainly for generation of orders for earthmoving spares and collection of sale proceeds.

4) Remuneration be negotiated and brought down from 5 per cent to 1.5 per cent

The proposal was finally approved by CMD on 24 February 1999 at a remuneration of 3.5 per cent of sales value effective from 1 March 1999. The contract was periodically extended up to 31st March 2001 with remuneration ranging from 1.75 per cent to 2.5 per cent depending on volume of sales and collection of debts. Similarly, M/s. Ajay Enterprises and M/s. Ganapath Sales Corporation were hired for liaison work with Western Coalfields Limited (WCL). The total remuneration paid to M/s. Ajay Enterprises and M/s. Ganapath Sales Corporation amounted to Rs.52.12 lakh and Rs.9.46 lakh respectively for their services up to 2001-02. There was no prior permission from Board for hiring the agencies. When the matter was brought before it, the Board noted that it did not intervene as decision had already been taken by the executive authority.

The following observations are made in this connection:

(i) The manner in which the above appointments were made was irregular as the Company did not follow the normal procedure of issuing notification, etc., for such appointment, as in the case of appointment of authorised dealers, franchises etc.

(ii) The Company has strategically located its Regional Offices at Bilaspur and Nagpur primarily to service the requirement of SECL and WCL respectively. The Regional Offices are headed by General Manager/Deputy General Manager and staffed with marketing and servicing personnel. The rationale that a private agency can be more effective to generate orders and collect the debts from a PSU customer than the Company itself having a dedicated Regional Offices located in the vicinity of customers' establishment is untenable and questions the effectiveness of the Regional Offices. Moreover, the volume of sales and outstanding debts of these regions did not show any positive trend during the tenure of the agencies.

The Management stated (July 2003) that the appointments were made as a trial measure to reduce the bills receivables considering contractor's background.

The reply is not acceptable for the reasons stated above. Moreover the Company has discontinued their services since March 2002.

5.6 Tender participation

The Company had been participating in overseas as well as domestic tenders, for sale of equipment and spares. An analysis of the tender participation during the period 1998-99 to 2002-03 revealed that: -

a) Out of the 82 overseas tenders in which the Company participated, it succeeded in only 25 tenders (30 per cent) and the tenders lost due to uncompetitive prices was 40 per cent.

b) Out of the 382 domestic tenders in which the Company participated, it succeeded in only 186 tenders (49 per cent), and the tenders lost due to uncompetitive prices was 33 per cent.

The volume of tenders lost showed the Company's inability to compete by offering competitive rates.

The Management admitted (July 2003) that the main contributory factor for uncompetitive prices was dumping prices due to global recession, etc., and initiatives have been taken for continuous improvement through widening vendor base, value engineering etc. However, the Company is yet to take cost reduction measures despite the increasing trend in cost of staff and materials with reference to value of production.

5.7 Credit policy

The Company's credit policy and guidelines for sales under deferred payment *inter alia* stipulate seeking 10 per cent to 20 per cent advance along with the order and an irrevocable letter of credit for the balance, for equipment sales. For spare parts the sale is strictly on cash and carry basis. However, faced with tough competition, the Company has not been following the above policy. It was observed that the Company incurred losses on account of non-realisation of sale proceeds due to non-evaluation of credit worthiness of customers, failure to obtain adequate advance and failure to follow the terms of sales agreements. Some of the instances noticed in test check are given below:

The Company exported earthmoving equipment to a customer in Australia without receipt of payment and with whom it did not have any dealing in the past. The Company could not realise the sale proceeds of Rs.1.45 crore (US$ 0.53 million) due to its failure to get irrevocable letter of credit in its favour before despatch. Ultimately, the amount had to be written off in 2000-01.

The Management stated (July 2003) that necessary steps have been taken to ensure that such transactions are avoided in future for all export activities.

In respect of one BL 30 loader, sold to M/s. Hindustan Steel Works Construction Limited, the Company did not take any advance and had commissioned the equipment without obtaining 90 per cent of sale value as per stipulated payment terms. The Company suffered a loss of Rs.23.37 lakh due to non-realisation of sale proceeds, which was written off.

The Management stated (July 2003) that the Company is following the credit policy depending upon the market situation and it is confident of realising the outstanding. However, due to non-compliance of the credit policy, the Company has been incurring losses as detailed out above. The cases listed above are, however, only illustrative and not exhaustive.

5.8 Pricing policy

Faced with tough competition in the field, the Company has been generally resorting to quoting the rates for earthmoving equipment in such a way as to recover at least material cost and some contribution towards labour cost and other overheads. The selling prices for orders from Defence and Railways are fixed, based on price negotiation after quotations are submitted by the Company. In case of earthmoving equipment, the Company does not have any rigid pricing policy.

The Management stated (July 2003) that a flexible pricing policy is adopted taking into account cost of production, prices of competitors, etc., and it may be difficult to become L-1 in tenders by following a fixed pricing policy. The reply is not tenable as there is no formal policy and even a flexible pricing policy does require a base price which must be recovered keeping in mind the parameters stated above. Moreover, a base price would help the Company in comparing and quoting selling prices.

The Company has not been able to market its products profitably in respect of some of the equipment viz. Crash Fire Tender, Loader (BL-8H and BL-54). It may be seen from the Annexure-10 that while the Company incurred a loss of Rs.151.09 crore compared to the cost of sales, it sold equipment below material cost resulting in negative contribution of Rs.62.21 lakh during the four years ending 2002-03 as detailed below.

(Rs. in lakh)

Complex	1999-00		2000-01		2001-02		2002-03	
	Loss	Negative Contribu-tion	Loss	Negative Contribu-tion	Loss	Negative Contribu-tion	Loss	Negative Contribu-tion
Bangalore	2653	28.40	626	--	681	0.83	420	24.37
Mysore	62	--	1069	--	941	--	458	--
KGF	2353	--	971	--	2551	--	2324	8.61
Total	5068	28.40	2666	--	4173	0.83	3202	32.98

The main reason for incurring losses in manufacturing and sale of equipment is the Company's failure to take appropriate cost reduction measures to reduce employee cost and material cost. The number of employees, though reduced from 15540 (March 1997) to 13116 (March 2003) in six years, continued to be on the higher side and staff cost, which was 15 per cent of value of production in 1996-97, has gone up to 19.21 per cent in 2002-03. The material cost was also very high and had increased from 60 per cent in 1996-97 to 64 per cent of value of production in 2002-03. Failure to reduce employee cost and material cost coupled with absence of the benefit of economy of large scale production due to lower demand for its products has put the Company in a disadvantageous position, vis-à-vis its competitors, in offering competitive prices. The Company is not operating a Voluntary Retirement Scheme at present which rules out the scope for the reduction of employee cost.

The Company earns high margin on sale of earthmoving spares which ultimately not only wipes-out losses incurred in the sale of equipment but also contributes to the overall profitability of the Company. During the years 1999-00 to 2002-03 the profits earned on sales of spares were Rs.37.36 crore, Rs.68.72 crore Rs.55.02 crore and Rs.43.88 crore respectively, whereas the consolidated net losses on manufacture and sale of equipment accounted in various production units were Rs.25.09 crore, Rs.66.39 crore Rs.48.55 crore and Rs.25.10 crore respectively during the same period.

The Management stated (July 2003) that losses in production units were mainly on account of idle capacity. Further, generally capital equipment does not generate much contribution and the greater part of contribution comes only from sale of spares. The statement is to be viewed in the light of the fact that the cause of idle capacity was lack of orders.

5.9 Sales Performance

MOU targets and actual sales during the period of five years ending 31 March 2003 were as stated below:

(Rs in crore)

Year	1998-99		1999-2000		2000-01		2001-02		2002-03	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Total Sales	1411.85	1212.62	1253.15	1317.09	1342.80	1347.40	1547.39	1424.15	1674.70	1681.17

In 1998-99 and 2001-02, the targets could not be achieved, mainly due to reduction in sale of earthmoving equipment as brought out in Annexure-11.

The sector-wise sales of earthmoving equipment during the last five years ended March 2003 are given in Annexure-12. It can be seen that:

(a) sale to public sector coal companies continued to be the largest showing an increase from 67 per cent during 1998-99 to 71 per cent during 2002-03.

(b) though export sales increased from 1 per cent (1998-99) to 8 per cent in 2001-02, it was negligible (0.26 per cent) during 2002-03.

(c) the over reliance of the Company on "institutional sales" during the years under review was evident. The Company was unable to broaden the customer base to enlarge sales volume. The sales in "contractors"/ "others" segment continued to be marginal and, in fact, declined from 16 per cent in 1998-99 to 6 per cent in 2002-03.

The Management stated (July 2003) that competition in the "others" segment being the highest and severe, the Company could not achieve dominant entry. The fact, however, remains that adequate efforts were not made by the Management to reduce cost and withstand competition.

5.10 Export Sales

The Company is exporting its equipment directly and through distributors. The export turnover (excluding deemed exports within India against World Bank contracts) during the period was as under:

(Rs. in crore)

Year	1998-99	1999-00	2000-01	2001-02	2002-03
Exports	10.52	5.93	45.24	36.55	12.45

The exports, which decreased during 1999-00, showed a significant jump during 2000-01 but came down drastically during 2002-03. The Management stated (July 2003) that export orders valued at Rs.18 crore could not be executed during March 2003 due to the Gulf crisis. Reply is to be seen in the light of the fact that even after considering the possible export of equipment worth Rs.18 crore, the achievement would have been lower than that of 2001-02.

5.11 Research and Development

The Company has three Research and Development Centers at KGF, Mysore and Bangalore Complexes with sophisticated laboratories. The total expenditure on R&D compared to the total turnover of the Company was 1.04 per cent in 1999-2000, 1.15 per cent in 2000-01, 1.28 per cent in 2001-02 and 1.04 per cent in 2002-03. It was seen that there was no effective linkage between Marketing and R&D efforts. The Company has not been able to successfully introduce the R&D products in the market. A few cases of failure noticed in test check are:

a) The BE 220-2 excavator developed at an expenditure of Rs.45.20 lakh for export to Italy, has yet to find a domestic customer (January 2003) even after satisfactory completion of trial runs in October 1995.

b) The BH-40 Dump Truck though successfully engineered in 2000 at a cost of Rs.88.32 lakh is being held in finished goods inventory since 2001.

c) An Articulated Motor Grader developed (January 2002) at a cost of Rs.51.79 lakh, could not be deployed for field trials as a customer could not be identified and is lying in stock.

The Company has not evolved any policy with regard to taking up of R&D projects and other R&D activities. Before taking up the R&D projects involving improvement or upgradation of equipment at par with latest market trends, the Company has not made any scientific market survey to assess the potential demand and customer preference/requirements.

The Management stated (July 2003) that the products were developed with the recommendations of Marketing Division and efforts are on to sell these equipment. The fact remains that Marketing Division had made its recommendations without any sound basis.

5.12 Losses due to delay in delivery and consequential payment of liquidated damages

During the years 1998-99 to 2002-03 the Company accounted Rs.7.04 crore towards liquidated damages (LD) which were deducted by the customers from the amounts due from them as the supplies were not made as per the terms of the contract. While in certain cases the delay was due to production snags, in some cases the Company, being well aware that the delivery schedule could not be adhered to, took business decisions to bag the contracts. Some of these cases noticed in Audit are discussed below:

M/s. Coal India Limited was supplied 39 No.210 M Dumpers at a value of Rs.44.61 crore from July 1998 to March 2000 against scheduled delivery date of May 1998 to October 1998. Due to the delay, the customer withheld Rs.2.00 crore as LD and the Company reduced sales to that extent in 1999-2000. Management stated (July 2003) that the delay was due to constraints in establishing quality vendors at competitive rates besides other engineering and manufacturing problems. However, it was noticed that there was inordinate delay in placing orders for procurement of items for dumpers.

Due to delay in supply of twelve BH-85 dumpers, a foreign customer encashed bank guarantee of US$ 152271 (Rs.64.76 lakh) furnished by the Company. The Company's request to consider this as force majeure was not acceded to by the customer. In another contract, for supply of three BH-85 dumpers and spares, the Company could despatch only 2 numbers in time and third dumper was supplied belatedly in October 1998. The customer did not accept request of the Company to treat the delay under force majeure clause. The customer enforced performance Bank Guarantee of US$ 28031 (Rs.11.92 lakh) towards LD. Thus, due to delay in delivery and failure to take advantage of force majeure clause, the Company incurred a loss of US$ 180302 (Rs.76.68 lakh).

The Management reiterated (July 2003) that the Company's plea for delay due to force majeure grounds was not accepted by the customer. The fact, however, remains that the Company has not taken any legal action against the customer for unjustified deduction of LD.

The Company supplied during 1999-2000 six Hydraulic Cranes to M/s. Neyveli Lignite Corporation Limited with delayed despatches ranging from 4 to 7 months at cost of Rs.5.61 crore and due to delayed supplies customer deducted Rs.67.32 lakh as LD. The Company's request (February 1999) for extension of delivery time without imposing LD on the ground that equipment was not in its regular line of production and that due to US sanction there was delay in getting critical components, was not acceded to (February 1999) by the customer, on the contention that the delivery schedule was as per the Company's offer.

The Management stated (July 2003) that its request to treat the delay under force-majeure clause was pending with customer.

5.13 Analysis of Sundry Debtors

One of the main functions of marketing division is to monitor the outstanding sale proceeds and take action for effective realisation. An analysis of debtors for the last 5 years is given below:

(Rs. in crore)

Year ending	31.3.99		31.3.00		31.3.01		31.3.02		31.3.03	
Sales	1212.62		1317.09		1347.40		1424.15		1681.17	
Sundry debtors	625.62		534.07		531.01		578.76		505.94	
Debtors to Sales (%)	51.59		40.55		39.41		40.64		30.09	
Ratio of Debtors (no. of days/ turnover)	MOU	Actual	MOU	Actual	MOU	Actual	MOU	Actual	MOU	Actual
	125	188	164	148	160	144	160	148	150	110

It can be seen from the above that the position of debtors has been improving. However, the target for debtors (in terms of number of days of turnover) has increased from 125 to 150 days, instead of decrease.

As on 31 March 2003, Sundry Debtors included Rs.276.30 crore (Rs.264.23 crore previous year) from Coal India Limited (CIL) and its subsidiaries, which alone constituted about 55 per cent (46 per cent previous year) of the total outstanding debtors. Out of this, Rs.6.38 crore pertained to the period prior to 31 March 2000. The year-wise analysis of sundry debtors position in respect of subsidiaries of CIL as on 31 March 2003 and supply position are given in Annexure –13. In respect of sales to subsidiary Companies of CIL, the orders were received from CIL containing the details of consignees who were also the paying authorities (for 90 per cent payment) and the equipment were despatched accordingly. It was noticed that though BCCL, a sick subsidiary, was not able to clear its old dues (Rs.2.19 crore pertaining to 1998-99), the Company continued to supply equipment/spares to it. Management stated (July 2003) that as BCCL orders formed part of centralised order of CIL, the supplies were effected accordingly. Reply is not acceptable as the Company should have insisted with CIL for release of balance payments in respect of supplies made to BCCL before effecting further supplies.

5.14 Other topics of interest

5.14.1 Delay in preferring claims - locking up of funds and consequential loss of interest

For prompt realisation of bills, it is necessary that bills must be despatched immediately to customers. It was noticed that excluding cases where advance has been received, in 62 cases during the year 2000-01, in 57 cases during 2001-02 and in 59 cases during 2002-03 there were delays up to 134 days, 246 days and 81 days respectively in claiming the dues from the customers resulting in blocking of funds and loss of interest. The loss of interest, as worked out by Audit by adopting the cash credit rate of interest, was Rs.1.41 crore, Rs.1.88 crore and Rs.0.92 crore during the years 2000-01, 2001-02 and 2002-03 respectively. These delays could have been avoided by prompt despatch and/or incorporating suitable clauses in the sale order for release of payments after acceptance. The reasons for delay in despatch were not indicated in the sales files. Management stated (July 2003) that in order to avoid delays the activity of billing etc., has now been decentralised that would cut the administrative delays.

5.14.2 Unilateral recovery and blocking up of funds

M/s. Eastern Coalfields Limited, (ECL) to whom the Company had supplied (September 1992) a 7820 Walking Dragline, withheld (June, 2000) Rs.2.10 crore from the spare parts bills on the ground that the Company has not replaced the Propel Crank, which had failed on the Walking Dragline and failure was premature due to quality problem. ECL's contention was not accepted by the Company (January 2000). ECL replaced the part on its own and withheld the amount. The Company has not brought this case before the Committee of Secretaries.

Management stated (July 2003) that efforts are on to satisfy the customer by way of furnishing report from its foreign supplier that failure of part was not due to manufacture/quality problem. The fact, however, remains that withheld amount has not been released by ECL.

5.14.3 Non-collection of sales tax forms in respect of sale of spare parts

In respect of sale of spare parts the Company had been charging concessional rate of Central Sales Tax (4 per cent) on the bills in anticipation of receipt of C/D forms from the customer. In the event of non-furnishing of C/D forms, the customer was required to pay Central Sales Tax at the full rates. Though the "C" forms were required to be produced to Sales Tax authorities at the time of sales tax assessment in order to get the tax levied at a lower rate, in some of the regional/district offices it was observed that C/D forms for sales valued at Rs.165.35 crore for the period from 1994-95 to 2001-02 were awaited by the Company. Major defaulters in these cases were Public Sector Companies like Coal India Limited. The Company has not raised debit notes against the defaulting customers. Non-collection of C/D forms may result in payment of the difference in CST, which may amount to 6 per cent of sale value (Rs.9.92 crore).

The Management stated (July 2003) that efforts are on to collect the forms to avoid additional demand for tax.

5.14.4 Non-settlement of additional demand of Sales Tax

It was observed that Sales Tax Authorities in various States, during assessment, have demanded Rs.8.44 crore towards additional Sales Tax, interest and penalty due to non-production of C/D forms, accountal of sales returns after the admissible period of 6 months, accountal of depot charges, etc., and the Company has gone on appeal on these cases after making advance payments (Annexure-14). These long pending cases were being adjourned time and again on the request of the Company. As the liability is not discharged, action needs to be taken for speedy finalisation of these cases.

The Management stated (July 2003) that efforts will be made to ensure early completion of appeal cases without sacrificing the Company's interest.

This shows that the tax management as regards documentation of sales tax records is poor as the Company had to pay additional Sales Tax, interest and penalty due to non-production of C/D forms. This is despite the fact that the Company has full-fledged Regional and District Offices responsible for the sales of the spares, collection C/D forms and sale tax assessment. This also shows administrative inefficiency and lack of internal control. This has also resulted in cash loss of Rs.1.67 crore, being the amount deposited for preferring appeals.

The Management stated (July 2003) that vigorous follow up would be made to ensure early completion of the appeal cases and collection of pending forms.

5.15 Conclusion

The Company has not conducted any market survey to assess the requirement of the customers resulting in procurement/ manufacture of spares/equipment which has added to inventory. The delay on the part of the Company in supplying equipment to the customers resulted in levy of liquidated damages by the latter. The engagement of agents for securing orders for its products despite having full-fledged distribution network with adequate manpower was injudicious.

5.16 Recommendations

In the light of the foregoing findings and observations, it is recommended that:

a) market surveys are conducted scientifically and market intelligence gathered in respect of competitors to make realistic market projections;

b) efforts are made to control the cost on staff and material in order to offer competitive prices;

c) the credit policy is followed and exceptions well documented. The creditworthiness of customers is evaluated;

d) the pricing policy is firmed up with deviations well documented;

e) steps are initiated for despatch of invoices immediately after sales to avoid blocking up of funds;

f) the system of appointing private agencies for getting orders from PSUs is reviewed to assess its necessity and propriety;

g) Internal controls to be strengthened in areas of despatch of collection documents, collection of C/D forms, and accountal of sales returns.

The review was issued to the Ministry in September 2003; their reply was awaited (October 2003).

MINISTRY OF ENVIRONMENT AND FOREST

CHAPTER : VI

Andaman and Nicobar Islands Forest and Plantation Development Corporation Limited

Red Oil Palm Project and Katchal Rubber Project

Highlights

Though the project ROP entrusted to the Corporation in the year 1979 envisaged plantation over an area of 2400 hectare, the same was done over an area of 1593 hectare only till 1985-86.

(Para 6.3)

Against a project yield of 20 MT/ha of FFB, the average annual yield was as low as 6.10 MT/ha during the five years from 1998-99 to 2002-03 which resulted in the loss of 20170.33 MT of palm oil valuing Rs.35.31 crore.

(Para 6.3.2)

Against the international standards of 20 per cent for the extraction of oil from FFB, the actual extraction remained between 17.56 per cent to 18.95 per cent during the last five years from 1998-99 to 2002-03. This lower yield of oil has resulted in a loss of Rs.2.24 crore.

(Para 6.3.3)

Despite the cost over run in the construction of Effluent Treatment Plant of Rs.30.29 lakh the sludge drying bed was not constructed. As such operation of ETP was interrupted and it did not meet the parameters of Pollution Control Board. The directive of the Ministry of May 1992 was therefore not complied with and it affected the environment adversely.

(Para 6.3.4)

Due to failure of initiating adequate cost control measures, the losses of the project ranged between 22.70 lakh to 1.78 crore during the last five years from 1997-98 to 2001-02.

(Para 6.3.5)

Against an envisaged planting of rubber in 2430 hectare, the plantation was made in an area of 614.84 hectare only till 1984-85. Due to restriction under Forest Conservation Act, further expansion was not possible. The Corporation had not drawn up any detailed project report for the management of the plantation.

(Para 6.4.1)

Tapping of rubber was reduced from 546 hectare in the year 1997-98 to 516 hectare in 1998-99. It further reduced to 373 ha in the years 2001-02 to 2002-03.

(Para 6.4.2)

A small area of 30 hectare was replanted during the year 1997-98 by incurring an expenditure of Rs.52.44 lakh. Further replantation was not carried out due to order (May 2002) of the Hon'ble Supreme Court of India.

(Para 6.4.3)

Though there is a general perception of gross overstaffing, little has been done by the Management to identify the areas of surplus manpower.

(Para 6.5)

COPU as well as Consultant has opined for closure of Rubber Project and the Government to take note of scientific study made in February 1996 by CARI for enhancing the current coverage of 2400 hectare to 5000 hectare. Consultant has also recommended for reducing the establishment cost at least to the extent of 30 per cent. Nothing has been done in this regard so far.

(Para 6.6)

The situation presently facing by the Corporation due to the orders of the Supreme Court and restrictions imposed in this regard needs immediate attention of the Government of India.

(Para 6.8)

6.1 Introduction

Andaman and Nicobar Islands Forest and Plantation Development Corporation Limited (ANIFPDC) was incorporated on 21 January 1977 having Head Quarters at Port Blair with the objective of developing and exploiting commercially the forestry sector especially the inaccessible areas in Little Andaman and North Andaman Islands. In the year 1979, the Government of India (GOI), also entrusted the project of raising red oil palm (ROP) in 2400 hectares (ha) of forest land in Little Andaman to the Corporation and transferred ROP in 160 ha already raised by Andaman Forest Department in the year 1975-76. The Katchal Rubber Project was entrusted to the Corporation with effect from 1 April 1983.

6.2 Scope of Audit

The working of the entire Corporation was reviewed earlier and the result of audit was included in Report No. 16 (Commercial) of 1995 of the Comptroller and Auditor General of India. The present review is restricted to the two activities of the Corporation, viz. Red Oil Palm Project and Katchal Rubber Project and covers their performance for the years 1998-99 to 2002-03.

6.3 Red Oil Palm Project (ROP)

The Government of India sanctioned (9.1.1979) a project for raising 2400 ha. of red oil palm (ROP) Plantation in Little Andaman Island and entrusted the same to the Corporation for implementation. The project was to be extended to 5000 ha in the second phase. Though the project was sanctioned in 1979, the Andaman Forest Department, on the recommendations of a team of experts from the Directorate of Oil Seeds Development, Ministry of Agriculture, Government of India, during their visit to the Islands in 1970, raised plantation over an area of 160 ha during 1975-76. Under this programme the Corporation subsequently undertook raising plantation and till 1985-86 an area of 1593 ha. of ROP Plantation, including 160 ha taken over by the Corporation was raised mainly to produce Crude Palm Oil.

While, the Company was progressing with the implementation of the approved Project to achieve 2400 ha. of ROP Plantation there was a sudden shift in the policy of the Government and a ban was imposed in January 1986 on further expansion of plantation of ROP in these Islands. To examine this aspect a study was then entrusted to the Central Agricultural Research Institute (CARI), Port Blair in 1987. Even when the study was underway and the research findings/recommendations had not yet been finalised, the matter was taken up by the Island Development Authority in its meeting held on 5 September 1993 and it was decided not to expand ROP Plantation in the Islands any further. The CARI which brought out its Report in February 1996, recommended that the ROP Plantation could be undertaken in the Little Andamans as no major environmental impact was being caused.

Due to continuance of ban on clear-felling of forests imposed by GOI in 1986, which was further confirmed by Island Development Authority in 1993 further plantation could not be carried out and further expansion of the project to an area up to 5000 ha also could not be implemented. However, as per the approved corporate plan for the period from 1999-2000 to 2003-04, the Corporation has taken up the matter with GOI for seeking permission to extend the plantation of red oil palm, so as to make it an economically viable project. The decision of the GOI in this regard is still awaited (March 2003). Therefore, till the permission is granted, Corporation would be continuing with an economically un-viable project resulting in decline in its profit.

6.3.1 Production Performance

On an average, one (ROP) Plantation occupies 150 hectares. Adjacent plantations were initially separated by a 100-150 feet wide green belt. This was meant to act as an ecological barrier to pests and diseases that might impact the plantation during its life span. This barrier had, however, at most places, disappeared due to uncontrolled removal of trees, which is bound to affect the productivity of the ROP plantation in future. The oil palm normally starts yielding from the fifth year after planting and reaches a peak around the tenth year. The optimum productive age of the ROP is thirty-five years after which yields are believed to decline.

6.3.2 Yield Of Fresh Fruit Bunches (FFB)

In order to obtain the maximum yield from the fruits, it is necessary to harvest the Fresh Fruit Bunches (FFB) in the field, at an optimum ripe condition. It is also necessary to handle the fruit carefully after they are harvested and to process them within the shortest possible time. After harvesting, the fruits can be processed to yield both palm oil and palm kernel. The kernel can also be processed to extract kernel oil.

Apart from palms raised in 1976 by the forest dept on 160 ha and subsequently taken over by the Corporation, new planting operations began in 1980-81. The projected yield and the quantity of FFB actually collected during the last five years ending March 2003 is tabulated below:-

Year	Projected Yield per ha @20 MT/ha.	Actual yield per ha. (MT)	Total Actual (FFB) yield (MT)	Difference in yield (FFB) (MT)	Shortfall in equivalent oil yield (MT)	Loss due to lower FFB yield (Rs. in Crore)
1998-99	31860	4.31	6864	24996	4389.30	10.16
1999-00	31860	8.14	12971	18889	3369.80	5.06
2000-01	31860	6.28	10011	21849	3930.64	4.59
2001-02	31860	6.15	9801	22059	4140.47	6.19
2002-03	31860	5.62	8957	22903	4340.12	9.31
Total			48604	110696	20170.33	35.31

As seen from the above table, against the projected yield of 20 MT per ha/year the actual collection of FFB per ha/year remained between 4.31 MT to 8.14 MT with an average of 6.10 MT/ha per year during the above period. Computed with reference to the projected yield, the shortfall in yield during 1998-99 to 2002-03 was 20170.33 MT of oil valued at Rs.35.31 crore. Even if compared with the International Standards of 15 MT of FFB/ha/year loss due to lower yield of FFB would have been Rs.22.84 crore

In order to ensure profitability of operations, the Corporation entrusted M/s. Tata Consultancy Services the job of preparation of Strategic Management Plan. Poor functioning of plantation vis-à-vis lower yield of FFB was on account of the following:

1. Fluctuating yield of FFBs primarily on account of variation in the efficiency of collection. It therefore follows that closer monitoring of collection and storage could have reduced wastage and damage of FFBs.

2. Difficulties in collection attributed to the nature of the land, which is undulating resulting in many a fruit getting detached and rolling down the sides of the hills at the time of harvesting. Consequently, as the amount of good ripe fruit reaching the oil mill site was not optimum, it had an adverse impact on yields of oil as well. While the Malaysian Plantations have a ratio of 60:40, the existing, fruit to waste ratio of these plantations, is reverse, at 30:70.

3. Frequent industrial unrest, lack of adequate and timely agronomic and other managerial inputs in the past. The abnormally lower yield (4.31 MT per ha) in 1998-99 was attributed to extreme drought conditions during 1997 and 1998 and extensive cyclonic damage to the plantations during 1997.

According to the Management the yield depicted in the Project Report itself was not based on the local plantation but on the average yield available for such plantation in other countries like Malaysia, Indonesia etc. Therefore, it may not be realistic to rely completely on the data of other countries and the projected yield as indicated in the Project report. Management further stated that a recent enumeration of the plantation area had revealed that only 1,74,697 no of plants were actually available in a total area of 1284 ha as against the gross area of 1593 ha.

This stand of Management is contrary to the findings of the Revised Project Report (October 1976) which had found that the ecophysiological factors obtaining in Little Andamans had the benefit of well distributed rainfall through out the year and the rainfall pattern was more or less similar to that of Malaysia. It also found the soil to be very fertile and comparable to the coastal clay types found in Malaysia. In the properly maintained Plantations in Malaysia, the annual yield at stabilisation ranged from 27 MT to 30 MT of FFB/ha. In any case the actual average yield of 6.10 MT/ha./year during the last 5 years was on an extremely low side, even if local conditions are considered. As regards area planted, Management had confirmed the figure of 1593 ha (23 March 2002). Even now while admitting that the gross area was 1593 ha Management has not explained the difference of 309 ha between the gross area under plantation and the actual available area found during the recent enumeration. This is evidently lack of efficient management of the plantation and one of the main reasons for low yields.

Management while admitting (July 2003) the audit observation regarding wastage and damage of FFB stated that it was always taking suitable action to minimise the loss considering local factors and it would not be proper to compare the ratio of wastage and damage of FFB in the production process with Malaysian plantations. It, however, did not indicate the action taken to minimise the loss. Considering that the Corporation has been in the business for more than 19 years, their explanation can no longer be acceptable.

Thus, a poor maintenance of plantation as well as poor supervision had led to excessive damage and wastage. Had efforts been made to improve efficiency in collection and arrangement for proper storage been made it would have reduced the wastage and damage to FFB, improving the over all ratio and made it comparable with the standard of other countries.

6.3.3 Palm Oil Mill

To extract oil from the FFBs produced, a pilot palm oil mill with an extraction capacity of 1.5 MT FFB/hour was commissioned in May 1985. Subsequently, the extraction capacity was increased to 4 MT FFB/hour in May 1992 at a cost of Rs.2.04 crore. The factory can process (in an 8 hour shift per day) 45-48 MT of FFBs. During the peak season (May to June and again December to January) the plantations are yielding 70 MT of FFBs per day. To meet this rush of fruit, the factory is run in two shifts. During lean periods, in order to cut costs, the factory is operated on alternate days.

Actual production of palm oil vis-à-vis target, oil yield of FFBs etc. is shown below: -

Year	Yield of FFBs (MT)	Production of palm oil (MT)		Oil yield of FFBs (per cent)	Percentage of lower yield as compared to the international norms of 21 per cent
		Target	Actual		
1998-99	6864	1300	1205	17.56	3.44
1999-00	12971	2168	2314	17.84	3.16
2000-01	10011	1800	1801	17.99	3.01
2001-02	9801	2050	1840	18.77	2.23
2002-03	8957	2251	1697	18.95	2.05

Production targets as well as yields have been fluctuating year to year, which was attributed to seasonal factors and variation in efficiencies of collection.

Though the projected yield of oil from the FFB was 20 per cent, Management has not fixed any norm in this regard. Taking the projected norms as standard the above table would indicate that the percentage of oil yield to FFB always remained below projected norms as it varied between 17.56 to 18.95 per cent during the last 5 years. If compared with the international standards of 21 per cent, achievement of the Corporation would further go down and loss of the Corporation due to lower yield of oil from the FFB would work out to Rs.2.24 crore during the last five years ending March 2003.

Thus, firstly on account of the poor yield of FFB and secondly on account of the low yield of oil from the harvested FFB as compared to projected yield/international standards, the Corporation has suffered loss amounting to Rs.37.55 crore (Rs.35.31 crore + Rs.2.24 crore).

The Management stated (July 2003) that the projected oil yield of FFB has been depicted @20 per cent which is based on the data of other oil producing countries and not based on any realistic data considering the local factors and constraints. Management's reply may be seen in the light of the fact (as already pointed out under sub para 6.3.2) that as per the revised Project Report (October 1976), abundant caution had been taken in fixing the projected yield i.e. 20 per cent oil yield of FFB. It may, therefore, not be correct to state that projected yield of 20 per cent had been fixed in the Revised Project Report without considering the local factors.

6.3.4 Effluent Treatment Plant

Ministry of Environment and Forests, GOI, while according clearance for enhancement of processing capacity of the Red Oil Palm mill from 1.5 MT to 4.00 MT FFB per hour, directed (August 1988) provision of proper and adequate facilities for treatment of effluents to be generated in the said mill as well as facilities for continuous monitoring of various environmental parameters etc.

The Corporation retained (December 1995) National Environmental Engineering Research Institute (NEERI) to undertake Rapid Environmental Impact Assessment Studies and to delineate an Environmental Management Plan to minimise the adverse impacts arising out of the extraction plant. NEERI submitted its report in October 1996. As per the report, the Board of the Corporation accorded approval (August 1997) for setting up of an Effluent Treatment Plant (ETP) at the Palm Oil Mill, at Little Andamans at an estimated cost of Rs.45.00 lakh later on revised (July 1998) to Rs.52.50 lakh due to increase in the cost of fire bricks to be used in the construction work).

The plant was commissioned (without construction of sludge drying bed) in November 2000 at a cost of Rs.78.74 lakh. The additional expenditure of Rs.30.29 lakh (over the sanctioned cost of Rs.48.45 lakh excluding Rs.4.05 lakh for sludge drying bed) had not been regularised through post-facto approval. Cost overrun was stated to be due to increase in cost of various components and labour charges as well as non-inclusion of cost of mechanical equipments, electrical works, consultation and design charges while preparing the estimates.

As per the test report dated 22 November 2002 of National Test House, Kolkata the various parameters and stages of achievement were as under:-

Parameters	PCB Norms	Result obtained
Chemical Oxygen demand (mg/Ltr.)	250	268
Bio Chemical Oxygen demand (mg/Ltr.)	100	40
Oil/Fat (mg/Ltr.)	20	98

The operation of the ETP was being interrupted due to frequent choking of pipes connecting ponds No.I and II. It was further reported that various parameters of PCB norms like Chemical Oxygen Demand (COD), Biochemical Oxygen Demand (BOD) etc. could be maintained only after completion of the sludge drying bed to be used for filtration of sludge from the ponds. The revised cost estimate for construction of sludge drying bed worked out (January 2003) to Rs.9.88 lakh against original cost estimate of Rs.4.05 lakh. Recently, the issue had been taken up (March 2003) with the Regional Research Laboratory (RRL), the consultant, for their suggestions for running the ETP efficiently and effectively although it had never achieved the prescribed parameters, right from the date of commissioning of the plant. Further, adequate facilities, as envisaged in the Ministry's direction (August 1988) had not been provided at the site for continuous monitoring of various environmental parameters etc.

Thus, delayed decision for taking up of environmental impact assessment work coupled with delayed construction and commissioning of Effluent Treatment facilities, that too not meeting the PCB parameters has led to non-compliance of the directive of the Ministry concerned since May, 1992 (when the capacity of the mill was enhanced to 4 MT FFB/hour). This non-compliance would have had an adverse impact on the environment. Management contended (March 2002) that effluent discharge had not affected environment since the test of sample of water taken from Mammu Nallah (through which effluent discharge is allowed to pass to the Sea) indicated that COD was nil and BOD (mg/ltr.) was 50. This contention is not tenable, as it was at variance with the test results conducted in November 2002 which showed an increasing trend of higher content of COD and BOD at 1037.7 and 610 respectively.

The Management stated (July 2003) that the EFP was commissioned and started its operation w.e.f. November 2000. Construction of Sludge drying bed as well as establishment of monitoring devices have been kept pending consequent to the suspension of operations at Little Andaman as per the order of the Hon'ble Supreme Court of India dated 7 May 2002.

The above contention is not tenable in as much as the Management had taken more than 12 years to implement the directives of the Ministry (dated August 1988) as already brought out in the Sub-para 6.3.4. Hence the recent order (May 2002) of the Supreme Court cannot be the reason for not constructing the sludge dry bed.

6.3.5 Financial Result

The financial result of Red Oil Palm plantation for the last five years ending 31 March 2002 is summarised below:

(Rupees in lakh)

Year	Sales	Profit/ Loss
1997-98	308.26	(-) 53.39
1998-99	333.22	(-)101.44
1999-00	292.90	(-) 22.70
2000-01	260.90	(-)178.26
2001-02	315.22	(-) 51.21

It is evident from the above table that the Corporation did not earn profit in the red palm oil project during the period of report. Reasons for losses as explained in the preceding paragraphs were low yield of FFB as well as low yield of oil from FFB.

The Management. stated (July 2003) that the loss suffered by the Corporation on account of Red Palm Oil Plantation was due to the implementation of the liberalised import policy by the GOI and bringing the edible oil under OGL Category for which there was a negative trend in the demand as well as the sales price of the Crude palm oil. The Management, further stated that storage as well as seasoning facilities of CPO were limited during the peak production season. This limitation, as well as the impact of the OGL policy of GOI in the context of the demand and price of the CPO has an adverse marketing impact as a result of which the Management in certain cases was compelled to dispose of its products at a lower price.

The Management contention is not tenable as increase or decrease in selling price had no effect on the profitability of the Project. This would be seen from the table given below that when the average selling price was at its highest i.e. Rs.23,149 per MT in 1998-99 (higher by Rs.5019/- per MT pre-liberalised import policy) the Project incurred a loss of Rs.1.01 crore. Again in other years when the average selling price was lower the losses were also lower excepting for 2000-01. Losses for these years were more related to cost and low yield than to the selling price. The Management neither initiated cost control measures nor could it improve the percentage of yield to FFB

Year	Selling Price (Rs.)	Selling amount (Rs. in lakh)	Profit (+) & Loss (-) (Rs. in lakh)	Total Expdr. (Rs. in lakh)	Employees cost	Percentage of Yield to FFB
1997-98	17877	308.26	(-) 53.39	439.40	258.66	17.56
1998-99	23149	333.22	(-) 101.44	493.30	293.08	17.84
1999-2000	15011	292.90	(-) 22.70	434.86	256.18	17.99
2000-2001	11682	260.90	(-) 178.26	414.33	288.95	18.77
2001-2002	14949	315.22	(-) 51.21	365.22	290.77	18.95

Moreover, in a normal situation if the price becomes lower demand/sale increases. Implementation of liberalised import policy was a Government directive made effective throughout India for which the Corporation failed to initiate adequate steps, like cost control measures, improve productivity, reduce damage and wastage etc. It is, therefore, evident that the loss incurred in the project was not due to liberalisation of import policy but due to cumulative effect of lower yield, excessive expenditure, particularly labour cost, abnormal wastage and damage of FFB. The Management contention regarding storage and seasoning facilities etc. is also not acceptable in as much as since transfer of the Project in 1979 the Corporation had failed to create sufficient storage as well as seasoning facilities.

6.4 Katchal Rubber Project

6.4.1 Introduction

The Katchal Rubber Project was approved by the Government of India under the Special Area Development Programme and Repatriate Settlement Programme in 1968. The project which envisaged planting rubber in 2430 ha, was entrusted to the Rubber Board for its implementation. Due to various constraints like delay in clearance of forests and release of land for planting rubber, the project was confined to one site only and a total of 598.84 ha was planted during the period 1968 to 1979. As the Project was a rehabilitation project meant for resettlement of Tamil repatriates of Indian Origin from Srilanka under Special Area Development Programme of Ministry of Rehabilitation, Government of India, it was transferred to the Ministry of Agriculture. The Ministry of Agriculture later on transferred the project to the Corporation on 1 April 1983. Subsequently, the Corporation raised another 16 ha. in 1984-85 bringing the total area of plantation to 614.84 ha. Due to restrictions put under the Forest (Conservation) Act, further expansion of plantation was not possible under this project. The Corporation, however, has not drawn up any detailed project report for the management of plantation.

6.4.2 Production Performance

Normally tapping of rubber tree can commence after sixth year of its planting. As such the entire plantation on 614 ha was expected to be brought under tapping during the period of report. It was, however, noticed in audit that when the Corporation took over the project in April 1983, a total of 230.6 ha of area was under tapping which subsequently with the gradual maturity of the plantation was raised to 546 ha only. As indicated in the Report No. 16 (Commercial) for the year 1995, of the Comptroller and Auditor General of India that out of total area of 614 ha, an area of 546 ha was brought under actual tapping till 1994-95. This position remained stagnant till 1996-97 and thereafter the plantation area as well as area under actual tapping started declining. The production performance vis-à-vis plantation area and the area under actual tapping of the rubber for the last five years ending March 2003 has been indicated in the following table:

Year	Area under tapping(ha)	Area actually tapped (ha)	Production (MT)		Yield per ha.(Kg)	
			Target	Actual	As per Rubber Board	Actual
1998-99	516	486	241	250	1074	514
1999-00	516	486	300	281	1074	578
2000-01	516	486	325	274	1074	564
2001-02	516	373	325	248	1074	665
2002-03	516	373	315	259	1074	673

It may be observed from the above table that not only the area under actual tapping was reduced but the plantation area also reduced from 546 ha in the year 1997-98 to 516 ha with effect from 1998-99. Similarly the area under actual tapping which was 516 ha till 1997-98 came down to 486 ha during the years 1998-99, 1999-2000 and 2000-01. It further declined to 373 ha only in the subsequent two years viz. 2001-02 and 2002-03.

The gradual reduction in plantation area/area tapped was due to exclusion of over-matured area, damaged area, area felled for replanting etc. whereas lower yield was attributed to the

i) neglect of the plantations in the initial years which included total absence of fertilizer application, frequent industrial unrest and infrequent and erratic shipping services making it difficult to send chemicals and spares for the processing unit in time

ii) ageing of the plantations which leads to lower latex yield.

Lower level of actual production as compared to the targets was stated (March 2002) to be due to increase in rainfall with subsequent loss of normal working days.

6.4.3 Replantation

Rubber trees have a useful life for latex collection up to the age of about 30 to 35 years i.e. Rubber trees yield latex for about 25 to 28 years. Thereafter, the yield goes down considerably and it becomes un-economical to continue tapping. Accordingly, plantations of 1968-69 which covered an area of 160 ha. were found to be due for re-planting during 1994-95 onwards and the Board of Directors of the Corporation approved (June 1992) a proposal for initiation of steps (slaughter tapping, raising of Nursery etc. after the plantation had been inspected by the Rubber Board) for replanting of the old plantation. However, the Corporation could get the old plantation inspected by the Rubber Board only during 1995 when it was advised by the Board that Slaughter Tapping might be started during 1995-96 and continued for two years i.e. up to 1996-97, where-after the replanting work might be undertaken from July 1997 onwards.

The clearing of old plantation was a pre-requisite for replanting. However, organising the work of felling and logging of Rubber wood at Katchal and locating the market outlet and remunerative price for the Rubber wood, clearing work could not commence as per schedule on the plea of administrative difficulties. Only a portion of 1968-plantation measuring 30 ha was taken up for clearance during 1997-98, and replanting work started in the year 1998 and the same was completed during 1998-99 at a cost of Rs.35.72 lakh (increased to Rs.52.44 lakh on 31 March 2002 due to maintenance cost). Further re-plantation work was not envisaged in view of the huge losses incurred by the project and future uncertainty about the prices of raw rubber.

The Management stated that the scope for raising new plantation had been suspended in consequence of the orders of the Hon'ble Supreme Court of India.

However, the order of the Hon'ble Supreme Court of India have been passed only in May 2002 (2002-03) while the audit observation on poor financial performance relates to the year 2001-02.

6.4.4 Financial Performance:

Financial performance of Rubber Project for last five years was as under:

(Rupees in lakh)

Year	Sales	Profit/Loss
1997-98	87.72	(-) 100.59
1998-99	48.67	(-) 117.59
1999-00	112.20	(-) 106.54
2000-01	47.82	(-) 186.27
2001-02	32.60	(-) 148.91

It may be seen from the above table that the losses of the project were more than the sales in all the above years except in the year 1999-2000.

The Management stated (July 2003), that the loss would continue to increase substantially in the light of the present scenario prevailing after the orders (May 2002) of the Hon'ble Supreme Court of India. The Management's replies may be seen in the light of the fact that losses reported were prior to the orders of the Hon'ble Supreme Court, however, in order to protect the Corporation from further losses in future and also taking shelter under these orders, Government of India is required to address the issue.

6.5 Manpower

The Corporation has not conducted any study to assess the manpower requirement for each line of its business although the Corporate plan for 1992-93 to 1996-97 approved by its Board of Directors in April 1993 stressed the need for a periodical review of manpower needs of various divisions on the basis of production and sales forecast. As on 31 March 2001, it had a total staff strength of 980 employees (in both the operations) as follows: -

Red Oil Palm Plantation Project		**Rubber Plantation Project**	
Category of Employees	Number	Category of Employees	Number
Group A	2	Group A	0
Group B	4	Group B	3
Group C	65	Group C	12
Group D	32	Group D	12
Workman	446	Workman	404
Total	**549**	**Total**	**431**

Earlier, a Consultant appointed by the Corporation viz. M/s. Tata Consultancy Services (TCS) had identified (May 2001) surplus manpower of 279 persons (88 nos in Rubber Project and 191 numbers in ROP) who needed redeployment to reduce the staff cost to 30 per cent of total expenditure against the prevailing (1999-00) percentage of 59 per cent and 51 per cent respectively in ROP and Rubber Project.

(Rupees in lakh)

ROP			Rubber Project	
Employee Cost			Employee Cost	
	Expenditure	As percentage of Sales	Expenditure	As percentage of Sales
1997-98	258.66	83.91	168.24	191.79
1998-99	293.08	87.95	150.51	309.25
1999-00	256.18	87.46	149.06	132.85
2000-01	288.95	110.75	233.04	487.33
2001-02	290.77	92.24	197.29	605.18

Employee cost as a percentage of sales has continuously been rising during the last 5 years for both ROP and Rubber. While it is near 100 per cent in ROP it is more than 600 per cent in Rubber. This would appear to be the main cause why the Corporation continues to make losses.

Although the Board of Directors of the Corporation, approved (June 2001) Voluntary Retirement Scheme (VRS), the Administrative Ministry, desired (September 2001) that the VRS scheme should not be actually introduced or implemented by the Corporation without completing the manpower study. This is still awaited. Thus while there is a 'general perception' that there is gross overstaffing, little has been done by the Management to identify the areas of surplus manpower.

6.6 Future Prospects

In view of the bleak future prospects due to the continuous losses being incurred in the Rubber Project, the matter was referred to GOI in April 1996. The GOI replied that the Corporation might formulate a scheme with the approval of Government to lease out the Rubber Plantation to the existing workmen in smaller plots with a buy back guarantee for the produce, indicating the ownership of the land, legal status, economic feasibility, cost benefit analysis and details of investments and forward to the Ministry for further action. However, the Corporation did not formulate such a scheme due to involvement of concurrence of the UT Administration and problems due to restrictions of leasing land to non-tribals in a tribal area like Katchal.

The Committee on Pubic Undertakings (COPU) conducted (January 2001) a study tour of the Corporation at Port Blair when the Corporation gave a brief account of their working including the problem areas as detailed above. The COPU recommended (July 2001) that the Government. should withdraw the activity of rubber project from the Corporation and make alternative arrangements to manage the project. The COPU also opined that such welfare projects should not be run by a commercial corporation and matter should be taken up with the Ministry of Home Affairs to make suitable arrangements as the project had adversely affected the profitability and the financial viability of the Corporation. M/s.TCS entrusted with the task of preparation of Strategic Management Plan inter-alia remarked (May 2001), that "The On-rush of cheaper substitute for natural rubber has had a deleterious effect on demand for natural rubber. It is therefore, suggested that this line of business be immediately closed down".

So far as Red Oil Palm Project is concerned, the COPU was of the view that Government should take note of the scientific study made in February 1996 by CARI and the current coverage of 2400 ha be enhanced to 5000 ha to make the project viable. It further opined that other spice crops may be planted in the Red Oil palm area as enter-crop or exclusively.

The Corporation had recently taken up (October 2001) the issue with the GOI for reimbursement of the losses by it and also invited the Chairman, Rubber Board to have detailed discussion to decide the future course of action, as the project was primarily a welfare project for rehabilitating Srilankan repatriates. No decision had, however, yet been taken.

The Ministry of Environment and Forests sought the comments of the Corporation on the COPU Report. However, in view of the order (October 2001) of the Hon'ble Supreme Court stopping felling of naturally grown trees in A & N Islands, submission of the comments of the Corporation had been kept pending.

Although the plantations were getting old and productivity of the earliest plantation might have gone down considerably, the Corporation had not yet worked out any re-plantation programme for the Red Oil Palm Project.

6.7 *Conclusion*

The poor financial performance of both the Projects was due to the following:

(i) Existence of surplus manpower.

(ii) Ageing workforce and consequent falling productivity.

(iii) Steady increase in salary and wages cost of ROP Project. Abnormal increase in losses in both the projects during 2000-01 stated to be due to increase in wages of workers of rubber project and ROP by 47 per cent and 27 per cent respectively following the implementation, of the award of Industrial Tribunal, A&N Islands.

(iv) Lower yield due to inefficient management as indicated in the preceding paras.

(v) The decrease in the prices of rubber and palm oil by almost 50 per cent in comparison to the prices prevalent in the year 1995-96 due to reduction in import duties on palm oil and free import of raw or finished rubber.

(vi) Declining rubber production and highly fluctuating palm oil production with the constant work force.

(vii) Ineffective and inefficient management.

There appears to have been a lack of sustained effort or a systematic approach to tackle the problems especially those of surplus manpower and low and decreasing productivity. Despite the Long term, Medium term and Short term recommendations of the Consultant (May 2001) and also recommending (i) withdrawal of the activity relating of Rubber project and (ii) taking note of the scientific study of Central Agricultural Research Institute by the COPU (July 2001) nothing has been done in this respect so far. The failure on the part of the Management to formulate a detailed working plan including the issue of re-plantation of old plants, rationalisation of manpower, in consultation with the Islands Authority, GOI, Rubber Board, etc. has finally led to a situation where the Rubber and Red Oil Palm Projects are facing the possibility of closure after sustaining huge losses.

6.8 Recommendations

There should be sustained efforts or a systematic approach to tackle the problems especially those of surplus manpower and low/decreasing productivity due to various constraints as pointed out in the Consultant's report (May 2001) and COPU's tour note of January 2001. The situation presently faced by the Corporation after the orders of the Hon'ble Supreme Court and restrictions imposed in this regard needs immediate attention of the Government of India to address the issue.

The review was issued to the Ministry in October 2003; their reply was awaited.

MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

CHAPTER VII

HMT Watches Limited

Review on Marketing Activities

Highlights

The Company entered into a contract with an Indian firm in July 1998 for supply of complete quartz watches with the 'HMT' logo and the same was terminated in July 2002 as it resulted in growth of spurious market. The whole exercise of outsourcing right from selection to termination stage lacked transparency.

(Para 7.5)

The decision of the Company to outsource watch appearance parts and watches from a foreign firm inspite of having in-house capacity was injudicious. A high level Task Force, constituted by the Company in January 2001 to investigate the perceived impact of grey market on HMT watches pointed out the absence of uniqueness in the appearance parts making them susceptible to growth of spurious market.

(Para 7.7)

Unrealistic sales projections by the Watch Marketing Division led to unrealistic production plan resulting in production of watches and substantial accumulation of inventory. During the period from May 1998 to March 2002 on an average Rs.2.26 crore was locked up monthly in stock due to procurement of components far in excess of market requirement resulting in loss of interest of Rs.1.31 crore.

(Para 7.8)

Out of total debtors of Rs.67.09 crore as on March 2002, Rs.56.37 crore was due from RDSs, of which debts amounting to Rs.42.44 crore were due beyond 3 months while the maximum allowable credit was 45/60 days. Out of debtors of Rs.67.09 crore, Rs.1.19 were considered doubtful by the Company in the accounts for the year 2001-02. As per amended credit policy (May 1999/February 2001) 20 per cent/ 25 per cent down payment was to be made by RDSs at the time of billing. It was observed that in respect of 20 RDSs there was a shortfall in collection of down payments amounting to Rs.3.20 crore at the time of billing. The special incentives passed on to RDSs amounted to Rs.1.27 crore (December 1998) and Rs.18 lakh (September 2001).

(Paras 7.10.1 and 7.11)

During January to March 1999 the Company supplied, without valid orders, 7,16,933 watches valued at Rs.48.34 crore to 13 RDSs, which was 256 per cent more than the targeted off-take of 2,01,300 watches by the RDSs. The excess supply of 5,15,633 watches amounted to Rs.34.84 crore. The Company offered MRP reduction as well as special discount amounting to Rs.60.38 lakh to liquidate 60,402 watches by 31 March 2002. Based on the prevailing reduction in the MRP and additional discount, the Company stands to incur a loss of Rs.1.74 crore on the balance of 1,13,698 watches remaining unsold as on March 2002. Further, on account of blocking of these watches with RDSs, valued Rs.11.74 crore from April 1999 to September 2001, Company suffered a loss of interest amounting to Rs.4.70 crore worked out at cash credit rate of interest of 16 per cent per annum.

(Para 7.10.2)

Internal Audit wing of HMT Limited had reviewed the files in 2001 relating to outsourcing of watches but no significant audit observations were made.

(Para 7.12)

Chief Vigilance Officer has not fully examined the issue of outsourcing of watches.

(Para 7.13)

7.1 Introduction

Consequent upon the restructuring of HMT Limited (the Holding Company), the assets and liabilities of the watch business group (excluding Watch Factory, Srinagar) were transferred, with effect from 1 April 2000, to the newly formed subsidiary namely, HMT Watches Limited (Company). The Company became fully functional from the year 2000-01.

7.2 Organisational Structure

The Chairman and Managing Director of the Holding Company, HMT Limited is the Chairman of the Company. Managing Director (MD) of the Company is its Chief Executive Officer. Board of Directors of the Company include, in addition to Chairman and MD, one part time official Director representing the Ministry of Heavy Industry, Government of India and one full time official Director representing the Holding Company.

The Company manufactures mechanical (Hand-wound, Automatic Day and Date) and quartz watches in its manufacturing units as indicated below:

Manufacturing Unit	Product
Watch Factory, Bangalore (WFB)	Hand-wound Ladies' watches, Automatic Day and Date watches
Watch Factory, Tumkur (WFT)	Hand-wound Gents' watches, Quartz Analog watches
Watch Factory, Ranibagh (WFR)	Hand-wound Gents' watches

Specialised Watch Case Division (SWCD), Bangalore	Watch Cases

In addition to the above, the Company also has Electronic Watch Project (EWP), an assembly unit under the control of Watch Marketing Division (WMD) for assembly of quartz watches out of Semi Knocked Down Kits. As a part of restructuring, three unviable units, viz., Watch (R&D), Bangalore, Miniature Battery Unit, Guwahati and Watch Case Division, Hyderabad were closed during 2000-01.

Marketing activities of the Company are managed by Watch Marketing Division (WMD) with five Regional Offices (ROs) and thirty Company Showrooms. Sales are mainly effected through Redistribution Stockists (RDSs).

7.3 Audit coverage

The marketing activities of the Company during the period from 1997-98 to 2001-2002 were reviewed and observations are included in the succeeding paragraphs.

7.4 Watch Market Scenario and the Company

The organised sector in India produces/sells about 12 million watches and a demand of around 23 million watches is presumed to be met by the un-organised sector and grey market. The organised sector in India is currently dominated by four major players viz., M/s. Titan, Timex, Maxima and HMT. The Company's overall share in organised domestic market declined from 26 per cent in 1997-98 to 14 per cent in 2001-02. However, the Company could still retain major market share in respect of mechanical watches which varied between 70 per cent in 1999-00 and 94 per cent in 2000-01. On the other hand the market share of the Company in respect of quartz watches was around 8 per cent during the five years ending 2001-02 except in 1998-99 when it was 14 per cent. The Company failed to increase its share in quartz watches market despite having a wide marketing network.

7.5 Outsourcing of Watches from M/s. Jayna Mefa India Limited, New Delhi

M/s. Jayna Mefa India Limited (Vendor), New Delhi had *suo-motu* approached the Company (May 1998) offering to supply quartz analog watches stating that they were one of the leading watches and watch components manufacturers in India having a technical collaboration with M/s. Meihua, Taiwan for dial manufacturing. Thereafter, in June 1998, a proposal was processed for procurement of complete watches under HMT brand name and was approved by Group General Manger, Watches, Watch Business Group, Bangalore. The justification for outsourcing the complete watches was as under:

(i) To make available market required watches,

(ii) To fully occupy shelf space and to stem the declining market share,

(iii) To be a self-sustained operation,

(iv) To yield adequate profits, and

(v) To be an interim measure.

However, no historical and projected data analysing the ground realities at that time were considered in support of above justifications. The Management stated (January 2003), that there were no papers/records/files preceding the above proposal of June 1998 in connection with outsourcing of complete watches. The letter from the Vendor of May 1998 was the only document in the possession of Company at the time of taking the decision on outsourcing of watches from the vendor i.e. in June 1998. Management further stated (April 2003) that the decision was taken based on the directions of the "Top Management". However, the reply of the Management did not indicate what this implied.

The Management has, however, not furnished a specific reply as to how the Vendor approached even before the decision to outsource was conceived. From the chronology of events, it appears that the idea of purchasing fully assembled watches emerged in the Company with the approach of the Vendor and prescribed procedural formalities and documentation involved in any procurement transaction were ignored in the selection of the Vendor.

Approval for the outsourcing was given by the Group General Manager (Watches) on a proposal of Assistant General Manager (Product Management) of June, 1998. After four months of signing of MoU (July 1998) with the Vendor and 3 months after the commencement of procurement (August 1998), outsourcing was discussed in general terms in the meeting of the Unit Board of Watch Marketing Division held in November 1998 i.e., without specifically indicating the name of the Vendor, the manner in which selection was made and the resultant idle capacity.

Management stated (May 2003) that the their plans are discussed in general terms and not specifically on case-to-case basis in the Unit Board meetings. Reply of the Management is not tenable as discussion in general term at the unit level is indicative of lack of transparency in the Management.

The matter relating to outsourcing of watches was brought out for the first time (February 2001) in the presentation on the strategies followed by the Company in improving the performance of watch business to the Ad-hoc Task Force (ATF) members during MoU negotiation meetings held for the year 2001-02. ATF members and Joint Secretary (JS) of the Department of Heavy Industries, Govt. of India expressed concern over the under utilisation of capacities and questioned *inter-alia* the logic of the Company outsourcing watches and suggested that the Company, instead of outsourcing, should consider utilisation of the existing capacity for making and branding watches for others.

Criteria formulated for the selection of the vendor for supply of fully assembled watches *inter-alia* stipulate (a) the original reference of the party should be based on the general reputation of the party as perceived by the executives of the Company (b) the party should be aware of watch production and marketing (c) the party should enjoy reputation of fair trade practices and (d) the party should have complete manufacturing facilities including assembly and testing. It was observed that the Vendor had commenced commercial production only from 1 December, 1997 and produced 21,550 watches and sold 14,298 watches to the end of 31 March 1998.

Management stated (April 2003) that the decision to tie up with the Vendor was taken considering the paid up capital, technology, foreign collaboration, installed capacity and infrastructure available. However, it was not clear as to how the Management considered that a vendor who had commenced commercial production only 7 months prior to the selection could satisfy the above criteria. Moreover, the reply of the Management does not specify as to how it satisfied itself about the general reputation of the Vendor for fair trade practices. This omission was significant in the light of subsequent cancellation of orders on the Vendor based on the report of the Task Force on grey market that outsourcing led to further growth of spurious watches.

7.6 Memorandum of Understanding (MoU) with Vendor

The Memorandum of Understanding (MoU) entered into with the Vendor initially in July 1998, was extended year by year upto 31 March 2002. Justification of extension of MoU for the years 2000-01 and 2001-02 was not furnished to audit. The MoU was not renewed beyond 31 March 2002 and all the pending purchase orders on the Vendor were cancelled (July 2002) based on recommendation of the Task Force (March 2001) which studied the 'Impact of grey market on HMT'. Despite inference by the Task Force that outsourcing was one of the reasons for further growth of spurious watches in the market, Company failed to act immediately and took 15 months to take follow up action (July 2002).

Management stated (April 2003) that based on the report on the Task Force the off take was reduced during 2001-02 and the pending orders were closed in July 2002. The Company failed to take closing stocks of watches on hand with vendor before foreclosure of purchase orders.

Management stated (April 2003) that it contemplated taking the closing stock of watches as well as appearance parts with 'HMT' logo lying with the Vendor as and when the funds position improved. Reply of the Management lacks conviction as the Company had no idea as to the extent of stock held by the Vendor and there was no agreement with the Vendor to keep the unsold stock of watches and appearance parts with 'HMT' logo till the Company took them after their finances improved. In the absence of the same the Vendor is under no obligation to retain the watches without selling them in the open market. Further, it is not known as to how the Company would monitor that the Vendor would not use 'HMT' logo in further manufacturing activity and would not sell spurious HMT brand watches in the market. This also demonstrates the injudicious and questionable manner in which the Management dealt with the matter of outsourcing from the Vendor right from initiating outsourcing to suspension of dealings.

7.7 *Outsourcing of watch appearance parts and watches from Tennmax Industrial Limited*

The Company has in-house capacity to manufacture more than 60 lakh dials and 26 lakh cases for quartz and mechanical watches. The capacity utilisation was around 34 per cent and 47 per cent for dials and cases respectively. Though in-house capacity was available, yet the Company procured various appearance parts during May 1998 to March 2002 relating to quartz and mechanical watches from Tennmax Industrial Limited (foreign firm) for assembly and sale in Indian market. The foreign firm also supplied completely assembled watches to overseas customers either under the HMT brand name/ co-branded name. Large volumes of these watches have been smuggled into the Indian market and were sold at prices lower than the Company's price (the export price of HMT watch was only Rs.200 against maximum retail price (MRP) of Rs.495 in India and sales were effected in retail grey market at Rs.350). The Company did not ensure prevention of misuse of co-branded logo by the foreign firm itself. There was no system put in place, either through agreement or otherwise, to verify that the foreign firm had not used the co-branded logo in its manufacturing and assembly facilities for sale to others.

A high level Task Force, constituted by the Company (January 2001) to investigate the perceived impact of grey market on HMT watches pointed out in its interim report (March 2001) the absence of uniqueness in the appearance parts making them susceptible to growth of spurious market.

The Task Force in its final Report (July 2002) recommended certain measures to combat the growth of spurious watches. Significant among them were (i) stoppage of outsourcing of complete watches (ii) more effective market information system (iii) distinctive identification marking and (iv) positioning of the product in higher price segment where spurious watch players were not existing.

In view of the various important issues involved in the recommendations of the Task Force having wider implications for the operations of the Company, the Board on receipt of interim Report directed (July 2001) the Chairman and the Managing Director of the Company to conduct a review of the report and submit a detailed action plan for the perusal of the Board. However, no detailed action plans had been submitted to the Board and the Board was only informed (October 2001) that a report had been prepared and sent to the Ministry. A copy of the report, though called for (February 2003) by Audit, was not furnished (June 2003).

Outsourcing of appearance parts from the foreign firm was stopped in 2000-01. To an audit query (February 2003) seeking action taken by the Company on other short term and long term measures proposed and present status of the grey market and its impact on the Company, as assessed by the Company, it did not furnish any reply (June 2003).

CMD, HMT Limited, however, stated (July 2003) that all the recommendations of the Task Force on menace of grey market study have not been implemented by the Company.

7.8 Market Strategies

Unrealistic sales projections by the Watch Marketing Division (WMD) led to unrealistic production plan resulting in production of watches and substantial accumulation of inventory as discussed in succeeding paragraphs.

WMD had indicated (March 2000) in annual plan for Tumkur Unit a production target of 17 lakh quartz/mechanical watches for the year 2000-01, which was modified to 14.32 lakh watches, and further reduced to 9.57 lakh watches. Against this, the Unit produced 9.34 lakh watches. WMD could not lift entire watches produced leading to locking up of substantial working capital in the form of finished stock valued at Rs.15.31 crore (26,275 mechanical watches valued at Rs.1.20 crore and 3,71,828 quartz watches valued at Rs.14.11 crore) as on March 2001. Out of above the Company could sell only 12,544 mechanical watches and 175,733 quartz watches during the period between 1 April 2001 to 31 July 2002.

Management stated (May 2003) that due to tight liquidity position over the years, units were managing to produce from the available inventories and through procurement of balancing materials, which had led to certain mismatch in production and marketing requirements. Reply of the Management is not tenable as in view of severe liquidity problem faced by the Company, the available resources should have been used judiciously.

The Management admitted (April 2003) that the Company could not sell outsourced models because the competitors also introduced their new range of watches in the same price segment with aggressive advertisement and marketing effort. Thus, new models neither improved the sales nor the market share but had resulted in accumulation of huge stock.

To liquidate the piled up inventory the Company had to introduce special schemes of sale giving additional discounts (Rs.40.00 lakh) and also to reduce MRP during September 2000. During the period from May 1998 to March 2002 on an average Rs.2.26 crore was locked up monthly on stock due to procurement of components far in excess of market requirement resulting in loss of interest of Rs.1.31 crore.

Management stated (June 2003) that excess inventory was due to higher quantum initially ordered keeping in view that market will absorb these co-branded watches.

The net margin in respect of sale of watches manufactured out of outsourced appearance parts without considering the special discount was Rs.1.29 crore.

However, the transaction resulted in a net loss of Rs.42.00 lakh after considering the scheme discount of Rs.40.00 lakh and loss of interest on inventory locked up amounting to Rs.1.31 crore upto 31 March 2002. The net loss of Rs.42 lakh has also to be viewed in the light of loss of value-addition in the context of underutilisation of capacity. Average value addition per watch during the period 1998-99 to 2001-02 worked out to Rs.261/-. The average value addition per watch available to the Company on sale of watch manufactured out of outsourced appearance parts during the above period was Rs.19/-. Thus, by outsourcing appearance parts for production of watches, rather than manufacturing in-house, the Company was deprived of value addition to the extent of Rs.16.43 crore on 6,79,090 watches manufactured with outsourced appearance parts during the period 1998-99 to 2001-02.

This reflects the poor capability of the Company in projecting market-required watches and selling targeted volumes in the present market scenario.

7.9 Inadequacies in Marketing Network

Some of the significant inadequacies in the marketing setup of the Company as perceived (1994) by the Indian Institute of Management, Ahmedabad (IIMA) were as under:

(i) Distribution system was the widest but suffered from several deficiencies particularly in terms of promotional support, information feedback and control.

(ii) A system of marketing research for collecting and analysing customer and dealer level information for both operational and strategic decisions did not exist.

No action towards strengthening the marketing setup of the Company to overcome the deficiencies assessed by IIMA was taken.

7.10 Credit Policy

The credit policy finalised by the Company in December 1995, based on the recommendations of Sundararajan Committee appointed by the Company *inter-alia* envisaged:

(i) primarily all sales shall be against cash, (ii) a credit period of minimum 15 days and a maximum of 60 days depending upon the quantum of watches lifted each month, (iii) securing the credit offered by way of (a) bank guarantee/letter of credit for 50 per cent of the amount of credit or (b) personal bonds on non-judicial stamp paper with 2 sureties of financial standing or (c) depositing original property documents, (iv) levy of interest on delayed payments beyond the agreed credit period, (v) obtaining crossed 'account payee' post dated cheques from the dealers to coincide with the due date of payment and (vi) acceptance of only demand drafts/ pay orders in the event of dishonour of cheques.

As per the amended credit policy (May 1999) the credit period was reduced to 45 days with 20 per cent down payment at the time of billing. As per the procedure evolved (February 2001) watches have to be handed over to RDS only on obtaining 25 per cent payment and on receipt of cheques for the balance 75 per cent of the value of the sale.

7.10.1 Relaxation of Credit Policy to RDSs

The Company sells watches through various sales channels. Major sales of the Company had been through Re-Distribution Stockists (RDSs) ranging between 57.92 per cent in 1999-00 and 75.35 per cent in 1998-99. Dependence on RDSs for sales of its watches led to some negative consequences like the Company accommodating the RDSs by not insisting on payment as per credit terms and allowing credit beyond the sanctioned limits and RDSs in turn accepting excess supplies to help the Company in achieving the targets/commitments given to administrative Ministry as per MoU/ proposed Turnaround Plan. Thus, the Company had to compromise its dominant role as producer of high Brand Equity watches vis-à-vis RDSs and had to relax its credit policy to its disadvantage as commented upon in subsequent paragraphs.

While reviewing the credit policy prior to December 1995, Sundarrajan Committee had observed (July 1995) that managing credit for Watch Marketing Division may mean streamlining dealings with some large RDSs. The Committee had suggested the following measures to be adopted with regard to credit policy for watches: (i) Since a few RDSs alone constitute a major portion of total debtors, it was prudent for Watch Marketing Group to develop systematic database on credit worthiness of RDSs, their past ordering and payment behaviour and their assortment of fast moving and slow moving stock, thus, ensuring profitability to RDSs and enhancing Company's business; and (ii) Company should develop systems/norms for reward and punishment to encourage maximisation of contribution to the Company (by being discrete in granting credit to RDSs), (iii) quick recovery of debt and proper monitoring and recovery of sticky accounts.

Company did not implement the above suggestions as evidenced from the analysis of dues from RDSs as under:

(i) Out of total debtors of Rs.67.09 crore as on 31 March 2002, Rs.56.37 crore was due from RDSs, of which debts amounting to Rs.42.44 crore were due beyond 3 months while the maximum allowable credit was 45/60 days. (ii) 17 RDSs (each owing more than Rs.1 crore) had accounted for debts amounting to Rs.47.40 crore of which Rs.37.02 crore was due beyond 3 months. The Company has been supplying watches to these RDSs despite continued huge outstanding from them. (iii) As per credit policy, the Company was to take post - dated cheques from RDSs to be deposited in bank on due dates as per terms of credit. However, there have been instances where the Regional Managers/Branch Managers did not record the cheques received from RDSs in prescribed registers and also delayed their deposit in bank for realisation on due dates. The delay in depositing cheques in bank ranged between one month and more than a year involving amounts ranging between Rs.1 lakh and Rs.2 crore.

The agreements with RDSs as well as Company's own systems and procedures provide a mechanism not only to monitor the distribution of watches from RDSs end to authorised retailers and others but also debt collection from RDSs including issue of debit/credit notes for interest charged on over-dues/discounts and incentives allowed. The Regional Managers/Branch Managers are primarily responsible in the first place to monitor, among other things, the collection of debts from RDSs. However, these officials failed to perform their duties in this regard even in collecting undisputed over-dues from RDSs pertaining to the period prior to sale of watches termed as 'isolation watches'*. Instead of enforcing contractual obligations vis-à-vis the RDSs, the Company introduced a special cash discount schemes during December 1998 (13 per cent) and September 2001 (6 per cent and 10 per cent) to recover over-dues from the RDSs and at the same time it continued to sell watches to them. This amounted to extension of unintended benefits to RDSs and therefore, was irregular. The special incentives passed on to RDSs amounted to Rs.1.27 crore (December 1998) and Rs.18 lakh (September 2001). Though the special cash discounts offered to RDSs for realisation of dues amounted to virtual write off of debts which, in normal course, needs the approval of the Board of Directors, no such specific approval had been obtained from the Board.

As per amended credit policy (May 1999/February 2001) 20 per cent/ 25 per cent down payment was to be made by RDSs at the time of billing. It was observed that in respect of 20 RDSs there was a shortfall in collection of down payments amounting to Rs.3.20 crore at the time of billing.

CMD, HMT Limited stated (July/August 2003) that the Company has not been able to enforce commercial policy for sales and therefore accumulated substantial debtors. It appeared that Watch Marketing Division was more inclined to accommodate distributors.

7.10.2 Dumping of watches on RDSs

During January to March 1999 the Company supplied/billed, without valid orders, 7,16,933 watches valued at Rs.48.34 crore to 13 RDSs, which was 256 per cent more than the targeted off-take of 201300 watches by the RDSs. The excess supply of 5,15,633 watches amounted to Rs.34.84 crore. The decision, to bill in excess of the orders from RDSs, was stated (April 2003) to be on the basis of a review by the Ministry at Corporate Head Office of HMT Ltd., Bangalore wherein it was suggested that available non-moving/slow moving watches must be disposed of with a view to maximising sales collection since the Turnaround Plan was under active consideration of Government of India.

***** *Non-moving/slow moving watches supplied without requisition to RDSs during January-March 1999 have been treated as 'isolation watches' to identify them from normal supplies***

However, it was evident from the deliberations (March 1999) of the Unit Board of Watch Marketing Division that the intention was only to achieve the turnover target and show better working results to avoid the Company being referred to Bureau of Industrial and Financial Re-construction (BIFR), rather than maximising sales collection.

CMD, HMT Limited stated (July 2003) that the Company indulged in highly illegal practice of billing watches, delivering it to distributors, paying duties and taxes on them. This did not have the approval of the Board before such 'sales' were effected. The Ministry has not suggested any of the measures as claimed by the Management of the Company.

The RDSs did not make payments in respect of stock of these watches held by them and in turn offered to return the stock. Thereupon, the Board of Directors of HMT Limited reviewed (November 2000) the unsold watches held by RDSs pertaining to the period from January 1999 to March 1999. The Board was informed that non-moving and slow-moving watches were billed to RDSs and have been treated as 'Isolation Watches' to identify them from normal supply. Based on the directions of the Board, a Task Force was constituted (April 2001) by the Company to (i) study the physical stock of watches held as on 1 April 2001 by RDSs in respect of watches sold during the period from January 1999 to March 1999 and (ii) suggest modalities for liquidating the unsold watches and collecting sale proceeds.

The Task Force in its report observed (June 2001) that (i) Prices of some of the models held in stock were rationalised and lowered (December 2000/January 2001) to address the market realities, to liquidate the Company's stock and to generate cash, which hindered the movement of same models in stock with RDSs supplied in January 1999 to March 1999, and (ii) Similar models were introduced in the market at lower prices affecting the movement of those already in stock with RDS.

The Task Force recommended inspection/rectification of these watches. The cost of rectification, transportation and the erosion in the value due to downward revision of prices was estimated at Rs.1.36 crore. The impact of sales tax already paid on watches to be recalled amounting to Rs.1.17 crore was considered as not realisable since it was time-barred.

Pursuant to the recommendations of the Task Force, the Company took back 174100 watches valued at Rs.11.74 crore from 13 RDSs in October 2001. The Company offered MRP reduction as well as special discount amounting to Rs.60.38 lakh to liquidate 60,402 watches by 31 March 2002. Based on the prevailing reduction in the MRP and additional discount, the Company stands to incur a loss of Rs.1.74 crore on the balance of 1,13,698 watches remaining unsold as on 31 March 2002. Further, on account of blocking of these watches with RDS, valued Rs.11.74 crore from April 1999 to September 2001, Company suffered a loss of interest amounting to Rs. 4.70 crore worked out at cash credit rate of interest of 16 per cent per annum.

Management stated (April 2003) that the Company could sell 66986 watches upto April 2003 leaving a balance of 1,07,114 nos. valued at Rs.6.68 crore at current MRP. However, Company has not furnished the loss incurred on MRP reduction and additional discount in respect of sales during the period 1 April 2002 to 30 April 2003.

Thus, it would be seen from the foregoing that the Company, with the sole aim of achieving the targets, resorted to dumping watches on RDS without any regard to their marketability. In the process, it had progressively diluted its credit policy and saddled itself with huge debts. Moreover, by dumping these slow-moving/non-moving watches as sales to RDS, the Company advanced the payment of sales tax.

7.11 Sundry Debtors

Debtors of the Company ranged between Rs.55.55 crore (1999-2000) and Rs.68.16 crore (2000-2001). The debtors in terms of number of months' sale were 4.48 months in 1997-98 which increased to 9.96 months in 2001-02 against a maximum credit of 1.5 to 2 months allowable as per the credit policy. The debtors locked up over and above the credit period of two months' ranged between Rs.34.12 crore (31 March 1998) and Rs.53.62 crore (31 March 2002). While the sales registered a declining trend from Rs.179.28 crore in 1997-98 to Rs.80.84 crore in 2001-02, the percentage of debtors to sales had been increasing from 37.39 in 1997-98 to 82.99 in 2001-02, indicating huge accumulation of debtors.

The total debtors as on 31 March 2002 (Rs.67.09 crore) included debtors valued at Rs.1.19 crore considered as doubtful in the accounts. In addition, the following amounts totaling Rs.22.37 crore were also considered (May 2003) as doubtful of realisation for which no provision has been made in the accounts so far:

(i) Rs.7.98 crore accounted in respect of stocks, which were subsequently isolated and brought back from RDSs;

(ii) Rs.6.78 crore representing interest on delayed payments disputed by RDSs; and

(iii) Rs.7.61 crore representing debts in respect of which Company has filed legal cases against the parties.

7.12 Internal Audit

Internal Audit wing of HMT Limited had reviewed the files in 2001 relating to outsourcing of complete watches from the Vendor. But no significant audit observations were made.

7.13 Corporate Vigilance Cell

To an audit enquiry seeking to know whether any observations were made on the matter, Chief Vigilance Officer stated (January 2003) that (i)

Corporate Vigilance Cell could not complete the investigation and could not come to any conclusion/findings from the vigilance point of view and (ii) the present Chief Vigilance Officer (CVO) has not taken up the examination of files relating to the outsourcing from the Vendor. However, it is observed that, the procedure followed in selection of the Vendor itself was not in line with Central Vigilance Commission (CVC) guidelines on purchases.

As can be seen from audit observations made in the preceding paragraphs, the manner in which the selection of the Vendor was made for outsourcing complete watches itself is questionable as it ignored all prescribed procedure including CVC guidelines for selection of Vendors for purchases. The justification given for outsourcing of complete watches was not based on any cost-benefit analysis. The whole exercise from justification of outsourcing to selection of the Vendor and further transactions lacked transparency.

7.14 Review of performance by the committee appointed by the Ministry

Department of Heavy Industry appointed (August 2000) a Committee to inquire into diversion of funds meant for payment of statutory dues of the employees for other purposes and setback in the performance of the Company during 1999-2000. The Committee observed (November 2000) that had Watch Business Group reduced its inventory and sundry debtors, the shortage of working capital would not have been felt so much and lack of working capital was not the prime cause for the dismal performance of the Company. The Committee was of the view that the entire watch group has been mismanaged financially, commercially and technically. The Management allowed a drift in the affairs by their inaction. Despite above observations, efforts, if any, taken by the Company did not yield any result as there was further deterioration in the performance of the Company during the year 2000-01 and 2001-02.

7.15 Conclusion

The marketing policies followed by the Company had led to the growth of spurious/grey market for Company's watches. The inaccurate market projections resulted in accumulation of inventories. By resorting to dumping watches on RDSs without any regard to their marketability, it progressively diluted its credit policy vis-a-vis RDSs which resulted in accumulation of debts. The whole exercise of outsourcing right from selection to termination lacked transparency and had led to under utilisation of capacities.

7.16 Recommendations

In the light of the foregoing observations the following recommendations are made:

a) The Company should address the issue of grey market in Company's watches immediately in order to retain/increase the market share.

b) The relationship with the RDSs should be clearly redefined and agreement with them should be implemented properly.

c) The in-house capacity has to be considered before deciding outsourcing of watches/parts.

d) Internal control measures especially with reference to transactions with RDSs right from selling to collection of debts have to be devised and followed.

The review was issued to the Ministry in October 2003; their reply was awaited (October 2003).

MINISTRY OF PETROLEUM AND NATURAL GAS

CHAPTER : VIII

GAIL (India) Limited

Purchase, Transportation, Marketing of Natural Gas and Extraction of Liquid Hydrocarbons

Highlights

The gas was purchased from Panna – Mukta and Tapti Fields operated by Private Sector Joint Venture, at 119 per cent of the International price. This resulted in an additional payment of Rs.212.86 crore to the Joint Venture.

(Para 8.3.3)

Gas from the Tapti Field having low Calorific Value was being accepted since June 1997 at the normal price (without discount) as the Gas Purchase and Sales Agreement was yet to be executed (August 2003). The loss suffered on this account was Rs.43.68 crore.

(Para 8.3.4)

GAIL purchased gas from JVs at a price higher than the price at which it sold to its customers. The higher cost of gas purchased from JVs amounting to Rs.3477 crore up to March 2003 was adjusted from the price paid to ONGC.

(Para 8.3.5)

Defective metering of supply from HBJ pipeline resulted in short billed quantity of 1848.173 billion K cal valuing Rs.66.23 crore from April 1999 to March 2003.

(Para 8.4.2)

Despite shortage of actual availability of gas, allotment and supply of gas to Reliance Industries was increased without recovering transportation charges and by making cuts in the supply to priority sectors like Power generation and Fertilizer. This has resulted in loss of Rs.20.74 crore to the Company.

(Para 8 5.4)

The gas availability was not adequate to meet the requirements of the Company's LPG Plant at Usar. The Company went ahead in implementing the project at a cost of Rs.297.80 crore without a mid term appraisal rendering the investment infructuous.

(Para 8.8.1)

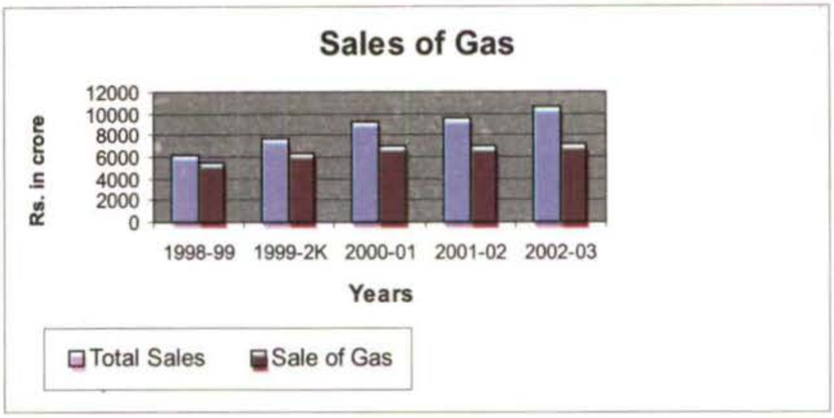
8.1 Introduction

GAIL (India) Limited (Company) was incorporated on 16 August 1984 as a fully owned Central Government Company under the Companies Act 1956. The initial objective of the Company was to create infrastructure for the transportation of natural gas available in oilfields both onshore and offshore. Along with the construction of pipelines to transport gas, the Company has also set up plants for extraction of liquid hydrocarbons viz. Liquified

Petroleum Gas (LPG), Propane, Pentane etc. Subsequently, the Company diversified its operations and also went in for transportation of LPG and production of Polymers.

8.2 Scope of Audit

The Company's main activity at present is purchase of natural gas, its transportation, marketing and also extraction of Liquid Hydrocarbons from the natural gas. The graph given below shows the turnover of the Company and Sales of gas during last 5 years:



From the above it could be seen that sale of natural gas formed a major part of the total turnover of the Company. The review, therefore, covers various activities of the Company in the area of purchase, transportation and sale of natural gas. It also evaluates working of various plants for extraction of liquid hydrocarbons. viz. LPG, Propane, Pentane and Special Boiling Point Solvent (SBPS).

A PURCHASE, TRANSPORTATION AND SALE OF NATURAL GAS

8.3 Purchase of Gas

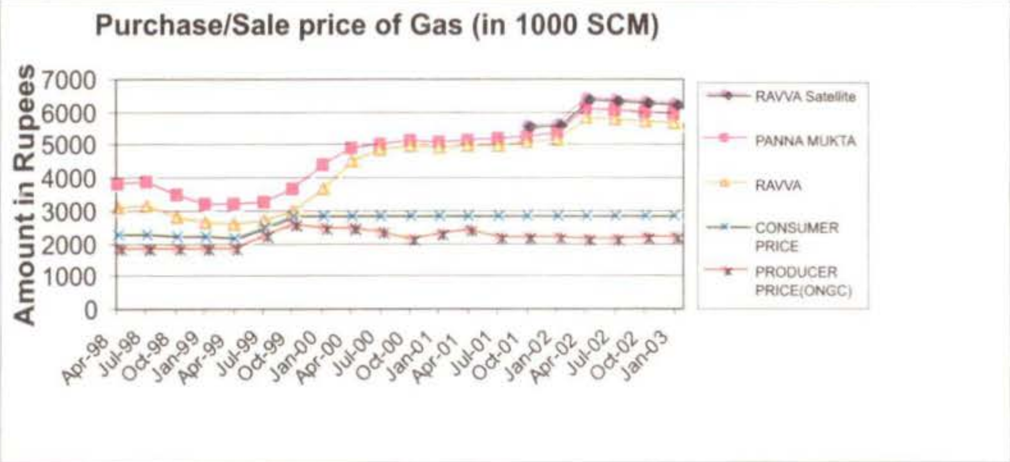
8.3.1 The Company currently purchases about 84 per cent of gas from Oil and Natural Gas Corporation Limited (ONGC) and the balance from Oil India Limited (OIL), the Ravva Joint Venture (JV), the Tapti JV and the Panna Mukta JV. The price payable to ONGC and OIL is governed by the pricing order (September 1997) of the Government. As regards the price payable to JVs, Government of India (GOI) entered into Production Sharing Contracts (PSC) with the respective JVs. As a nominated agency of GOI, the Company. was to enter into separate agreements with each of the above JVs for regulating the purchase of gas. The Company finalised an agreement with Ravva JV while the agreement with the other two JVs had not been finalised (September 2003). The purchase of gas from these JVs was being regulated by interim Sale and Purchase Agreements.

The Table given below gives the comparative chart of price formula agreed to with JVs:

(Amount in US$ per MMBTU[1])

Particulars	Panna Mukta /Tapti JV	Ravva JV	Ravva JV (Satellite)
Date of PSC	December 1994	October 1994	October 1994
Date of agreement	February 1998[2]/June 1997[2]	June 1997	April 2001
Minimum Price	2.11	2.00	2.3
Maximum Price	3.11	3.00	3.3
Parity with average of basket of International price	119 %	100 %	122 %
Minimum Quality of Gas (in Kcal[3]/SCM[4])	Not specified	9000	8500
Deduction for poor quality up to 500 Kcal/SCM	Not specified	US $ 0.05	US $ 0.05

A chart below indicates the price paid to ONGC, Joint ventures and also the price collected from consumers during the 5 years period from April 1998 to March 2003.



From the above, it could be seen that there were significant variations (except during the period from April 2000 to July 2001) in the price paid to JVs towards cost of gas. The price paid to the private JVs was also considerably higher than the sale price of natural gas charged from private as well as public sector companies.

The Ministry stated (September 2003) that the reasons for delay in finalization of Gas Sales and Purchase Agreements (GSPA) were mainly due to certain differences in the interpretation of certain provisions of the PSCs. Efforts were being made to resolve the issues.

The above contention is not tenable as the provisions should have been free from ambiguity at the time of entering into PSC. There was thus abnormal delay of more than eight years from December 1994 till date.

[1] *Million British Thermal Units*
[2] *Interim Agreement*
[3] *Kilo Calorie*
[4] *Standard Cubic Metre*

8.3.2 Purchase of gas from Ravva satellite fields

Payment of price higher than previous contract

The RJV intimated (January 2000) that they could supply another 0.9 MMSCMD[5] of Non-Associated Natural Gas from discovery at Ravva satellite fields. The Company expressed its intention to purchase the same and sought Ministry guidelines on pricing of this additional quantity of gas. The Ministry asked (24 April 2000) the Company to finalise the price payable to RJV and send a proposal for the same. After discussion with the RJV, the Company finalised a pricing formula subject to a floor and ceiling price of US $ 2.3 and US $ 3.3 per MMBTU respectively as against the price of US$2.00 and US$3.00 respectively for Ravva JV. The base price payable to RJV worked out to 122 per cent of average of 24 months international price preceding the quarter. The Ministry approved the proposal in June 2000 and the Company signed an agreement with the RJV on 9 April 2001. RJV commenced supply of additional gas from September 2001.

Purchase of gas with less calorific value

According to the gas purchase and sales contract (27 June 1997) for Ravva field, the quality of gas to be supplied was to have a net heating value of not less than 9000 K. Cal/SCM and in case of reduction of the net heating value up to 8500 K. Cal/SCM, it would be accepted at a discount of US $ 0.05 per MMBTU. However, in the agreement dated 9 April 2001 for purchase of additional gas from Ravva Satellite field, the specification of gas was reduced to 8500 K.Cal/SCM and provision was made to accept gas up to 8000 K. Cal/SCM at a discount of US $ 0.05 per MMBTU. Neither was the approval of the Government sought nor was the Government informed about this concession extended to the JV.

As the gas supplied from Ravva Satellite field had a Calorific value (CV) of less than 9000 K. Cal/ SCM the additional benefit to RJV due to acceptance of inferior quality of gas without penalty worked out to Rs.3.75 crore from September 2001 to March 2003.

The Management stated (September 2003) that international contract does not allow discount for reduced calorific value and no producer offered discount on low quality of gas.

The reply is not relevant as the discount clause is already there in the Ravva contract. However, the Management failed to negotiate the same quality of gas for the Ravva Satellite field as that for Ravva contract.

The Ministry did not offer any comments (September 2003).

8.3.3 Purchase of gas from Panna Mukta J. V. and Tapti J. V.

Defective Price formula

GOI signed (22 December 1994) two PSCs one with Panna Mukta J.V. and another with Tapti JV. Under the PSCs, the base price of gas was fixed at US$

---

[5] *Million Metric Standard Cubic Metres per day*

2.32 per MMBTU and the price for every quarter thereafter was to be determined as per following formula given in the PSC.

Price = Base Price x A/B;

Where 'Base price' was US$ 2.32.

'A' was the average value calculated for HS/LSFO[6] Basket of fuel oils for the 12 Months preceding the quarter.

'B' was the average value calculated for the HS/LSFO Basket for the 12 months April 1993 to March 1994.

The price arrived at as above was further subject to a floor price of US $ 2.11 per MMBTU and a ceiling price of US $ 3.11 per MMBTU.

In could be seen from the above that Base Price and 'B' were constant. As the agreement was signed in December 1994, value of 'B' (i.e. value calculated for the HS/LSFO Basket evaluated for the 12 months April 1993 to March 1994) was known to be at US$ 1.9486 but it was not taken as the base price for the purpose of the future revision in the price. Fixation of base price at US$ 2.32 per MMBTU instead of US$1.9486 resulted in fixing price at 119 per cent of the 12 months' average of international price.

It was also noticed in Audit that the price fixed in 1994 payable to the RJV was only 100 per cent of 12 months' average of international price. There was thus a difference in the pricing of gas purchased from the JV operating in Tapti and in Panna Mukta field from that of the JV operating in the Ravva field. The total extra payment as a result of higher price fixed for the former vis-a vis price fixed for the latter worked out to US $ 434.80 lakh (equivalent to Rs.212.86 crore) for the gas purchases till March 2002[7].

The Ministry had not offered (September 2003) any specific reply with regard to defective formula followed.

8.3.4 Tapti Fields

The Company started receiving gas from Tapti fields in June 1997. The average CV of gas received from Tapti field was 8707 Kcal /SCM in 1999-2000 and 8692 Kcal/ SCM (excluding the quantity of gas equivalent of condensate taken over by ONGC) during the period April 2000 to September 2000.The PSC with Tapti JV did not specify the minimum quality of gas to be supplied by them and deduction for poor quality of gas against the minimum CV of 9000 Kcal/SCM and recovery of US$0.05 per MMBTU as envisaged in contract with Ravva JV. Nor did the Company execute a formal sale and purchase agreement with the Tapti JV. In the absence of any agreement for deduction for poor quality of gas, the Company was making payment to JV without any deduction for inferior quality of gas supplied by them. Considering the provisions of Ravva JV as the basis, non-provision of the discount clause for the inferior quality of gas resulted in an additional payment

[6] ***High Sulphur/Low Sulphur Fuel Oils***

[7] ***After that period impact was not material as the price had either been the base price or the ceiling price***

amounting to Rs.43.68 crore (approximately). for the period June 1997 to September 2000 to the Tapti JV.

Management stated (September 2003) that PSC entered into by the Government did not specify the quality of gas and also that contracts varied depending upon field to field in the international market.

The contention of the Management is not tenable as at the time of entering into interim Sale and Purchase Agreement, details should have been arrived at in their capacity as Government nominee thereby safeguarding the interest of the Government by incorporation of a clause regarding the CV as was done in the case of Ravva JV.

The Ministry did not offer (September 2003) any comments.

8.3.5 Undisclosed subsidy

The consumer sale price of gas was fixed by GOI in September 1997. It was linked at 55, 65 and 75 per cent of the price of a basket of Low Sulphur/High Sulphur fuel oils for the years 1997-98, 1998-99 and 1999-2000 respectively subject to a ceiling price of Rs.2850/1000 SCM.

The consumer price of gas was to be reviewed by March 2000 to achieve 100 per cent fuel oil parity price over the 4th and 5th years i.e. by 2001-2002. No such revision has been done so far (March 2003) and the prices are even now regulated by the September 1997 order.

The Company paid higher prices for purchase of gas from Joint Venture Companies than what it earned from the sale to consumers. Therefore, in order to be compensated for the higher cost of gas purchased from Joint Venture companies, it was allowed to recover from the sale price, the difference between the consumer price and price paid to the JV companies and then pass on the balance amount to ONGC and OIL as producer price. Since the consumer price had a maximum ceiling of Rs.2850 per 1000 SCM, the increase in supply and price of gas from JVs was widening the gap between the purchase price and sale price. Had the revision been undertaken timely, extra burden on exchequer amounting to Rs.993 crore for the year 2002-03 could have been avoided. The total amount of higher price passed on to Joint Ventures amounted to Rs.3477 crore for the period October 1997 to March 2003.

Further the deficit was ultimately passed on to gas producer Public Sector Undertakings (PSUs) ONGC and OIL. The producer price of Rs.2513 per 1000 SCM which ONGC was getting during the quarter ending December 1999 came down to Rs.2088 per 1000 SCM in a period of one year i.e. in the quarter ending December 2000. It was Rs.2138 per 1000 SCM in December 2001 and Rs.2132 per 1000 SCM in March 2003. This subsidy in meeting the higher cost of gas purchased from JVs was also not announced by the Government in the Union Budgets of respective years.

The Management admitted (September 2003) that the loss on account of higher price paid for gas purchased from JVs was being passed on to the gas producer PSUs. The Ministry stated (September 2003) that gas price revision due since 2000 is under review.

8.4.1 Transportation of Gas

The gas purchased by the Company is transported through a network of pipelines. The main pipeline is the Hazira-Bijaipur-Jagdishpur (HBJ) pipeline, which originates from Hazira in Gujarat and terminates at Delhi. The pipeline has a length of 2765 KM including branch lines. The regional pipelines mainly at Baroda, Rajahmundry, Ahmedabad, and Mumbai have a length of 1400 KM approximately. The capacity of HBJ pipeline is 33.4 MMSCMD of gas.

The Company was able to maintain over 99 per cent efficiency in maintaining uninterrupted gas supply in respect of HBJ Pipeline in all the last five years ended March 2003.

8.4.2. Loss caused by metering defects in system

Gas supplied through HBJ pipeline was received in bulk at Hazira from ONGC and Joint Ventures. Suppliers were paid on the basis of quantity of gas received at Hazira. The gas supplied to individual customers was metered at consumers' premises. Though there was no scope for the physical loss or gain of gas in pipeline transportation, GAIL had suffered a loss of Rs.66.23 crore on short-billed quantity of 1848.173 billion K cal during the period from April 1999 to March 2003.

The Ministry endorsed (September 2003) the views of the Management that the discrepancies could be mainly attributed to the defects in the metering of internal consumption during the period of stabilization (1999-2000) at one of its units viz. UP Petrochemicals Complex, Pata (UPPC).

The reply of the Ministry is not tenable as there were instances of inconsistent behaviour of meters installed by the Company that was not properly investigated for the generalized reason that $\pm$ 1 per cent variance was not a cause for alarm. In other regions also though there were similar discrepancies, the Company did not incur loss because the transactions with the supplier was on "back to back" basis and therefore, any loss arising therefrom got automatically passed on to the supplier.

8.5 Sale of Natural Gas

8.5.1 The natural gas purchased by the Company was sold to consumers as per the allocations made by 'Gas Linkage Committee' (GLC) a high-powered Committee under the Ministry of Petroleum and Natural Gas. The Company is authorised to make further cuts in the allocated quantity to various consumers on uniform basis in case of short receipt of gas from the producers.

8.5.2 Actual vis-à-vis GLC allocation

It would be seen from table below that GLC allocation was on higher side than the actual availability of gas especially in HBJ / Ex-Hazira, Uran and Western onshore:

(MMSCMD)

Years	1998-99		1999-2000		2000-2001		2001-2002		2002-2003	
Regions	GLC alloc.	Actual availability	GLC alloc.	Actual availability	GLC alloc.	Actual availability	GLC alloc.	Actual availability	GLC alloc.	Actual availability
HBJ Ex-Hazira	43.30	32.72	45.95	36.29	48.61	38.66	48.53	38.99	48.73	38.84
Uran	16.60	11.90	16.60	10.74	16.60	9.94	16.60	8.93	16.60	9.35
Western On-shore	11.24	6.83	11.24	6.68	11.24	5.72	11.22	4.48	11.36	4.63

Even though the actual availability of gas was inadequate to meet the existing demands, allotment of selected customers was increased as below.

8.5.3 Gas supply to Essar Steel Ltd.

Essar Steel Limited (Essar) had entered into an agreement with ONGC on 24 January 1990 for supply of gas Ex-Hazira @ 0.50 MMSCMD on firm basis and @ 0.35 MMSCMD on fallback basis[8]. With the transfer of marketing activity of gas from ONGC to the Company, contracts entered into by ONGC were assigned to the Company. After the commissioning of HBJ, HBJ transportation charges were leviable for additional supplies to existing consumers and for the entire supplies to new consumers, on commercial consideration that quantity of gas made available to Ex-Hazira consumers, would have otherwise fetched transportation charges, if sold to HBJ pipeline customers. Accordingly, after expiry of the term of the ONGC agreement, the Company executed a supplementary agreement on 17 July 1996, which provided for levy of HBJ transportation charges for all supplies in excess of 0.50 MMSCMD. Another supplementary agreement signed in April 2000 also contained such a provision.

However, in October 1997, Essar represented for waiver of HBJ transportation charges on the ground that the gas was not being supplied to them from the HBJ pipeline. It also represented (December 1998) to the Ministry for Petroleum and Natural Gas for the refund of transportation charges paid by them since July 1997 and unilaterally stopped (February 1999) payment of HBJ transportation charges. The Company did not take immediate appropriate action for violation of terms of the agreement and kept on supplying the gas beyond the firm allotment during the period of default also. After the approval of the competent authority, the supply of gas to Essar was stopped on 16 May 1999 but it was resumed the same day without recorded reasons.

In July 1999, the Ministry directed the Company to re-fix transportation charges of gas supplied to Essar with retrospective effect from 1 October 1997 and to refund the transportation charges already collected as Essar plant was located at Hazira, and hence HBJ transportation charges were not applicable. In August 2000 again the Ministry directed the Company to refund the entire

[8] *To be supplied only if surplus gas is available*

amount of transportation charges collected and also to consider the entire issue and refer the matter to arbitration, if not resolved satisfactorily.

On seeking clarification, the Ministry clarified (March 2001) that it should not be construed as directions to the Company. The Company continued to supply gas (March 2003), though the gas supply contract had expired on 31 March 2002.

Due to shortage of availability of gas, increase in supply to Essar over and above the previously committed quantity was at the cost of cut in supply to other downstream consumers who were paying transportation charges. Ministry's direction to refund the HBJ transportation charges collected by the Company was not fair until the dispute was resolved.

The Ministry endorsed (September 2003) the views of the Management who accepted the above facts. The Management also stated that Essar had approached the High Court of Gujarat and the case was sub-judice.

The fact, however, remained that the Company failed to take appropriate and timely action against the Essar for violation of terms of agreement. They have also made a provision of doubtful debts of Rs.118.74 crore recoverable from Essar without waiting for decision of the Court.

8.5.4 Supply of Gas to Reliance Industries Limited

According to gas supply contract entered into (January 1991) between ONGC and Reliance Industries Limited (Reliance) the supply of natural gas @ 0.50 MMSCMD (reduced to 0.49 MMSCMD in May 1995) was on firm basis and @ 0.25 MMSCMD (reduced to 0.24 MMSCMD) on fallback basis. The contract did not stipulate separate transportation charges for the supply of gas to Reliance. However, in the contract there was provision for the revision of the terms and conditions of supply on the expiry of the initial term of 5 years i.e. by April 1996, but no such revision to recover transportation charges was carried out as was done in the contract with Essar Steel Ltd.

In July 1998, the Ministry increased the fall back contracted quantity from 0.24 MMSCMD to 0.81 MMSCMD in spite of the Company's opposition that the enhancement in the supply of gas to Reliance would be at the cost of cut in supply to other consumers on the HBJ pipeline. This would result in loss of production of priority sectors of Fertilizers and Power because natural gas was used as feedstock in the fertilizer units and as fuel in the power generation. Increase in supply to Reliance was resulting in direct loss of transportation charges to the Company and it was indirectly affecting the Government subsidy in the fertilizer and power sector. Nonetheless, decision was taken in Reliance's favour. The Ministry, however, directed (December 1998) the Company to levy transportation charges. Thereafter, in June 2000, part quantity of 0.40 MMSCMD of the fall back quantity was converted into firm allotment though at this point of time there was mismatch in the supply and demand of gas and the then existing customers were already facing cuts in their firm allotment. Therefore, increase in the firm allotment to Reliance was not on fair and equitable grounds. Finally the supplementary contract signed between the Company and Reliance on 26 June 2000 contained the provision for levy of transportation charges on the quantity of gas supplied in excess of 0.49 MMSCMD.

It was observed that the Company had yet another opportunity in July 1998 when the fallback quantity was increased from 0.24 MMSCMD to 0.81 MMSCMD and Government also directed (December 1998) it to levy transportation charges. The late levy of transportation charges from June 2000 instead of from April 1996 resulted in extra financial benefit to Reliance and loss to the Company of Rs.20.74 crore.

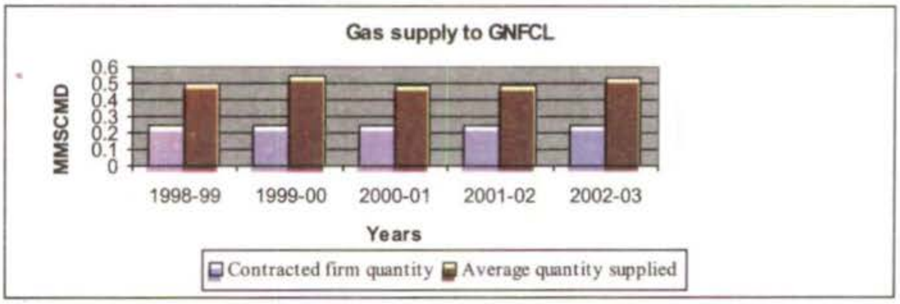
In reply, Management stated (September 2003) that the contracted quantity could not be revised without a specific direction from Government. It further stated that though Government direction was issued in December 1998 to revise the prices, this could not be implemented, as Reliance did not come forward to sign a supplementary agreement and that the transportation charges on supply of gas over and above original firm allotment of 0.49 MMSCMD had been levied from June 2000. The Ministry only stated (September 2003) that the allocation of Reliance was increased (June 1998) to 1.3 MMSCMD depending on day to day availability of gas.

The reply of Management is not tenable as they did not avail the opportunities to levy the transportation charges inspite of specific direction from the Government (December 1998) to do so. Further they could have stopped the supply of gas when Reliance was not coming forward to sign the supplementary agreement.

8.5.5 Supply of gas to Gujarat Narmada Fertilizers Company Ltd. (GNFCL)

Gujarat Narmada Fertilizer Company Limited (GNFCL) at Bharuch was being supplied gas from Gandhar region under a contract dated 6 September 1993. Under the contract, firm allotment was for 0.25 MMSCMD and fall back allotment was for 0.30 MMSCMD. The fall back quantity was increased to 0.35 MMSCMD from 1 January 1998 under a supplementary agreement dated 4 September 1995 subject to condition that supply of gas over and above the firm allotment would be made only after meeting Company's other firm commitments.

The contracted firm quantity vis-à-vis actual supply made during the last five years was as under:-



It is evident from the above that actual supply was in excess of contracted quantity which ranged from 197 per cent to 217 per cent.

The actual supply of gas to GNFCL was never restricted to the firm commitment, even though the Company unilaterally imposed heavy cuts (about 20 per cent) in the firm allotment quantity to other customers including those in the priority sector (e.g. fertilizer and power).

The Ministry endorsed (September 2003) the views of the Management that supply was made to GNFCL keeping in view the requirement of 0.6 MMSCMD of gas to operate their plant.

The reply is not tenable as the Company was not authorised to supply the gas in excess of allocated quantity by imposing unilateral cuts on the supply of allocated quantity of other consumers without the approval from Gas Linkage Committee.

8.6 Conclusion

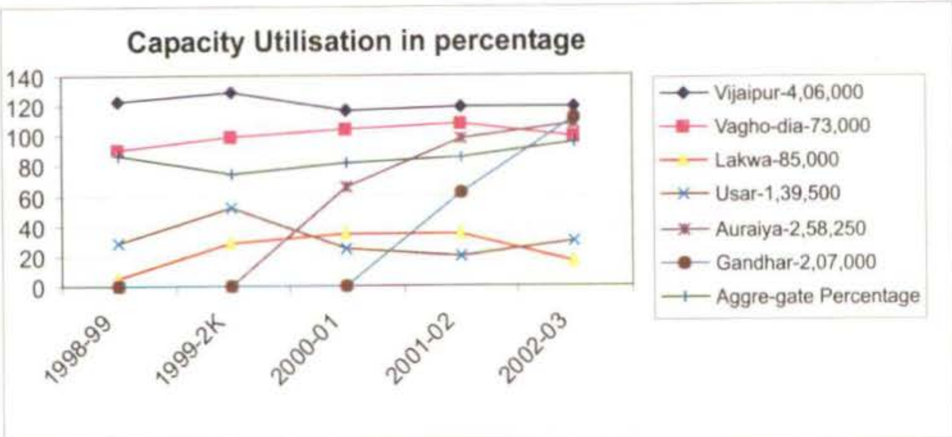
There were wide variations in the fixation of price payable to JVs towards cost of gas. Price paid to JVs for purchase of gas was more than the price at which the Company sold it to customers. The loss on account of this was mainly passed on to ONGC by reduction in the price payable to it. Further, there were variations in the quality of gas and penalty for inferior quality of gas supplied in the agreements with JVs. There was loss of gas due to defective metering system that was not properly investigated to take remedial action. Further, the Company did not levy HBJ transportation charges on gas supplied to some of the ex-Hazira consumers. There was increase in the supply of gas to some customers at the cost of cuts in the supply to other customers including those in the priority sector of Power and Fertilizer.

8.7 Recommendations

Ministry may expedite their long overdue decision to introduce 100 per cent parity of the prices of natural gas with those of the international fuel oils to reduce the loss to the gas producer PSUs. The agreements with the JVs should also be finalised by the Company expeditiously to safeguard the interests of the Government in terms of the quality and prices of gas.

B. EXTRACTION OF LIQUID HYDROCARBONS FROM NATURAL GAS

8.8 There are six liquid Hydrocarbon production plants whose main product is LPG and other products include Propane, Pentane and SBP solvent. The overall utilisation of these plants ranged from 74.33 per cent of installed capacity in 1999-2000 to 95 per cent in 2002-2003. The plant-wise capacity and its utilisation is shown below:



It could be seen from the above that all the plants other than the plants at Usar and Lakwa were working satisfactorily. Detailed analysis of these plants indicated following deficiencies:

8.8.1 LPG Plant Usar

The Company proposed in April 1993 to set up a LPG Recovery Plant at Usar to process 5 MMSCMD natural gas to be made available by ONGC from Bombay High through Uran. The Public Investment Board (PIB) approved the proposal in November 1993. According to the Detailed Feasibility Report prepared by the consultants, Engineers India Limited, expected gas availability at Uran was 16.5 MMSCMD. After meeting ONGC's requirement of 11.3 MMSCMD, the remaining gas (5 MMSMD) was proposed to be processed at Usar for extraction of 1,39,500 tons per annum of LPG. The project was completed at a cost of Rs.297.80 crore and commenced production in August 1998. The Company did not enter into any formal agreement with ONGC due to which regular supply of gas could not be ensured. The table below summarises the production statistics for the period up to March 2003.

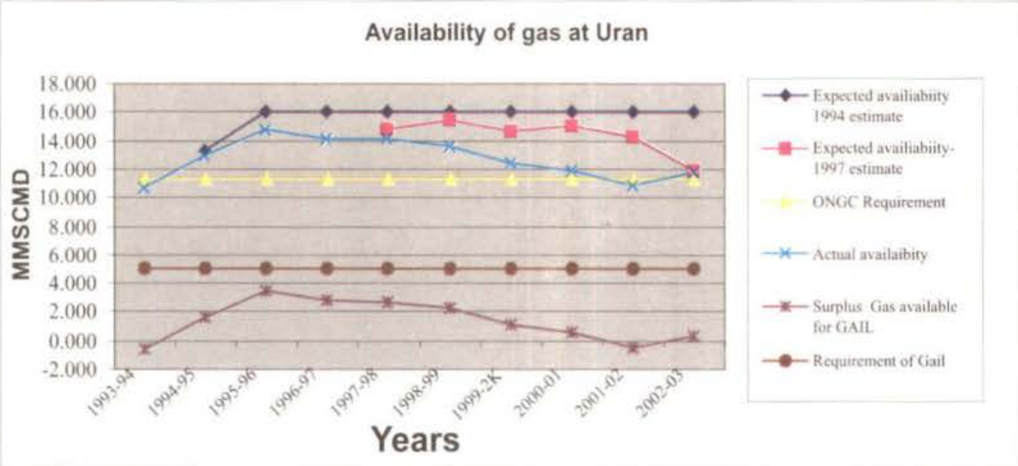
Period	Installed capacity (MT per annum)	Production (MT)	Percentage of production to installed capacity
1999-2000	139500	72250	51.79
2000-2001	139500	35212	25.24
2001-2002	139500	27734	19.88
2002-2003	139500	22442	16.09

It could be seen that the capacity utilisation was not only low but it declined and reached as low as 16.09 per cent in 2002-2003 which resulted in production loss of Rs.161.25 crore during 2002-2003 with respect to 100 per cent capacity utilisation. The main reason for the low capacity utilisation was non-availability of adequate natural gas for processing.

Scrutiny in Audit revealed following deficiencies.

8.8.2 Non availability of adequate gas

The only source of raw material i.e. natural gas was from Uran and there was a wide gap in the expected and actual availability of gas as shown below:



It could be seen from above that by March 1995, the gap between expected and actual availability became visible (0.420 MMSCMD) when total purchase/work orders issued for the project was of the value of Rs.2.32 crore only. By March 1996, the gap further increased to 1.209 MMSCMD. Moreover, the quality of gas also came down to having butane content of 1.45 per cent from the projected requirement of 1.87 per cent. By this time, purchase orders for equipment for a total value of Rs.67.40 crore had been placed. However, the Company did not review the techno-economic viability of the project.

8.8.3 Release of Gas by ONGC at the cost of low utilisation of its plant

The operation of the plant was possible because ONGC had released more quantity of rich gas than what was actually surplus to their own requirement as given in the table below:

(Quantity in MMSCMD)

Year	Total availability of (rich) Natural Gas at Uran	ONGC's own requirement	Surplus gas to their requirement	Actual qty. of rich gas supplied to GAIL Usar.	Gas released by ONGC in excess of actual surplus.
1998-1999	13.573	11.3	2.273	4.06	1.787
1999-2000	12.403	11.3	1.103	2.20	1.097
2000-2001	11.875	11.3	0.575	1.45	0.875
2001-2002	10.82	11.3	(-) 0.48	0.81	1.29
2002-2003	11.67	11.3	0.37	0.64	0.27

It could be seen from above that actual availability of gas was not sufficient to meet ONGC's own requirement. Hence even if ONGC released any gas to the Company, this would be already stripped off LPG components as was evident from the falling butane content of the gas. This would not only affect the capacity utilisation of the ONGC but also the lean gas may not be techno economically suitable for GAIL.

Thus, Usar Project was

(a) conceived without concluding any agreement with ONGC to ensure a minimum supply of required quantity and quality of feed gas

(b) implemented without undertaking mid-term appraisal of the project

The above resulted in an infructuous investment of Rs.297.80 crore and consequent annual recurring operating loss of about Rs.20 crore despite the unexpected gain in the form of abnormal hike in the LPG price which generated excess margin of about Rs.17525/MT over the projected margin.

The Ministry endorsed (September 2003) the views of the Management who accepted abnormal under utilisation of LPG Plant Usar due to less supply of gas by ONGC. It also stated that the option of shifting the plant to other area was being considered for optimum utilisation of the plant.

8.8.4 LPG Plant – Lakwa

GOI approved (October 1992) setting up of a LPG Plant at Lakwa in Assam at an estimated cost of Rs.232.30 crore. According to the Detailed Feasibility Report prepared by the consultants, Engineers India Limited, the plant was to have a capacity of processing 2 MMSCMD gas expected to produce 85000 Tons of LPG per annum. The project was to be completed by May 1996 but was delayed due to change in the original location by Government of Assam. The project was commissioned at a cost of Rs.247.93 crore in October 1998, i.e. with a delay of 29 months.

However, the plant could not operate at optimum level due to non-availability of adequate quality and quantity of gas, as the projections turned out to be incorrect. Resultantly, the maximum capacity utilisation, achieved in 2002-2003 was only 29.93 per cent without any likelihood of an improvement in production to bring it to the level of the capacity designed. Actual physical performance of the plant since its inception is tabulated below:-

Period/Year	Design para meter feed gas MMSCMD	Actual feed gas processed MMSCMD	Average butane content %age.	Total production of LPG (MT)	Capacity utilization %
1999-2000	2.00	0.65	2.28	24556	28.88
2000-2001	2.00	0.77	2.02	29150	34.29
2001-2002	2.00	0.79	2.01	29364	34.55
2002-2003	2.00	0.68	1.98	25441	29.93

The production loss for the four years as compared to projections (1999-2000 and 2000-2001) at 90 per cent capacity utilization and (2001-2002 and 2002-2003) at 100 per cent capacity utilization amounted to Rs.201.50 crore.

GOI had decided in March 1997 to transfer the project to Assam Gas Cracker Complex at a price to be determined by an independent agency for which the Bureau of Industrial Costs and Prices (BICP) was identified. The Union Cabinet decision for the transfer had neither been reversed nor implemented. The BICP had not fixed the sale price of the LPG plant (August 2003).

The Ministry endorsed (September 2003) the views of the Management who admitted the under utilisation of the plant. It also stated that various options for making the plant viable are under examination.

8.8.5 Pricing of LPG

Natural gas is the raw material for production of LPG. The power required for the LPG plants is also generated from the captive power plant using Natural

Gas as fuel. The raw material cost and fuel cost constituted about 90 per cent cost of production of LPG. Thus cost of production of LPG is directly related to the price of Natural Gas fixed by the Government.

From October 1997 onwards the price of Natural Gas was fixed quarterly by the Government linking it to the international prices and subject to other conditions in the pricing order of September 1997. The ex-factory price of LPG was decided by Oil Co-ordination Committee taking into account the import price of LPG and various other factors. When the Government fixed the price of Natural Gas based on the revised guidelines, at Rs.2150/1000 SCM in October 1997 the price of LPG at Vijaipur was Rs.4188.50/MT. During the period October 1997 to March 2003, the price of Natural Gas had gone up from Rs.2150 to Rs.2850 per 1000 SCM, an increase of about 33 per cent. During the same period the price of LPG has gone up from Rs.4188.50 per MT to Rs.15044 per MT, an increase of 259.17 per cent with intermittent fluctuations. This resulted in a gain of Rs.1294.71 crore in respect of Vijaipur Plant and Rs.51.96 crore in respect of Usar Plant during the period from April 1998 to March 2003. Thus failure on the part of Oil Co-ordination Committee to devise a suitable formula to link the price of Natural Gas with the price of LPG had resulted in an avoidable outgo from the Oil Pool Account.

The Ministry endorsed (September 2003) the views of the Management that the price of LPG is not linked with cost of production or feed stock (Natural Gas).

The reply confirmed the audit point that failure on the part of the Government to devise a suitable formula to link the price of Natural Gas with the price of LPG had resulted in avoidable outgo from the Oil Pool Account.

8.9 Other Topics

Rejection of the lowest bid

Bid for supply of Air Cooled Heat Exchangers by GEI Engineering (GEI) was first accepted by the Tender Committee and then rejected and work was awarded to next higher bidder at an additional cost of Rs.91 lakh. Bids were invited (April 1994) for supply of Air Cooled Heat Exchangers for LPG Recovery Project at Usar. The Consultants, Engineers India Ltd, (EIL), recommended for placement of order on GEI on the basis of techno-commercially acceptable lowest offer at an evaluated price of Rs.1.95 crore. Tender Committee of the Company examined (August 1995) the recommendation and observed that EIL had disqualified GEI in another purchase of the same item for UPPC Pata as the party did not meet the Bid evaluation criteria as per tender conditions. The Tender Committee, however, accepted (August 1995) EIL's recommendations for award of work to GEI after a categorical confirmation from GM (E&P), GAIL, that the 'recommendations for UPPC was a wrong one'. Subsequently, the Tender Committee met again in January1996 and reversed its earlier decision of August 1995, stating that GEI did not meet the bid evaluation criteria strictly in terms of NIT as intimated by EIL. The offer of GEI for Usar project was, rejected and the work was awarded to M/s. Bharat Heavy Plate and Vessels Ltd. (BHPV) at a price of Rs.2.49 crore. The departure of the Tender Committee from their earlier decision of August 1995 was not tenable because

EIL had clarified (November 1995) that though GEI did not meet the Bid evaluation criteria strictly as per the NIT, they were technically accepted and considered capable for execution of the work. A purchase order for the identical item had already been placed by the Company on this party for another LPG Plant at Lakwa.

The difference between the evaluated offer of GEI, which was rejected, and the corresponding evaluated offer (Rs.2.86 crore) of BHPV was Rs.91 lakh.

Thus, rejection of offer of GEI on technical grounds by one unit and acceptance by another unit (Lakwa) for supply of similar equipment was not justified and resulted in extra expenditure of Rs.91 lakh.

The Ministry endorsed (September 2003) the views of the Management that there was difference in the specification of the equipment and the criteria for evaluation in case of Lakwa and UPPC, Pata and Usar.

The reply is not tenable as the Company should have maintained consistency in its decisions in fixing the bid evaluation criteria for supply of similar equipment in different units.

8.10 Conclusion

Thus the Company set up LPG extraction plants at Usar and Lakwa at Rs.545.12 crore without an assured supply of the natural gas from ONGC resulting in underutilization of these plants. Absence of correlation in the Government policy for the pricing of Natural Gas and LPG resulted in undue benefit of Rs.1356.68 crore to the Company. Further due to lack of uniformity for Bid evaluation criteria for similar work, the Company rejected the lowest party and awarded the same work to other party causing an extra expenditure of Rs.91 lakh.

8.11 Recommendations

The Company should expedite its decision for making Usar and Lakwa LPG Plants viable either by shifting/transferring them or take immediate steps to avoid future recurring losses. Similarly the Government may explore the possibility of establishing linkages in the price of Natural gas supplied for the extraction of hydrocarbons with those of respective hydrocarbons to avoid undue margins to the producers.

CHAPTER : IX

Oil India Limited

Saurashtra Exploration Project

Highlights

Oil India Limited, engaged in oil exploration activities, decided to drill four exploratory wells [three in Saurashtra offshore under Saurashtra Exploration Project (SEP) and one in the North East Coast (NEC)] through turnkey contract.

(Para 9.1)

The Management selected M/s. Essar Oil Ltd (EOL) whose bid was technically rejected in the first round, however, it was subsequently technically accepted and it also happened to be the lowest. The contractor was found incompetent and incapable of performing the contractual obligation, thereby defeating the very purpose of drilling the wells.

(Paras 9.2 and 9.3).

Performance Guarantee Bond amounting to Rs.7 crore (US$ 2.22million) could not be encashed due to Stay Order of the Hon'ble High Court.

(Para 9.5)

Failure to terminate the associated services contract in time resulted in ayment of idle rental charges amounting to Rs.2.16 crore.

(Para 9.6)

Imprudent decision resulted in infructuous expenditure of Rs.74.03 crore apart from involving the Company in an arbitration case.

(Para 9.7)

9.1 Introduction

Oil India Limited (OIL) decided (July 1993) to drill four exploratory wells [one in North East Coast (NEC) under Bay Exploration Project (BEP), Orissa and three in Saurashtra Offshore under Saurashtra Exploration Project (SEP), Gujarat] through turnkey contract by deploying a contractor having experience in executing turnkey contract with technical capability, adequate expertise in co-ordinating other services and financial stability. The basic reason for this was to arrive at a conclusive decision about the presence of hydrocarbon in those areas, with minimum risk and time. Accordingly a global tender (two bid system) was invited (July1993).

9.2 Award of contract:

In response to the global tender, the following five bids were received.

i) M/s. Sonat Offshore Drilling Inc U.S.

ii) M/s. Essar Oil Ltd Bombay (EOL)

iii) M/s. Amer Ship Management Pvt. Ltd. Bombay (ASML)

iv) M/s. Larson & Tubro Ltd. Bombay (L&T)

v) M/s. Foramer, France,

Technical bids were opened in December 1993 and only two offers from the foreign bidders were found to be technically acceptable.

The Drilling department of the Company, on scrutiny of the technical bids of EOL, observed (February 1994) *inter alia* that the drilling unit offered by the party was earlier deployed twice by ONGC, and on both occasions it had utterly failed. The offered rig had not completed any well to the satisfaction of the operator during the past two years and that the rig with its equipment was not in a good condition. Since, EOL did not furnish a certificate from a reputed inspecting agency, as acceptable to the Company, an Inspecting Agency was appointed for inspection of the rig. Some deficiencies were pointed out in the inspection. Instead of rejecting the technical bid of the party, EOL was asked (April 1994) to submit necessary certificates regarding the drill worthiness of the rig within 10 weeks from the date of letter of intent (LOI) in the event of award of the contract in their favour.

However, a final decision could not be taken and a fresh opportunity was provided to all the bidders to offer any other alternative rigs, if they so desired, to match OIL's time schedule of operation. M/s. L&T and ASML availed of this opportunity and offered a rig conforming to the tender specifications while EOL offered the same rig. Nevertheless all the five bids were technically accepted and price bids were opened on 26 October 1994.

On evaluation, offered price of L&T was found to be the lowest. However, as there was confusion amongst the bidders about applicability of customs duty, revised price bids were called for, from all the five bidders. Four parties submitted (January 1995) the revised bids within the prescribed time limit. On evaluation, offer of EOL was found to be the techno commercially acceptable lowest offer at an estimated contract value of US$ 29.7 million (Rs.93.67 crore) and an agreement was executed on 8 May 1995.

Thus, the Management despite being aware of the unsatisfactory performance of the rig provided to ONGC and deficiencies in the inspection report of the rig, awarded the drilling contract to the EOL.

The Management stated (December 2001 and March 2003) that the Drill ship Essar Discoverer had successfully completed many wells in various parts of the world. The Drill ship was fully drill worthy and experienced technical personnel were deployed. The Management, however, could not furnish details of wells drilled by the Drill ship. Further the Management's reply of March 2003 indicated that various operational inefficiencies were noticed during execution of the contract.

9.3 Performance of the contractor

The first well (L_2, SEP-I) was spudded on 14 June 1995 but the drill rig could not drill beyond 120 metres and therefore, it had to be respudded on 20 June 1995. While evaluating the contractor's performance in drilling the first well, the Company's advisor (operation) viewed (February 1996) that the technical expertise of EOL was found to be of poor quality and they could not drill and complete the well as per turnkey commitment.

A technical team comprising experts of ONGC was appointed for the technical audit of well (L_2 SEP-I) which pointed out (March 1996) several operational deficiencies and lack of expertise of the contractor. The report was further scrutinised by a Technical Committee of the Company which observed (June 1996) that the contractor had not carried out the operations as per the contractual obligation and thus failed to provide a good hole as per good oil and gas field practice that were required to arrive at a conclusive production test result. The Committee suggested that full charges may not be paid to the contractor but some compensation could be paid.

General Manager (Strategic Planning) also observed that the well-drilled (L_2 SEP-2) was ovargauage and without proper cementation and led to inconclusive production testing. For these reasons, completion charges (Rs.7.77 crore) were not payable to the contractor. However, the payments in respect of well no L_2 and L_3 (SEP-I, II) were released on the basis of a Note (dated 11 July 1996) of Director (E&D).

Surprisingly, instead of taking proper safeguard against future adverse financial implications the Management permitted EOL to drill the subsequent wells. The third well was completed on 16 July 1996. The contractor's performance in the next wells (i.e. L_3 SEP-II and L_4 SEP-III) was also not to the satisfaction of the Company and the three wells which were to be completed in a time schedule of 183 days, actually took 404 days.

Thus, the Management in spite of the adverse comments on the performance of the contractor made by various experts/technical personnel of the Company from time to time released payments to the contractor. The Management stated (December 2001) that the objective for which the well was planned was achieved. Both SEP-I and II (i.e. L_2 and L_3) were targeted mainly for shelf margin carbonate buildup with reefs developed in Eocene/Oligocene sequences. The said wells were tested, and an analysis of a sample of SEP-I and II (L_2 and L_3) indicated presence of hydrocarbon gas (C1 to C4) along with H_2S gas (up to 6000 PP) in one of the zone tested in SEP-I (L_2). The reply of the Management is not tenable since it is not supported by any documentary evidence and differs from the views of Technical Committee and technical experts. The production testing was not conducted in the 3rd well (L_4 SEP-III) because no evidence of hydrocarbon was observed.

9.4 Termination of contract

The contractor was to mobilize the rig to the next location i. e. L_1 in NEC by 31 July 1996 (i.e. within 15 days from the completion of last well at SEP). The EOL requested (3 September 1996) the Company to obtain the necessary clearances from the Defence Research and Development Organization (DRDO)/Naval clearances etc. although, as per terms of the contract, it was the contractor's responsibility. In the meanwhile, EOL mobilized some of the equipment to the said location in NEC on 24 September 1996. Incidentally, DRDO intimated on 3 September 1996 that they would not allow drilling in NEC. Surprisingly, the Company informed EOL to start work in L_1-NEC well on 1 October 1996. However, the contract was ultimately terminated by OIL on 12 October 1996 on the ground of contractor's incompetence and incapability of performing his obligation under the aforesaid contract. The contractor went in for arbitration in January 1997 with a claim of Rs.110 crore for non-payment of work done, interest on delayed payment, unauthorized deduction and wrongful breach. The contractor also filed an application (October 1997) seeking an interim award and the Arbitrators rejected the same in March 1998. The arbitration proceedings have been completed and final award is awaited (September 2003).

9.5 Non-encashment of performance bond

In terms of Article 28 of the agreement, the contractor submitted a performance bond US $ 2.22 Million (equivalent to Rs.7.00 crore @ Rs.31.54 per dollar as on May 1995) in shape of Bank Guarantee. Consequent upon termination of the contract the bank guarantee could not be invoked due to the Stay Order of the Hon'ble High Court dated 17 October 1996. The final decision of the Court is awaited.

9.6 Other points of interest

Award of work associated/supporting services

In order to undertake extension and exhaustive production testing required for ascertaining the presence of hydrocarbon which was of paramount importance to OIL and was the main purpose of the entire drilling programme Management decided (1994) to exclude some supporting/associated services viz, Wire line logging, Production testing, and Drill stem testing (DST) from the scope of Turnkey Drilling contract. M/s. Schlumberger Asia Services Limited, a contractor was selected by limited tender and the work of above mentioned services was awarded (April 1995) to the said contractor for an estimated contract value of US$ 32,63,232 equivalent to Rs.10.63 crore.

The associated service contract expired on 7 June 1996 which was further extended for two months or till the completion of the last well in SEP whichever was earlier. The last well was completed on 16 July 1996 and thus the said contract automatically came to end on the same day (i.e. 16 July 1996). However, the project management without ascertaining the prospect of further drilling in NEC area, advised (26 July 1996) the service contractor to keep all the necessary tools, equipment, personnel etc. on board the drillship. The contractor informed the project that they were complying with the instruction on the condition of charging rental for the same. Even though, the fact of non-clearance by DRDO and termination of the drilling contractor was well known, the Management did not react promptly to terminate the associated service contract. This resulted in payment of idle rental charges of US$ 5,36,511 equivalent to Rs.2.16 crore (@ 40.19 per Dollar) for the period from 18 July 1996 to 28 December 1996. It was only on 14 October 1996 that a demobilization notice was issued to the contractor as the turnkey drilling contract was terminated on 12 October 1996. According to the provision of the service contract demobilization was to be completed within 7 days after the contractors equipment was unloaded at Okha/Paradeep Port from the drillship and demobilization charges were to be paid on submission of, amongst others, documents the proof of re-export of all equipment imported for the purpose. However, without obtaining any such documents/proof of payment of US$ 218300 (Rs.87.74 lakh) as demobilisation charges was released to the contractor.

9.7 Conclusion

The Management was aware of the unsatisfactory performance of the rig at the time of technical evaluation of the bid, which was further proved by the performance of the contract, that EOL was incapable of fulfilling the contractual obligation. The above notwithstanding, they continued the contract and ultimately, were compelled to terminate the same.

The Management also failed to exercise an option under the Bank Guarantee to invoke performance bond during the execution of the contract wherever they observed unsatisfactory performance.

In view of the above, the decision to award the drilling work to the EOL was imprudent. Such a decision resulted in infructuous expenditure of Rs.74.03 crore (Rs.58.12 crore Drilling+Rs.15.91 crore associated service) apart from involving the Company in an arbitration case, the financial implication of which is unknown.

The review was issued to the Ministry in May 2003; their reply was awaited (October 2003).

MINISTRY OF RAILWAYS

CHAPTER : X

Container Corporation of India Limited

Operational Performance of Container Terminals

Highlights

Shortfall in handling the traffic increased from 0.37 per cent in 1998-99 to 14.63 per cent in 2002-03 as compared to projections made in the corporate plan, indicating under performance of the terminals. The corporate plan has not indicated the terminal-wise targets. Nor has the Company fixed capacity of individual terminals. In the absence of the terminal-wise targets/capacity, the aspect of capacity utilisation of individual terminals could not be analysed.

(Para 10.4)

The Company's business from international traffic was mainly from the Northern region ranging up to 49 per cent during the last five years ended 31 March 2003. While contribution from the Western and Southern regions decreased from 25 to 21 per cent and 18 to 13 per cent respectively during the last five years, the Central, South-Central and Eastern regions contributed less than 5 per cent and the North-Western region contributed less than 10 per cent.

(Para 10.5.1)

Even after a decade of its existence and creation of a separate domestic division in 1998, the Company was yet to justify existence of domestic container terminals at many places. The Company's business from domestic traffic was mainly from Northern, Southern and Eastern regions, which ranged between 67 and 80 per cent with reference to the total TEUs handled by the Company.

(Para 10.5.2)

Delay in taking decision for reconditioning/repairing the old reach stackers has resulted in avoidable payment of hire charges amounting to Rs.1.31 crore to a contractor.

(Para 10.6.2)

The contract for hiring of loaded reach stackers for ICD, Tughlakabad was awarded without giving equal opportunity of offering financial assistance for purchase of machines to all the bidders.

(Para 10.6.3)

The Company did not maintain the records indicating the time during which machines actually worked or remained idle. Accordingly, the period of breakdowns was counted towards free maintenance time, resulting in extra payment to the contractor by Rs.69.04 lakh.

(Para 10.6.6)

The Company deployed excess machines during the period from 1997-98 to 2000-01 based on 9 moves per hour as compared to 12 moves per hour as suggested by the technical adviser. This has resulted in an excess payment of hire charges amounting to Rs.4.74 crore.

(Para 10.6.7)

The Company awarded the work of handling and transportation of containers at its New Muland terminal on negotiation basis, without inviting tenders.

(Para 10.6.10)

The Company released interest bearing advance totaling Rs.12.04 crore for procurement of container handling equipment for ICDs at Whitefield, Coimbatore, Tondiarpet and Harbour of Madras, without securing any concession in the rates as was obtained in the case of Tughlakabad terminal.

(Para 10.6.12)

The Company paid extra-contractual escalation to the tune of Rs.88.02 lakh to the contractors.

(Para 10.6.13)

The Company has not framed guidelines regarding waiver of ground rent despite instructions given by its BODs in April 2000.

(Para 10.7)

10.1 Introduction

Container Corporation of India Limited (Company) under the administrative control of Ministry of Railways (Ministry) was incorporated as a Government Company in March 1988 for providing multimodal transport to international and domestic cargo within the country and abroad by all modes (viz. road, rail, sea, air etc.).

The Company commenced its operations in November 1989 by taking over seven existing inland containers depots (ICDs) from Indian Railways located in New Delhi, Bangalore, Ludhiana, Amingaon, Guntur, Anaparti and Coimbatore. As on 31 March 2003, the Company had 44 ICDs (of which 23 also served as domestic container terminals) and seven exclusive domestic container terminals (DCTs) situated in different parts of the country.

10.2 Organisation set up

Managing Director (MD) is the executive head of the Company. He is assisted by four full-time Functional Directors looking after projects and services, international marketing and operations, domestic traffic and finance. Regional/Chief General Managers look after operations of container terminals in seven regions viz. Northern, Southern, Eastern, Western, Central, North-Western and South-Central.

10.3 Scope of Review

The operation of the container terminals include container handling, stacking, and despatch/clearance. The review analysed performance of these activities during the last five years ended 31 March 2003.

Results and recommendations of the audit have been featured in succeeding paragraphs:

10.4 Performance of Terminals as compared to Corporate Plan

The Company prepared the corporate plan for five years ending March 2003. Following table indicates the achievements in respect of international and domestic traffic against the projections made in the corporate plan, in terms of twenty feet equivalent units (TEUs) handled by the Company during the last five years:

(Lakh TEUs)

Years		Planned	Actual	Shortfall	Shortfall (per cent)
1998-99	International	5.80	5.77	0.03	0.52
	Domestic	2.25	2.25	-	-
	Total	**8.05**	**8.02**	**0.03**	**0.37**
1999-00	International	7.00	6.64	0.36	5.14
	Domestic	2.60	2.39	0.21	8.08
	Total	**9.60**	**9.03**	**0.57**	**5.94**
2000-01	International	8.40	7.53	0.87	10.36
	Domestic	3.10	2.92	0.18	5.81
	Total	**11.50**	**10.45**	**1.05**	**9.13**
2001-02	International	10.00	9.05	0.95	9.5
	Domestic	3.60	3.27	0.33	9.17
	Total	**13.60**	**12.32**	**1.28**	**9.41**
2002-03	International	12.00	10.32	1.68	14.00
	Domestic	4.20	3.51	0.69	16.43
	Total	**16.20**	**13.83**	**2.37**	**14.63**

It may be seen that shortfall in handling the traffic gradually increased from 0.37 per cent in 1998-99 to 14.63 per cent in 2002-03 as compared to projections made in the corporate plan indicating underperformance of the terminals throughout the corporate plan period.

The corporate plan had not indicated the terminal wise targets. Nor has the Company fixed capacity of individual terminals. In fact, its Board of Directors (BODs) decided (April 2000) not to fix the capacity in view of practical problems in deciding the same, which depended upon factors like time taken for clearance of containers by customers and customs department being outside its control. As the capacity of each terminal was not fixed, the aspect of capacity utilisation of individual terminals could not be analysed.

The Company was required to pay lease charges at the rate of Rs.130/Rs.80 per container in respect of number of containers handled up to the designed capacity of the terminals and at the reduced rate of Rs.50 for containers handled beyond the designed capacity of the terminal. Accordingly, the Company could not get the benefit of reduced lease charges due to non-fixation of capacity of terminals.

In respect of 16 terminals, established at a cost of Rs.52.84 crore after 1997-98, operational performance as compared to the projections made in the feasibility reports revealed (Annexure-15) that 11 terminals could not achieve the projected performance levels. The performance of terminals at Madurai, Miraj, Balassore and Bhusaval was very poor. It is observed that the Company did not make any assessment of return on the investments, even though its

BODs had directed (December 1999) to review post-commissioning Internal Rate of Return (IRR).

The Management stated (September 2003) that the Company has been achieving the targets as per Memorandum of Understanding (MOU) signed with the Ministry every year and as the IRR of projects was normally assessed over a period of 20 years, it was not proper to assess the post commissioning IRR over a short period which would always be lower in the beginning of the period. They added that the traffic at various terminals (Malanpur, Balassore, Vadodra, Miraj, Bhusawal and Aurangabad) could not pick up because of, *inter alia*, closure of some major companies in that area, absence of CFS facilities, delay in getting permission for duty entitlement benefits and narrow approach road.

The reply is not acceptable as inspite of meeting the MOU targets, the performance of some of the terminals was far behind the projected performance. Further, the Management has not informed the BODs regarding not assessing the post-commissioning IRR.

10.5 Performance of container depots

The container traffic consists of international traffic between ports and Inland Containers Depots/Container Freight Stations (CFSs) and domestic traffic within the country. The operations of the terminals mainly involve handling of containerised cargo including stacking, loading and unloading of containers and providing warehousing facility. Performance in respect of international and domestic traffic handled by the Company is discussed below:

10.5.1 International Traffic

The actual performance of various ICDs/CFSs during the last five years ending March 2003 is furnished in Annexure-16. Region-wise performance is given below:

Region	No. of ICD as on 31 March 2003	1998-99	1999-2000	2000-01	2001-02	2002-03
Northern	11	248225	295876	340006	427572	505884
Western	8	145276	152489	159590	186646	216808
North-Western[1]	4	42762	46752	62805	88755	82362
Central	3	14830	21168	28919	40418	47503
Southern	8	102241	120734	130217	127868	135095
South-Central	4	11452	14541	17246	20762	24290
Eastern	6	12004	12930	14709	13037	19983
Total	**44**	**576790**	**664490**	**753492**	**905058**	**1031925**

It may be seen that:

(i) The Company's business was mainly from Northern region ranging from 43 to 49 per cent during the last five years ended 31 March 2003.

(ii) While all the regions have registered annual growth during the last five years ended 31 March 2003, the contribution from Western and

[1] ***North-Western region was created out of the Western region in 2001-02. Figures relating to the earlier years were worked out based on the performance of Ahmedabad and Kandla ICDs***

Southern regions decreased from 25 to 21 per cent and 18 to 13 per cent respectively. In respect of Central, South-Central and Eastern regions, the contribution was less than 5 per cent and it was less than 10 per cent in case of North-Western region during the same period.

(iii) The Company's business was mainly from 5 ICDs[2] on North India-Mumbai corridor, which ranged between 61 and 67 per cent with reference to the total TEUs handled by the Company. In respect of the remaining ICDs, percentage of business ranged between 33 and 38 per cent of the total TEUs handled

(iv) The Company's business had completely eroded at four ICDs viz., Anaparti, Guntur, Wadibunder and Chirala. The performance at Guntur did not improve despite additional investment of Rs.2.57 crore in 2000-01. Besides, its business had also gone down at Tondiarpet, Ballabhgarh, Pune, Milavittan, Cochin and Amingaon ICDs and business at Madurai, Balassore and Rajkot could not pick up even after 2-3 years of their commissioning.

The Management stated (March 2002) the infrastructure at Anaparti, Chirala and Guntur was not developed in view of the same being dependent on business from single party and reduction in traffic at Wadibunder was due to the fact that requirement was being met by New Goods Shed, Mulund and Jawahar Lal Nehru port directly. The Management accepted (September 2003) that ICD, Pune was commissioned without a CFS while the trade wanted the facility of a warehouse. They added that the ports in the Eastern region were struggling to attract container business from shipping lines and in the Southern region, the Company continued to face competition from private transporters.

The fact, however, remains that even after a decade of its existence the Company was dependent on Northern and Western regions for most of its business from international traffic and has not taken effective steps to improve the contribution from the other regions.

10.5.2 Domestic Traffic

The Company declared 30 terminals as domestic terminals for carrying containerised cargo. Of these, 18 terminals were commissioned during the last five years (one in 1998-99, two in 1999-2000, four in 2000-01, eight in 2001-02 and three in 2002-03). Number of TEUs handled terminal-wise, during the last five years ending 31 March 2003 are furnished at Annexure-17. Region-wise performance is given below:

---

[2] ***Tughalakabad, Mulund, New Mulund, Ahmedabad and Ludhiana***

Region	No. of DCTs as on 31 March 2003	1998-99	1999-00	2000-01	2001-02	2002-03
Northern	9	84719	92524	110907	124688	143607
Western	3	33530	25438	21241	17515	18865
North-Western[3]	2	13924	18281	24477	30250	19974
Central	3	20344	3986	4373	7421	8304
Southern	4	30297	46988	56518	64312	70316
South-Central	3	6238	7597	17149	22617	23020
Eastern	6	36104	43847	57055	59972	67152
Total	**30**	**225156**	**238661**	**291360**	**326775**	**351238**

It is seen that

(i) The Company's domestic business with reference to the total TEUs handled was largely from Northern, Southern and Eastern regions, ranging between 67 and 80 per cent.

(ii) The domestic business was mainly carried out by the 3 DCTs[4], which ranged between 30 and 41 per cent with reference to the total TEUs handled. The remaining DCTs had contributed 14 to 38 per cent of the total TEUs handled. Besides, the Company had carried out the domestic goods traffic from ad hoc points, to the extent of 22 to 56 per cent;

(iii) The Company's performance has been very poor in the DCTs situated at Vadodra, Guntur, Moradabad , Kanpur, Madurai, Aurangabad, Agra, Bhusawal, Balassore and Miraj.

The Management stated (March 2002) that efforts were being made to expand the market around Guntur and Madurai and that Wadibunder being highly congested one, traffic from/to Mumbai is being encouraged at Turbhe. They further stated (September 2003) that these terminals were combined ones and no specific investment was made for creating facilities exclusively for handling domestic business.

The reply is not acceptable, as even after a decade of its incorporation and creation of a separate domestic division in 1998, the Company was yet to justify existence of DCTs at many places. Further, the Company had to create separate facilities even in the combined terminals for domestic and international operations in view of notified customs bonded area required for international operations.

10.6 Shortcomings in handling of containers

10.6.1 Handling of containers is a major activity at terminals, which requires number of machines/equipment like Rail Mounted Gantry Crane (RMG), Rubber Tyre Gantry Crane (RTG), Loaded Reach Stackers (LRSTs) and Empty Reach Stackers (ERSTs). Ensuring availability of machines/equipment

---

[3] *North-Western region was created out of the Western region in 2001-02. Figures relating to the earlier years were worked out based on the performance of Kankariya and Vadodra DCTs*

[4] *Delhi, Tondiarpet and Kankaria*

in good working condition and their efficient use is very vital for achieving maximum operational efficiency in handling of containers. The Company has been handling containers through its own men and machines, as well as through hired machines to be operated by the contractors based on fixed monthly rate or on number of containers handled. While ICD, Tughlakabad (TKD) uses both owned and hired RSTs, the other terminals use only hired RSTs. The following table indicates the Company's owned handling equipment deployed at ICD, TKD as on 31 March 2003:

Handling Equipment	Number	Cost (Rs. in crore)
Rail Mounted Gantry	2	14.64
Rubber Tyred Gantry	4	33.94
Loaded Reach Stacker	6	7.63
Empty Reach Stacker	1	0.53

The shortcomings in carrying out operations in three regions are discussed below:

Northern region

10.6.2 Avoidable payment of hire charges

Owing to frequent breakdowns since their commissioning in 1994, two Belloti-make RSTs were grounded in September 1997 and April 1999. After 30 months and 11 months of their being grounded, the Company decided (March 2000) to recondition the same. The RSTs were recommissioned in February and September 2001 respectively at a cost of Rs.93.78 lakh. Considering normal time frame of six months for award of contract, the delay of 24 months and 5 months in taking decision of reconditioning the RSTs has resulted in avoidable payment of hire charges amounting to Rs.1.31 crore to a contractor.

The Management stated (September 2003) that as reliability of these RSTs had gone down, the same had been grounded and subsequently it was decided to re-install the same due to increase in workload. The reply is not acceptable, as the Company should have repaired the RSTs earlier so as to save the hire charges.

10.6.3 Award of contracts for hiring of Loaded Reach Stacker

The Company opened (April 1996) tenders of 11 parties for hiring two LRSTs for a minimum period of two years at ICD, TKD. As desired (May 1996) by the MD, revised rates were called for a period of two/three years for two/four LRSTs, against which four parties submitted their revised bids along with earnest money. Tender Evaluation Committee (TEC) rejected offer of the first and third lowest bidders on technical grounds and recommended offer of the second lowest bidder for acceptance, who, however, requested (July1996) to consider increase in hire charges due to hike in diesel price. The Company, without considering the pros and cons, cancelled the order, and held negotiations with the last bidder, who also refused to work at the lowest rate of Rs.6.49 lakh and offered a monthly rate of Rs.6.70 lakh per LRST, which was accepted by the TEC.

However, when the MD held further negotiations and offered 85 per cent as loan at 18 per cent rate of interest for the purchase of three LRSTs, the bidder reduced the monthly rate to Rs.6.15 lakh per LRST. Though the TEC opined (August 1996) that this was a deviation to the tender conditions, the MD asked it to give its clear recommendation. The TEC was left with no alternative but to accept the directions of the MD and recommended to accept the rates as approved by the MD. Accordingly, agreement with M/s. Dewanchand Ramsaran (contractor), effective from December 1996 to December 1999, was executed in March 1997. Thus, the contract was awarded violating the tendering procedure, without giving equal opportunity to all the bidders.

The Management stated (September 2003) that the decision to award the contract was taken by the competent authority (MD) who had assigned the reasons for awarding the contract. The scrutiny of approval note, however, revealed that no reasons were on record for not offering the loan to other bidders for financing the machines.

10.6.4 Award of contracts for hiring of Empty Reach Stacker

For deployment of two ERSTs to handle empty containers at ICD, TKD, the same contractor was awarded (April 1997) contract at a monthly rate of Rs.3.93 lakh per ERST for a period of three years for which no original records were made available to audit. Scrutiny of photocopy of the records revealed that copies of Notice Inviting Tender were not available, tender opening committee was not nominated and offers received were not initialled with date by the concerned officials at the time of opening the tenders. The Management stated (September 2003) that it was an open tender and all cautions were taken while awarding the contract. However, in the absence of the above records, it could not be ensured as to whether proper tendering system was followed for award of this contract.

10.6.5 Extension of contracts

The same contractor was awarded the similar works for ICD, TKD for the period April 2000 to April 2003 on single financial bid basis (at Rs.6.50 lakh and Rs.3.98 lakh for handling loaded and empty containers) with the approval of Director (Marketing and Operations). However, the sub-delegation empowering the Director (M&O) by the MD was not reported to the BODs as required under article 68(2) of the Articles of Association.

The Management stated (September 2003) that the contract was finalised on the basis of open tenders as 4 technical bids were received for LRSTs and 3 bids for ERSTs, though ultimately only one party was found technically fit. However, it is not clear as to how reasonableness of the rates at which the contract was awarded was ensured by the Company in view of the fact that the rates were called for four year old machines, whereas earlier rates of the same contractor were applicable for one year old machines.

10.6.6 Maintenance of hired reach stackers

As per the agreement of March 1997 for hiring LRSTs, the contractor was permitted a total of 48 hours for maintenance of each LRST during a month. For non-availability of LRST beyond the maintenance period of 48 hours in a month, pro-rata deduction was to be made up to 96 hours and at a rate of Rs.1400 per hour in case of non-availability of the machine exceeding 96 hours. As per another agreement of April 1997 for hiring ERST, deductions were to be made at the rate of 1.5 times the pro-rata rate in the event of non-availability of ERST for more than 96 hours.

In subsequent contract of March 2000, free time for cooling, preventive maintenance and breakdown was raised to 172 hours per month. This was necessitated because of the Company's decision to accept machines up to 4 year old, while machines up to one year old only were accepted earlier from the same contractor. Moreover, the penal rate of 1.5 times was also reduced to 1.25 times in case of non-availability of machine in excess of 172 hours.

It is observed that the Company did not maintain the records indicating the time during which machines actually worked or remained idle. In the absence of this, the period of breakdowns had been counted towards free maintenance time. As a result, the contractor was benefited by Rs.69.04 lakh[5].

The Management, while accepting that no record for free maintenance time was kept and the period of breakdown was counted towards free maintenance time, stated (September 2003) that the contracts have been designed to require the availability of machines and their idle time was not effectively available for the contractor to carry out any maintenance. They added (September 2003) that the Company did not favour any single party as relaxing of conditions in the contracts was offered to all the parties, which was necessitated due to irregular breakdown, noticed in the earlier contract, owing to lack of proper scheduled maintenance.

The reply is not acceptable, as with proper operational planning the machines could be spared by rotation for maintenance. Further, it is not clear as to why the Company hired older machines requiring higher maintenance hours when its business was growing.

10.6.7 Avoidable payment of hire charges

While assessing the requirements of handling machines, the Company has considered (March 1996) that the machines would perform 12 moves per hour on an average. The contract agreement, however, required the contractor to perform a minimum of nine moves per hour. Accordingly, 7 to 9 machines were deployed, which was in excess of monthly requirement, based on the average 12 moves per machine, to the extent of 1 to 4 machines during the period from 1997-98 to 2000-01. This has resulted in an excess payment of hire charges amounting to Rs.4.74 crore.

The Management stated (February 2002) that the minimum of nine moves per hour was based on average expected performance of the machines taking into account various factors such as the location of the machine, availability of wagons, etc. They also contended that the number of moves was reduced to 9 per hour, as RSTs can never achieve 12 moves under real conditions.

The reply is not tenable in view of the fact that the technical advisor of the Company had suggested to take at least 12 moves per hour after taking into account all pros and cons. Further, the Company has increased minimum moves per hour to 10 in a subsequent agreement (March 2000).

[5] ***worked out for 25 months test checked from April 1997 to March 2000***

10.6.8 Stack operations

The import containers received at the ICD are stacked at import stacks before they are got cleared by customers. As on 31 March 2003, there were 750 containers awaiting clearance of the customs department for more than one year. The un-cleared containers were mingled with other regular containers in various stacks, causing unnecessary handling of these containers. A test check of handling of such containers (10 per cent) during January 2000 to March 2003 revealed that on an average, 55 infructuous moves were made by these containers (i.e. shifting between various locations/stacks) which not only resulted in wasteful deployment of machines but hampered operational efficiency. Further this has also resulted in avoidable expenditure of Rs.41.25 lakh.

The Management stated (September 2003) that on arrival it was not known which containers would remain un-cleared due to various reasons and earmarking of separate space to avoid multiple handling would amount to wastage of precious space in an already congested terminal. The reply is not acceptable, as unnecessary handling of un-cleared containers could have been avoided by assigning some rows in the existing stacks for containers which remained un-cleared for a particular time limit.

10.6.9 Dwell time

Dwell time refers to the turn around time of containers i.e. the overall time taken for various activities of the import/export cycle like destuffing/stuffing, booking, unloading/loading and removal/despatch, etc. It is observed that the average turn around time of export containers at ICD, TKD during the last three years ending March 2003 had increased from 51 hours in 2000-01 to 57 hours in 2002-03. This was mainly attributed to increase in the overall turn around time of CFS stuffed containers from 24 hours to 36 hours.

The Management stated (September 2003) that the increase in dwell time was due to shortage of railways wagons. The reply indicated the Company's failure in inducting wagons as per the requirement.

Western region

10.6.10 Award of contract for handling and transportation operations at Mulund (East)

The Company awarded (September 1998) the work of handling and transportation of containers to M/s. Indira Rashtriya Kamgar Sahakari Society Limited (IRKSS) at its New Muland terminal for four years on negotiation basis, without inviting tenders. The Management stated (February 2002) that M/s. IRKSS was engaged on single tender basis to avoid 'mafia' element (i.e. threat of organised gangs adopting negative labour practices) from capturing handling and transportation operations at Mulund. The fact, however, remains that this was in violation of the procurement process.

10.6.11 Performance of the contractor

It is observed that while the agreement included details of only handling equipment, it did not make any mention of the transportation equipment required to be held by M/s. IRKSS. To carry out various operations at the terminal, M/s. IRKSS engaged (September 1998) a sub-contractor M/s. Seaport Container Terminal Private Limited with the approval of the Company. As performance of the sub-contractor was not up to the mark, another contractor M/s. National Freight Carriers (NFC) was engaged for transport operations, due to which the profit margin of the Company was reduced by Rs.340 per TEU between September 1998 and January 1999 and Rs.140 per TEU between May 1999 and February 2000. This alternate arrangement had resulted in loss of margin of Rs.22.62 lakh, which was, however, not recovered from M/s. IRKSS.

From March 2000, the Company discontinued services of M/s. NFC and again allotted the work of transportation to M/s. IRKSS under the revised scheme at rates which were higher by Rs.250 per TEU in comparison to the rates of September 1998, even though the earlier agreement was for a period of four years. Up to March 2001, the Company got transported 15331 TEUs through M/s. IRKSS under the revised scheme thereby extending extra benefit to M/s. IRKSS to the extent of Rs.38.33 lakh.

The Management stated (September 2003) that it was originally envisaged to have rail movement of import containers and from September 1998 onwards, there was demand for road movement on account of limited capacity of rail movement. Since M/s. IRKSS was not able to cope-up with the trailer requirement, a totally different scheme was introduced and operated through M/s. NFC. Further, there was no specific time frame fixed within which containers were to be moved by M/s. IRKSS.

The reply is not tenable because the Company failed to properly assess the mode of transportation to be used, i.e. rail or road especially considering the advantages of road transportation in view of the short distance involved. It also failed to assess the capacity of M/s. IRKSS to carry out road operations, which necessitated introduction of the revised scheme.

Southern region

10.6.12 Award of work of handling and transportation of containers

The work of handling and transportation of containers at ICD, Whitefield-Bangalore was awarded to M/s. Vikram Associates Private Limited (M/s. VAPL) with effect from 1 April 1993 for a period of five years. M/s. VAPL was also awarded similar work for ICDs, Coimbatore, Tondiarpet and Harbour of Madras, (HOM) for a period of five years with effect from 16 July 1993, 1 June 1994, and 24 August 1994, respectively. The duration of contract for all these four ICDs was extended (December 1995) to 10 years to enable the contractor for inducting heavy specialised equipment like Reach Stackers, Cranes, Trailers, etc.

The following shortcomings in award and execution of contracts were noticed in audit:

(i) The contract for HOM terminal was awarded at prevailing rates applicable for Tondiarpet terminal without calling tenders.

(ii) The Company released interest bearing advance totaling Rs.12.04 crore for procurement of heavy container handling equipment without securing any concession in the rates as was obtained in the case of Tuglakabad terminal.

(iii) The Company lost the benefit of competitive rates by simply extending the contract without calling fresh tenders. It is observed that M/s. VAPL quoted (May 1999) lower rates for similar type of work at CFS, Tuticorin, in spite of inflationary market trend.

The Management, while confirming the facts, stated (September 2003) that the HOM operations were considered as a natural extension of Tondiarpet and calling for fresh tenders could have led to higher rates and that the decision to grant advance to M/s. VAPL was made as a marketing strategy to secure lasting benefits from the usage of sophisticated equipment. They also contended that the rates at TKD were equipment based while in Southern Region the rates were per container and comparison of rates at Tuticorin with that of other places in Tamil Nadu was not correct in view of the difference in labour cost.

The reply is not acceptable as the assumption that fresh tenders would result in increase in rates is hypothetical and the Company has foregone an opportunity to take advantage of reduction in cost due to increase in volume of work. Further, the decision to grant advance should have been at a pre-tender stage, so as to provide a level playing ground for all the tenderers. Moreover, the comparison has been made in respect of the rates for Tuticorin prevalent in different years and not with other places in Tamil Nadu.

10.6.13 Payment of extra-contractual escalation to the contractors

Though the agreement for the work of handling and transportation of containers in Whitefield did not include any escalation clause, the escalation claims were entertained by the Company.

Further, according to the agreements for Coimbatore, Tondiarpet and HOM terminals of Southern Region, escalation was permissible only after a minimum period of 24 months. However, the Company sanctioned 3rd escalation (w.e.f. December 1999/February 2000) within 8 to 10 months of the 2nd escalation (April 1999) and paid escalation to the tune of Rs.81.86 lakh. Similarly, the Company paid escalation to the tune of Rs.6.16 lakh, w.e.f. July 2000, to M/s. Kumar Transporters, though it was payable only after May 2001. Thus, the Company extended extra-contractual benefit to the tune of Rs.88.02 lakh.

The Management stated (September 2003) that escalation w.e.f. December1999/February 2000 was paid on account of specific circumstances necessitated by an abnormal hike of over 35 per cent in the HSD prices in October 1999, which had affected all the contracts badly. The reply is not acceptable, as escalation was not permissible before the lapse of 24 months and another contractor M/s. Villavarayar & Sons who were awarded the work of handling and transportation at CFS, Tuticorin around the same time (July 1999) continued to work at the contractual rates.

10.7 Waiver/refund of ground rent/wharfage

The details of waiver/refund of ground rent/ wharfage by the ICD, TKD during the last 5 years ended 31 March 2003 are as under:

(Rs. in lakh)

Year	Waiver	Refund	Total
1998-99	87.48	10.02	97.50
1999-00	73.90	23.26	97.16
2000-01	21.48	27.18	48.66
2001-02	50.37	135.16	185.53
2002-03	102.09	10.06	112.15

A test check of records at ICD/TKD revealed the following:

(i) As per the corporate office instructions of April 1991, a detention certificate by the customs department did not by itself tantamount to a claim or justification for waiver and if excessive time/detention was on party's account, requests for waiver should not be considered. However, the Company has invariably allowed the waiver on these grounds and has not insisted on recording the reasons of excessive time/detention by the customs.

(ii) In a number of cases, though the delay was purely on the part of the customers in filing bill of entry or demanding custom examination, the waiver/refund was allowed on general reasons of bad financial position of the party. In many such cases, the cargo was high value one and the justification on the ground of low value of cargo in relation to the ground rent did not hold good.

(iii) No time limit has been fixed for making application for refund. The refunds have been allowed on applications received even after 3-9 months from the cargo removal dates.

(iv) The ICD, TKD has been quite liberal in considering waiver requests and has considered 93 to 96 per cent of waiver requests cases favourably during the period April 1998 to July 2001. Though the BODs has given (April 2000) instructions for preparing guidelines regarding waiver of ground rent, the same has not been framed.

The Management stated (September 2003) that waivers and refunds were granted on several grounds to maintain cordial customer relations and that the analysis on the basis of number of application was misleading, as the percentage of the waiver amount to total terminal service charges was very low at 3.96 per cent during the year 2001-02. The Management has, however, not furnished reasons for not framing guidelines for grant of waiver in accordance with the BODs' instructions.

10.8 Conclusions

Even after a decade of its existence, the Company was dependent on Northern and Western regions for most of its business and has not taken effective steps to improve the contribution from the other regions. The Company neither fixed designed capacity of terminal, nor fixed the terminal-wise targets. Many of the terminals were yet to perform at projected levels. In the absence of terminal-wise targets/capacity, there was no effective system to assess the viability of these terminals. There were shortcomings in the award of contracts for hiring handling machines. The requirement of the machines was not properly assessed and the machines were not put to optimum use, which resulted in avoidable payment of hire charges of Rs.6.74 crore. Besides, the Company incurred extra expenditure amounting to Rs.1.90 crore on account of payment of extra-contractual escalation, adjustment of breakdown time against the free maintenance time, etc.

10.9 Recommendations

The Company needs to take effective steps to improve the performance of many of its terminals/regions. By fixing the terminal-wise targets, the Company can have better operational and financial control and decide the viability of continuance of terminals where the business was low. The system for hiring machines and putting the same to optimal use needs to be rationalised.

The review was issued to the Ministry in September 2003; their reply was awaited (October 2003).

MINISTRY OF SHIPPING

CHAPTER : XI

Hindustan Shipyard Limited

Shipbuilding Activities

Highlights

The core activity of the Company i.e., Shipbuilding became unviable and cumulative losses of the Company mounted to Rs.1103.43 crore as at 31st March 2003 with negative net worth of Rs. (-) 981.62 crore. It could, however, generate surplus in ship repair activity.

(Para 11.3)

Despite the Modernisation of Shipbuilding facilities at a capital cost of Rs.82.18 crore, enhancement of shipbuilding subsidy by Government of India and reasonable demand for ships, the order book position was only between 6.05 and 2.23 vessels during the years from 1995-96 to 2002-03, as against 10 to 12 vessels required for achieving the full capacity at any point of time.

(Paras 11.3, 11.4 and 11.5)

Ineffective marketing strategy of the Company led to failure to avail the opportunities that came its way.

(Para 11.4)

Though the enhanced capacity of shipbuilding at 6.5 pioneer vessels per annum was scaled down to 3.5 pioneer vessels per annum, the actual utilisation ranged between only 13.14 per cent and 41.71 per cent of the reduced capacity, during the year 1994-95 to 2002-03.

(Para 11.5)

The delays in delivery of all 12 vessels constructed and delivered during 1994-95 to 2002-03 ranged between 10 and 109 months which resulted in payment of liquidated damages (9 Vessels) of Rs.11.52 crore, besides additional expenditure (12 vessels) of Rs.4.73 crore towards Builders' Risk Insurance.

(Paras 11.6.1 and 11.6.2)

The Company sustained overall losses in the construction and delivery of all the 12 vessels and total loss amounted to Rs.306.16 crore. Further in 3 vessels, it suffered negative contribution by Rs.29.50 crore.

(Para 11.7)

Though there was excess manpower and low capacity utilisation, the Company sub-contracted/off-loaded certain jobs to outside agencies incurring an expenditure of Rs.24.73 crore during the years 1994-95 to 2002-03.

(Para 11.8)

Due to excess consumption of steel compared to the standard/designed consumption, the Company had to incur additional expenditure of Rs.4.05

crore in respect of 9 vessels.

(Para 11.9)

By not negotiating appropriately with a customer, the Company had to pay additional liquidated damages of Rs.4.52 crore in the case of Vessel-1135.

The Company agreed for TT buying rates as against the general practice of TT selling rates in the contract for Vessel-1135, and incurred a loss of Rs.81.73 lakh.

(Para 11.11)

While the Voluntary Retirement Scheme was under implementation with the Non-Plan Assistance by Government of India since May 1991, the Company enhanced (May 1998) the retirement age to 60 years from 58 thereby defeating the very purpose of reduction of manpower.

(Para 11.13)

11.1 Introduction

Hindustan Shipyard Limited (HSL) became a fully owned Government Company from July 1961. The Company's main activity is the construction and repairs of various types of bulk carriers, passenger vessels, tugs, etc. The Company diversified its activities by taking up construction of oil rigs/platforms, off shore patrol vessels for Indian Navy, non-ship building structural fabrication, etc. from 1983-84 onwards. Its activities were further diversified in 1997-98 when it started undertaking repair of submarines.

11.2 Scope of Audit

The performance of the Company for the period up to 1984-85 was reviewed earlier and the audit findings were included in the Report of the Comptroller and Auditor General of India - Union Government (Commercial) 1986 - Part-II. The present review covers overall performance of shipbuilding activities from 1994-95 to 2002-2003 during which period 12 vessels (3 bulk cargo carriers, 6 Tugs and 3 passenger) were constructed and delivered.

11.3 Modernisation Program

The Company had an installed capacity of 3 Pioneer class (21,500 DWT[1]) vessels per annum after completion (1980) of first stage of modernization. The Stage-II of modernisation program (1982-83) which was planned to be completed by December 1985 at a cost Rs.55.03 crore, was finally completed in December 1991 at a cost of Rs.82.18 crore.

Over the years, the Company's losses have mounted and net worth eroded. Its accumulated losses were Rs.1103.43 crore and net worth Rs. (-) 981.62 crore as at the end of March 2003. The position was mitigated by its ship repair activity, which consistently generated surpluses.

---

[1] ***Dead weight Tonnage***

11.4 Poor marketing effort

The Government of India, keeping in view the poor order book position of the public sector shipyards and to make shipbuilding an economically viable activity allows 30 per cent shipbuilding subsidy (20 per cent by GOI and 10 per cent by the customer and from August 1997 entire 30 per cent by GOI) to public sector shipyards, which participate in the open tender and are permitted to match the price of the lowest bidder.

The Indian Shipping Companies acquired 21 vessels of various types with a capacity of less than 50,000 DWT (which were in the range of production of the Company) from the overseas shipyards during the years 1990 to 1999 (Source: Indian Shipping Industry Report-2000).

Despite the modernization of the shipyard, the GOI subsidy and reasonably satisfactory demand for ships within its manufacturing range, the Company's order book position has worsened over the years from 6.05 vessels in 1995-96 to 2.23 vessels in 2002-03. One of the reasons for the above situation is the Company's poor marketing effort. The following cases illustrate the point:-

(a) The Company participated (September 1994) in the global tender for construction and delivery of two 30,000 DWT Product Tankers required by Shipping Corporation of India Ltd. (SCI). It quoted (January 1997) a price of US $ 32.23 million (Rs.116.03 crore) per tanker duly considering 20 per cent Government subsidy and became the second lowest with a price difference of 7.5 per cent.

Considering the subsidy of 10 per cent of the price of lowest bidder to be borne by SCI, the Company's price was the lowest. However, the Company failed to negotiate with SCI who placed order on the lowest bidder (a Korean Firm). The Management stated (January 2002) that SCI decided not to place order on HSL since it has no previous experience of constructing such vessels. This is not tenable as SCI called for price bids from the Company after evaluating the technical bids which showed that the Company had the technical competence to undertake the order.

(b) The Company quoted (December 1996) to SCI a price of US $ 27 million (Rs.96.80 crore) each for supply of four 19,000 DWT multi purpose general cargo cum container vessels. Since SCI felt that the prevailing international price was between US $ 15.25 -17.0 million (Rs.54.90 crore-Rs.61.20 crore), it did not accept the offer. However, a Committee constituted by the Ministry of Surface Transport (MOST) after reviewing the cost estimates of the Company recommended (June 1997) the price at US $ 20.5 million (Rs.73.14 crore) for each vessel. Considering shipbuilding subsidy of 30 per cent the effective price worked out to US $ 26.65 million (Rs.95.09 crore), which gave a contribution of US $ 4.313 million (Rs.15.39 crore) per vessel. Despite this, the Company neither negotiated, nor pursued the issue with SCI and ultimately lost the opportunity. Thus, the failure resulted in losing the opportunity and the intended advantage envisaged at that stage.

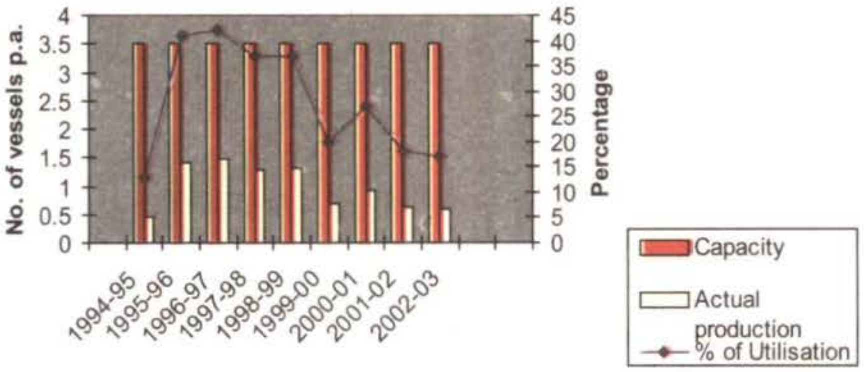
(c) A contract was signed (October 1997) with SCI for construction and delivery of 42,750 DWT bulk carrier (1136) at a price of US $ 22.3 million (Rs.80.46 crore). Though this was a repeat order with same scope and specifications as vessel 1135, the Company revised (March 1998) the price to US $ 24 million (Rs.94.34 crore), in the light of international market price of US $ 24.43 million (Rs.96.03 crore). However, SCI did not agree to the same and requested (May 1998) HSL to take up the work at the price agreed earlier. The Company, despite being aware that the contracted price together with 30 per cent subsidy would give a contribution Rs.11.97 crore did not take up the work and as such SCI cancelled (September 1999) the contract.

While not specifically addressing the above cases, the Management in its reply (May 2003) pointed out that orders for shipbuilding were finalized based on IP[2] price without any consideration to the constraints faced by the Indian Shipyards. Therefore, it cannot be attributed to poor marketing effort. The Management's reply is not tenable as the above instances clearly point out that there was no attempt to work out the economic advantages in accepting the order.

11.5 Under utilization of capacity

Although the installed capacity of 6.5 pioneer class vessels was scaled down to 3.5 Pioneer class vessels per annum, the Company could not utilize even 50 per cent of it in any single year during 1994-95 to 2002-2003. The actual achievement ranged between 13.14 per cent (1994-95) and 41.71 per cent (1996-97) as detailed below:

Details of Capacity Utilization



The Management stated (May 2003) that the Company could not secure orders of 10 to 12 ships required for achieving the full capacity unless the government assists the Company in securing the orders through a policy. Management's reply reflects the prevailing perception that it is fully dependent on government assistance for securing the required orders rather than evolving an effective and dynamic marketing strategy to secure the orders on its own. Besides, the Government already subsidizes the Company to match international price by a hefty 30 per cent. It is not clear as to what further assistance the Government could extend to the Company.

[2] *International Parity Price*

11.6 Delays in Ship Construction

11.6.1 The position of contractual delivery schedules vis-a-vis actual delivery in respect of the 12 vessels delivered during the period between 1994-95 and 2002-2003 is indicated in table below:

Details of delay in Construction and Delivery

Vessel No.	Original/ revised date of delivery	Actual date of delivery	Delay in Delivery (No. of Months)
1131	06/1988 to 11/1994	01/1996	91 to 14
1132	12/1988 to 03/1996	01/1998	109 to 22
1135	08/1999 to 03/2000	09/2000	13 to 6
11101	01/1997/ 3/1999	12/1999	35 to 9
11103	07/2000	10/2001	15
11104	07/2000	01/2002	18
1167	07/1996/ 6/1997	09/1997	14 to 3
1168	03/1999	01/2000	10
1169	05/1999	05/2000	12
1172	09/2000	03/2003	30
1174	12/2000	08/2002	20
1175	12/2000	10/2002	22

11.6.2 There were slippages in the various milestones/events of construction and delays in delivery of all the vessels, which ranged between 10 to 109 months as compared to the original time schedules fixed in the respective contracts. These delays have had the following impact:

(a) In respect of vessel-1132, the customer viz., SCI recovered/deducted (January 1998) Rs.82.15 lakh towards liquidated damages.

(b) In respect of vessel-1135, there was overall delay of 396 days. After considering the grace period of 30 days and the permissible delay of 242 days allowed consequent to negotiations, the customer, viz. SCI levied (February 2002) Rs.6.44 crore (for 124 days of delay not waived) towards liquidated damages.

(c) In respect of Tugs 1168 and 1169,an amount of Rs.1.31 crore has not been released by the customer (VPT[3]) so far (August 2003) for want of balance works like bollard pull achievement, external fire fighting system, under water paints etc. though these vessels were delivered in January 2000 and May 2000 respectively.

(d) In respect of 100-passenger vessels (11103 and 11104), the customer deducted (March 2003) Rs.71.44 lakh towards liquidated damages for delayed delivery, for both the vessels, while releasing the outstanding dues.

(e) In respect of Tugs 1174, 1175 the customers, while releasing the delivery instalments, deducted (November 2002 and March 2003) Rs.1.02 crore and Rs.24.80 lakh respectively towards liquidated damages for delayed delivery.

[3] ***Visakhapatnam Port Trust***

(f) In respect of Tug 1172, the customer, while releasing the instalments, deducted (May 2001 to May 2003) Rs.96.91 lakh towards liquidated damages for the delayed delivery.

(g) The insurance cover for material and machinery that forms part of vessel till the date of delivery of the vessel is the responsibility of the Company. As time is the essence for determining the expenditure towards premium on such insurance covers taken, the delays in construction and delivery of vessels resulted in additional expenditure (Rs.4.73 crore) on insurance viz. Builder's Risk Insurance (BRI). This in turn affected the contribution levels conceived at the time of accepting the orders. Hence, it is the time over run in the construction of ships that impacted the financial viability in execution of orders.

The Management stated (May 2003) that the main reason for the delays in construction was the lack of working capital. Delays in receipt of imported materials and equipment also contributed to time over runs. While it is true that the Company had problems of working capital, it was partly responsible for this. It was the inordinate delays in meeting commitments, which in turn resulted in delays (2 to 24 months) in receipt of funds ranging from Rs.36.68 lakh to Rs.25 crore towards stage payments. The delays in stage payments had a cascading effect on the working capital, construction cycle time, customer satisfaction, order book position and capacity utilization. Further, the shortage of working capital forced the Company to resort to drawing interest-bearing advances from customers. In two cases (vessels 11101 and 1135), this amounted to Rs.94.85 crore on which interest of Rs.12.69 crore was paid.

11.7 Poor Cost Control

The statement below analyses the item-wise/segment-wise and vessel-wise cost estimates with the price, actual expenditure, contribution and profit/loss in respect of 12 vessels delivered during the period during 1994-95 to 2002-2003:-

Vessel-wise details of Losses sustained

(Rs in crore)

Vessel No.	Total Price including Subsidy	Net Price received	Estimated Cost		Actual Cost		Contribution		Total Cost	Net Loss
			Variable	Fixed	Variable	Fixed (Up to General Overheads)	Estimated (2 - 4)	Actual (3-6)	(6+7)	(3 - 10)
1	2	3	4	5	6	7	8	9	10	11
1131	64.23	62.70	35.11	25.16	51.06	55.91	29.12	+11.64	106.97	- 44.27
1132	64.23	61.62	35.11	25.16	88.74	59.00	29.12	- 27.12	147.74	- 86.12
1135	106.56	100.12	69.56	30.04	102.18	87.23	37.00	-2.06	189.41	- 89.29
11101	206.52	205.56	123.23	27.74	153.61	79.14	83.29	+ 51.95	232.75	- 27.19
11103	7.14	6.77	5.77	1.37	6.56	13.88	1.37	+ 0.21	20.44	- 13.67
11104	7.14	6.76	5.77	1.37	6.31	11.29	1.37	+ 0.45	18.60	- 11.84
1167	13.65	13.63	12.14	1.65	12.30	6.72	1.61	+ 1.33	19.02	- 5.39
1168	19.75	19.49	19.09	0.66	17.98	10.97	0.66	+ 1.51	28.95	- 9.46
1169	19.75	19.75	19.09	0.66	16.67	12.18	0.66	+ 3.08	28.85	- 9.10
1172	18.85	17.88	17.87	2.24	18.20	5.44	0.98	- 0.32	23.64	- 5.76
1174	20.31	19.29	17.30	2.20	15.58	5.36	3.01	+ 3.71	20.94	- 1.65
1175	16.38	15.62	14.50	0.39	13.24	4.80	1.88	+ 2.38	18.04	-2.42
			Total loss							**- 306.16**

Note:1. Net price received is arrived after deductions agreed to in respect of liquidated damages, rebates to owners, Guarantee defects/repairs etc.

2. Net price was inclusive of amounts withheld/yet to be released by the owners in respect of vessels-11101 (Rs.11.28 crore), 1168 (Rs.60 lakh), 1169 (Rs.60 lakh), 1172 (Rs.30 lakh), 1174 (Rs.40 lakh) and 1175 (Rs.10 lakh) respectively.

It may be seen from the above that in the construction of 12 vessels, the Company sustained a cash loss of Rs.306.16 crore (i.e., excluding depreciation and interest). Further in respect of 3 vessels, it suffered negative contribution of Rs.29.50 crore. In all the vessels, there were cost and time overruns.

Though there is a Costing Section in the Company, there is no system of analysing the vessel-wise cost variance by preparing vessel-wise and element-wise cost analysis duly comparing the actual with estimates so as to identify the remedial measures to control the costs. It may be worth noting that the Company had a practice of preparing the vessel-wise cost estimates *vis-a-vis* actual costs incurred thereon and placing before the Board of Directors (February 1986). The practice of such submission of cost analysis is not in vogue anymore. The reasons for dispensing with this practice are not on record. In order to control costs and enhance the contribution, it is essential that the Company should evolve adequate cost controls in respect of procurement and consumption of steel, inventory holdings and offloading/sub-contracting of jobs. However, a test check in Audit revealed that there was no such strict cost control mechanism.

The Management stated (May 2003) that shipbuilding is a buyers market and as such the orders were not taken up on net profit concept and the delays in receipt of materials and imported equipment etc. had also contributed for time overrun of the construction schedules and consequently cost over runs. The Management's reply is not tenable as there are many factors that are under its control viz. labour productivity, over time and incentive payments, off loading and subcontract jobs, consumption and efficient utilisation of steel, and so on. By effectively controlling these, the Management can maximise the contribution or, where loss is inevitable minimise such loss.

11.8 Off-loading Jobs

During the years 1994-95 to 2002-2003 the Company had incurred a total expenditure of Rs.24.73 crore towards off-loading and sub-contracting jobs in Shipbuilding Division. There was surplus capacity in all the three shops and there was also idle labour. Yet, the Company sub-contracted and off-loaded jobs. This was also contrary to the Government of India's Pricing Policies which allow subsidies to the Company on the condition that majority of the works relating to ship construction would be carried out by the Company itself.

It is interesting to note that sub-contracted works generally involved cleaning, sand blasting, insulation, flooring and painting. In view of excess manpower and also the availability of equipment for sand blasting and painting, the Company should have got these works done internally. It was observed that the Company subcontracted the cleaning and sand blasting works (unskilled works in nature) alone to the tune of Rs.4.82 crore and Rs.1.65 crore respectively in all the 12 vessels. In addition, it also engaged contract labour separately and paid a sum of Rs.2.50 crore during the period 1994-95 to 2002-03.

The Management stated (May 2003) that the Company does not have trades like sand blasting, grit blasting, vacuum blasting, etc. and hence compelled to off-load them. Sometimes it resorted to off-loading for expeditious completion of ships. As pointed out above there were inordinate-delays in delivery of almost all ships. Therefore, the Management's contention that off-loading was done to expedite completion is not quite plausible.

11.9 Excess Consumption of Steel

For the purpose of construction of various types of vessels, steel (viz., plates, angles, sections, etc.) is the primary material. The vessel-wise details of estimated net consumption vis-à-vis actual net consumption of steel in respect of 12 vessels delivered during the period covered in the review are indicated in table below:

Details of excess consumption of steel

Vessel No.	*Estimate*	*Net Steel Consumption*		*% of excess*	*Cost / ton*	*Value of Excess Consumption*
		Actual (as of 31.3.2003)	*Excess net consumption* (3-2)			
1	2	3	4	5	6	7
	MT	*MT*	*MT*		*Rs*	*Rs. in lakh*
1131	9205	10347	1142	12.41	7222	82.48
1132	9205	10786	1581	17.17	9422	148.96
1135*	9405*	9710	305	3.24	17043	51.98
11101	4800	4504	Nil	--	-	Nil
1167	228	272	44	19.30	23493	10.34
1168	309	366	57	18.45	18630	10.62
1169	309	377	68	22.01	16312	11.09
11103	168	320	152	90.47	22699	34.50
11104	168	315	147	87.50	18190	26.74
1172	256	455	199	77.73	14425	28.71
1174	309	302	Nil	--	-	--
1175	235	225	Nil	--	-	--
Total			3695			405.42

* Estimate included 200 MT required for internal fabrication of hatch covers.

It may be seen from the above table that there was net excess consumption of steel in 9 vessels compared to the standard/designed/estimated net consumption of steel required for construction of the vessels and such excess consumption of steel was worked out to 3695 MT valuing Rs.4.05 crore. It could also be seen that the percentage of such excess steel consumption was very high and it ranged between 3.24 (vessal-1135) to 90.47 (vessal-11103) to the net estimated consumption. The Company failed to take preventive measures to avoid the excess consumption of steel. The Company also did not analyse the vessel-wise reasons for such excess steel consumption.

The Management stated (April 2002) that the original estimates of net steel consumption in respect of 1131 and 1132 were made based on the data furnished by M/s SRS, Norway. design collaborators and it was noticed subsequently that weight of the steel towards outfit, loose tanks, seats for machinery items, etc. consisting of 700 MT was not covered in the original estimates. The requirement for 1135 was based on 1131 and actual consumption of 1132.

The reply is not tenable. Though the design, specifications and capacity of the vessels 1131, 1132 and 1135 were similar, the actual consumption of steel in respect of 1131 and 1132 compared with that of 1135 was significantly higher i.e. 1713 MT (valuing Rs.1.47 crore). Further, though the order for construction and delivery of two 50 T Tugs (1168 and 1169) was secured under the single contract, the procurement cost in respect of Tug-1168 compared to the cost of Tug-1169 was higher by Rs.2088 per MT and as a result, the expenditure in this regard in respect of Tug-1168 was higher by Rs.8.76 lakh.

11.10 Excess generation of steel scrap

Generation of some amount of scrap is inevitable during construction of a vessel. According to the Bureau of Industrial Costs and Prices (BICP) Report of September 1987, the generation of scrap should be around 8 per cent. The following table indicates the details of vessel-wise gross steel consumption, actual scrap generation and excess scrap generation:

Excess Generation of scrap		
Vessel No.	Actual %age of the scrap	Excess scrap in MT
1131	9.45	165.691
1132	8.78	92.231
1135	8.76	80.881
11101	8.46	22.632
1167	12.58	14.273
1168	10.08	8.472
1169	10.18	9.148
1103 and 04	15.92	59.817
1172	10.63	13.380
1174	12.21	14.479
1175	12.96	12.791

In respect of all the vessels the scrap generation exceeded the norm, which resulted in extra expenditure of Rs.33.94 lakh. In this connection, it is pertinent to mention that the Ministry contemplated (October 1985) that after implementation of Stage 11 Program, the scrap arising would be reduced to 7 per cent. Despite the BICP norm being higher at 8 per cent, the actual scrap was still in excess by 0.46 per cent to 7.92 per cent.

While admitting that the scrap generation was in the order of 9 to 13 per cent, the Management stated (April 2002 and May 2003) that it has been taking effective steps to utilize steel properly and reduce generation of scrap and even the cut pieces in the scrap are reused for manufacture of small elements like brackets, flanges etc., to bring down the percentage of scrap further.

11.11 Deficiencies in Contracts

The contract with SCI in October 1997 for construction and delivery of vessel 1135 stipulated that for any delayed delivery of the vessel beyond the contractual period after considering the grace period of 30 days, the Company has to pay liquidated damages @ US $ 12,000 (equivalent to Rs.5.19 lakh) for each day of delay. However, the above contract clause had not provided for any overall ceiling limit towards total liability. The vessel was delivered (September 2000) with a delay of 396 days. Considering the grace period of 30 days provided in the contract and permissible delay of 242 days allowed by SCI (January 2002), the Company had to pay liquidated damages amounting to Rs.6.44 crore for the balance delay of 124 days.

Subsequent to entering (October 1997) into contract for the vessel 1135, two addendums to the contract in respect of vessels 1131 and 1132 were signed (January 1998) between the Company and SCI, wherein it was agreed to by SCI to levy liquidated damages @ Rs.1.55 lakh for each day of delay, which was enhanced from Rs.0.60 lakh Per each day of delay agreed in May 1985 with retention of overall ceiling limit of 8.25 per cent. When SCI, being the customer in all these three cases had agreed for the liquidated damages @ Rs.1.55 lakh in respect of the vessels 1131 and 1132, the Company should have appropriately negotiated with the customer to agree for the same rate of Rs.1.55 lakh in respect of vessel 1135 also. Since the Company failed to negotiate appropriately, it had to pay the full amount of Rs.6.44 crore in respect of 1135, instead of paying Rs.1.92 crore at the lower and agreed rate of Rs.1.55 lakh and as a result of which, it had to additionally pay liquidated damages to the extent of Rs.4.52 crore.

The contracts agreed for construction of delivery of passenger vessel-11101 and 11102 provided that any payments or receipts to the Company are to be converted into Indian currency duly considering prevailing TT -selling rates of foreign exchange applicable on the dates. However, in respect of the contract for Vessel 1135, the Company agreed (October 1997) to receive the payments from SCI considering the TT -buying rates applicable on the due dates of events agreed as per the contract, instead of agreeing for TT -selling rates as per the prevailing practice. By agreeing for conversion of receipts at TT -buying rates, contrary to the practice, the Company was deprived of receiving Rs.81.73 lakh additionally.

The Management stated (May 2003) that in all the above cases it sought for altering/changing the terms during the negotiations, but owners have not accepted for the same and in view of the lean order book position it had to agree for the incorporation of certain unfavorable clauses in the agreements. However, there was no evidence on record that it had taken up the matter appropriately.

11.12 Poor Material Management and Inventory Control

The requirement of materials is based on the orders on hand and almost all the items are customer specified. The inventory of the Company primarily comprises steel, ship machinery and stores, spares and timber. The position of inventory holdings vis-a-vis the norms fixed (in terms of number of months consumption) in respect of these primary items of inventory during 1994-95 to 2002-2003 is indicated in the following table.

Inventory holdings

Item of inventory	Inventory holding in terms of number of months consumption									
	Norm	Actual Inventory as at the end of the year								
		94-95	95-96	96-97	97 -98	98-99	99-00	00-01	01-02	02-03
Steel	12	16	11	13	45	15	16	15	31	14
Ship machinery	6	4	8	8	22	10	4	22	3	14
Stores and Spares and Timber	6	30	24	19	33	33	10	12	17	18

It could be seen from the table that considering the norms, the inventory holding of steel in all the years was high except one year (1995-96) and in the year 1997-98 it was very high. Similarly, in respect of ship machinery, the inventory holdings was more than the norms in the years 1995-96 to 1998-99 and particularly in the years 1997-98, 2000-2001 and 2002-03 it was very high, which indicates the machinery awaiting erection and consequent slow progress of work. The inventory of stores and spares and timber was also very high in all the years compared to the norms. Steps are required to minimise and defer the procurement of the same, till the present stores and spares items are liquidated to the level of norm.

The Management stated (May 2003) that it had taken note of the audit observation for a better inventory control and for maintaining a bare minimum requirement.

11.13 Voluntary Retirement Scheme

The Company had introduced in May 1991 a Voluntary Retirement Scheme (VRS) with the financial assistance from GOI. The Board of Directors directed (May 1998) the Management to make efforts to reduce the manpower of the Company by 40 per cent under VRS so as to reduce its dependence on non-plan assistance from Government of India. With Rs.104.40 crore released by the GOI up to March 2003, the Company relieved 2889 employees as of March 2003 while it recruited 108 Officers, 10 staff and 39 workmen, and absorbed 390 P&C series workmen during this period. The net reduction of manpower was only 23 per cent as against 40 per cent target set by the Board.

Further, the Company enhanced (December 1998) the retirement age of employees below Board level from the 58 to 60 years with effect from 19 May 1998. This again negated the efforts of the Company in reducing the manpower as personnel who otherwise would have retired were given two years extension of service. Considering that enhancement of the retirement age was only optional and such enhancement involved increased outgo of VRS compensation unnecessarily, the Company should have retained the existing retirement age.

The Management stated (May 2003) that enhancement of retirement age to 60 years has been implemented according to the Government Policy. The reply of the Management is not tenable since the Government gave an option to the PSU to retain the retirement age at 58 years if its circumstances did not allow enhancement.

11.14 Overtime and Incentive Payments

Despite excess manpower and low volumes of production, the Company has been making overtime and incentive payments to workmen and staff of the Shipbuilding Division as would be seen from the following table:-

Details payment of OT and Incentive			
Year	Total OT	Ad-hoc Reward/ Incentive	Productivity (Actual man hours utilised / ton of steel as against the norm of 103 Man-hours/ton
(Rupees in lakh)			
1994-95	232.88	-	250
1995-96	187.98	86.85	200
1996-97	137.23	118.53	195
1997-98	191.17	139.55	190
1998-99	230.58	129.56	150
1999-00	281.40	52.83	190
2000-01	260.43	136.85	221
2001-02	230.78	30.66	271
2002-03	225.69	25.41	261

The Company paid incentive by fixing very low production targets sometimes as low as 2 per cent of achievable capacity.

The Management stated (May 2003) that payments towards overtime and reward scheme were made to augment production requirements and adhere to the schedules. The Management's reply is not tenable, as the Company could not achieve even the revised delivery schedules in all the twelve vessels delivered despite the payment of overtime and incentives.

11.15 Conclusions:

To sum up, the review of Ship Construction and delivery activities of the Company during the period from 1994-95 to 2002-03 revealed that

(i) The Company has been incurring losses continuously resulting in losses accumulating to Rs.1103.43 crore as on 31 March 2003.

(ii) Due to ineffective commercial negotiations, the Company failed to secure the orders in respect of 7 vessels, though the customer was willing to award the same.

(iii) Although the Company undertook construction of vessels in smaller numbers and size compared to the capacity of the yard, it failed to adhere to the contracted individual milestones. This resulted in abnormal construction cycle time and delay in delivery of the vessels and consequently to shortage of working capital.

(iv) The abnormal delay in delivery of the vessels not only resulted in levy of liquidated damages, but also resulted in withholding of delivery instalments by customers for longer periods even after delivery.

(v) Despite excess manpower, the Company resorted to off-loading and subcontracting works to outside agencies.

(vi) Excess consumption of net steel resulted in extra expenditure.

(vii) Deficiencies in the contract management and ineffective financial and commercial negotiations led to acceptance of higher rate of liquidated damages etc.

(viii) Enhancement of retirement age to 60 years, while the implementation of VRS was underway with the Non-plan assistance by Government of India with a view to reduce the manpower and make the yard viable defeated the very purpose.

11.16 Recommendations

(i) The Company needs to strengthen its marketing effort in order to avail of opportunities and explore new avenues for improving the order book position.

(ii) The legal and financial provisions in the contracts should be carefully negotiated to derive optimum benefit from them.

(iii) The Company should use all in-house resources effectively, so that sub-contracting/off-loading of jobs is resorted to cases only where it lacks capacity or capability.

The review was issued to the Ministry in September 2003; their reply was awaited (October 2003).

MINISTRY OF SOCIAL JUSTICE AND EMPOWERMENT

CHAPTER : XII

National Scheduled Castes Finance and Development Corporation (NSFDC), National Backward Classes Finance and Development Corporation (NBCFDC), National Minorities Development and Finance Corporation (NMDFC), National Safai Karamcharis Finance and Development Corporation (NSKFDC) and National Handicapped Finance and Development Corporation (NHFDC)

Functioning of Social Sector Companies

Highlights

Apart from granting financial assistance and imparting training to the targeted groups, no concrete steps have been taken by any Company towards achievement of the other objectives.

(Para 12.1.2)

Disbursements of funds to the State Channelising Agencies and Non-Government Organisations by these Companies have been low as compared to the available funds. The funds available from internal resources were more than the amount of loans disbursed in all the Companies, except NSKFDC. Despite non-utilisation of the available funds, the GOI almost regularly released equity capital to the Companies. As a result, these Companies earned interest by keeping the undisbursed money in banks.

(Para 12.4.1)

There were several deficiencies at all stages of implementation of the schemes such as release of funds without fulfillment of stipulated conditions and without ensuring utilisation of the funds released earlier. Since the Companies did not effectively monitor the utilisation of funds by the SCAs and no system existed for effective monitoring of the progress of the business of the beneficiaries, there were cases of non-utilisation as well as diversions and parking of funds for other purposes by the SCAs. Funds amounting to Rs.277.60 crore have been lying unutilised with the SCAs as on 31 March 2002.

(Paras 12.4.3, 12.4.4 to12.4.8)

The Companies disbursed funds to the SCAs without obtaining adequate guarantees of the State Governments. Loans amounting to Rs.178.96 crore were not covered by the government guarantees as on 31 March 2002.

(Para 12.4.9)

The recovery of loans from the SCAs was not satisfactory in the case of NSKFDC and NHFDC. Further, the recoveries made by the SCAs from ultimate beneficiaries was very poor in all the Companies. On certain occasions repayment of overdue amounts were adjusted by the Companies against the future disbursements to the SCAs.

(Para 12.6.1)

The Companies have not ensured identification of the beneficiaries and availability of matching contributions from the SCAs/beneficiaries before providing financial assistance to the SCAs. This led to refund of funds by the SCAs without utilisation.

(Para 12.6.2)

The Companies have not been charging interest as per Government guidelines which resulted in loss of interest of Rs.7.63 crore.

(Para 12.7.1)

All the Companies (except NSKFDC) have not been raising bills for penal interest regularly. Further, no serious efforts were made to realise the same from the SCAs. Out of the total penal interest of Rs.94.57 crore leviable on the SCAs as on 31 March 2002, interest of Rs.24.37 crore was waived.

(Para 12.7.2)

NBCFDC invested Rs.7.50 crore in Cement Corporation of India Limited and NSFDC invested Rs.15.00 crore in non-convertible debentures of M/s. Punjab Wireless Systems Limited. The Companies could not recover the funds since February 1995/November 1998 and have considered the same as doubtful of recovery.

(Para 12.9.1)

NSFDC incurred an avoidable expenditure of Rs.64.04 lakh on hiring of office accommodation in excess of its requirement.

(Para 12.9.2)

12.1 Introduction

12.1.1 With a view to promote economic and developmental activities for benefit of members of targeted groups, Government of India (GOI) floated following five companies under the administrative control of Ministry of Social Justice and Empowerment (Ministry). These Companies were incorporated under section 25 of the Companies Act, 1956 as non-profit making companies. Date of incorporation, authorised and paid up capital as on 31 March 2002 are tabulated below:

(Rs. in crore)

Company	Date of incorporation	Authorised capital	Paid up Capital
National Scheduled Castes Finance and Development Corporation [1] (NSFDC)	8.2.1989	1000	299.00
National Backward Classes Finance and Development Corporation (NBCFDC)	13.1.1992	700	390.40
National Minorities Development and Finance Corporation (NMDFC)	30.9.1994	500	257.95
National Safai Karamcharis Finance and Development Corporation (NSKFDC)	24.1.1997	200	81.75
National Handicapped Finance and Development Corporation (NHFDC)	24.1.1997	400	52.30

NSCFDC has various zonal offices at Lucknow, Chandigarh, Patna, Bangalore, Kolkata, Mumbai and Guwahati. NBCFDC has regional offices at Kolkata, Chennai and Mumbai. These offices are manned with skeleton staff and mainly doing liaison work with State Channelising Agencies (SCAs). The other three Companies have no zonal/regional offices.

12.1.2 Main objectives

Main objectives to be pursued by these Companies are as under:

(i) To promote economic and development activities for the targeted groups.

(ii) To promote training, and entrepreneurial skills of targeted groups and extend loans to the students of the targeted groups.

(iii) To promote self-employment and other ventures for the benefit of the targeted groups.

(iv) To assist state level organisations set up by the State Governments/ Union Territory Administrations for assisting the targeted groups for their economic development and to work as an apex institution for coordinating and monitoring the work of all these organisatioins.

(v) To raise grants, loans, advances from National and International Institutions or agencies to improve the flow of financial assistance to the targeted groups.

(vi) To help in furthering the government policies and programmes for the development of the targeted groups.

It is observed that apart from granting financial assistance and imparting training to the targeted groups, no concrete steps have been taken by any Company towards achievement of the other objectives.

---

[1] ***Consequent upon formation of a separate Ministry for Development of Tribal Affairs, National Scheduled Castes Finance and Development Corporation was bifurcated on 10 April 2001 into two companies, namely National Scheduled Castes Finance and Development Corporation and National Scheduled Tribes Finance and Development Corporation***

12.2 Scope of Review

The review covers the functioning of the five social sector companies during the five years from 1997-98 to 2001-02.

Results and recommendations of the audit are featured in the succeeding paragraphs:

12.3 Role of the companies

These Companies were set up to play a catalytic role for development of innovative economic programmes and financing schemes for targeted groups without duplicating the efforts of existing state level agencies. While the Companies had to identify the critical gaps in the programmes of various agencies, prepare schemes/projects to bridge these gaps and obtain necessary finance for implementation of the same, they were also supposed to work with the nationalised banks and NABARD in improving the flow of financial assistance to the beneficiaries.

It is, however, observed that the Companies have merely been financing the schemes submitted by the SCAs and no efforts were made to avoid/check duplicity of schemes run by the SCAs. Besides, they had not taken any concrete effort to increase the flow of financial assistance by liasioning with banks and financial institutions. The Ministry has also observed that the same schemes were implemented by the SCAs under NSFDC financing and under special central assistance/margin money scheme.

There was no mechanism to evaluate the economic impact on beneficiaries, who have been granted loan by these Companies so as to ensure the fulfillment of the objectives for which the Companies have been established.

The Management of NSFDC stated (June 2003) that nature of schemes implemented by the SCAs on their own and those under channel finance system of the NSFDC was different. They also stated that NSFDC was not eligible for availing refinancing from NABARD, unless specifically permitted by the RBI. The reply is not acceptable as the difference was only with regard to quantum of funds provided for each scheme and the NSFDC has not approached the RBI to obtain the requisite permission.

12.4 *Disbursement of loans/financial assistance*

12.4.1 Disbursement of loans as compared to funds available/sanctions

(a) Main source of funds of the Companies was equity capital subscribed by the GOI[2] and generation of internal resources through interest income and repayment of loan. Details of available funds and their deployment during the last five years ending 31 March 2002 are given in Annexure-18. The following table indicates the percentage of disbursement of loans (net of refunds) to the available funds during the last five years ending 31 March 2002:

---

[2] *in the case of NMDFC, the State Governments/Corporations have also contributed equity to the extent of 15.77 per cent as on 31 March 2002*

(In per cent)

Company	1997-98	1998-99	1999-00	2000-01	2001-02
NSFDC	36.22	45.67	42.27	59.82	85.49
NBCFDC	63.90	49.62	26.62	26.95	47.76
NMDFC	27.03	50.30	51.71	61.65	87.71
NSKFDC	78.37	95.87	89.36	89.65	70.00
NHFDC	1.80	2.10	10.05	16.92	17.12

It is observed that:

(i) Disbursements of funds to the SCAs and Non-Government Organisations (NGOs) by these Companies have been low as compared to the funds available. The funds available from internal resources were more than the amount of loans disbursed in all the Companies, except NSKFDC.

(ii) Despite non-utilisation of the funds available, the GOI almost regularly released equity capital to the Companies. As a result, the Companies earned interest by keeping the undisbursed money in Banks, due to which other income was more than the operational income in NSFDC and NMDFC (1997-98 and 1998-99), NHFDC[3] (1997-98 to 1999-2000), NSKFDC (1998-99 and 1999-2000) and NBCFDC (2000-01).

(iii) In the case of NHFDC, the disbursement has been very low. The Management of NHFDC stated (July 2003) that low disbursement of funds in the initial years was due to the fact that some time was required to put various systems in place. The fact, however, remains that it could disburse 17 per cent of the available funds even during the fifth year of its operation.

(b) The Companies provide concessional loans to the eligible beneficiaries, through the SCAs and other recognised institutions nominated by the concerned State Government, for vocational activities and pursuing general, professional or technical education. The beneficiaries are selected by the SCAs after taking into consideration the eligibility criteria fixed by the respective Companies. The Companies have, however, no role in identification of beneficiaries.

Till 31 March 2002, NSFDC, NBCFDC, NMDFC, NSKFDC and NHFDC had disbursed loans amounting to Rs.907.04 crore, Rs.614.03 crore, Rs.395.57 crore, Rs.94.08 crore and Rs.31.59 crore (aggregating Rs.2042.31 crore) covering 3,79,147, 3,74,709, 1,55,154, 36,676 and 6,944 beneficiaries (total 9.53 lakh beneficiaries) respectively.

Details of sanctions, disbursements and number of beneficiaries covered by the Companies during the last five years are given in Annexure-19. Disbursement of loans against the sanctioned amount has been low and it was as low as 39.54 per cent in NMDFC (1997-98) and 29.71 per cent in NHFDC (1998-99). Against the sanctioned amount of Rs.2142.94 crore, the Companies disbursed loans amounting to Rs.1445.12 crore to the SCAs/NGOs during the last five years ending 31 March 2002 as given below:

[3] *Accounts of NHFDC for the period 2000-01 onwards were in arrears.*

(Rs. in crore)

Company	Sanctioned	Disbursed	Percentage
NSFDC	767.26	594.19	77.44
NBCFDC	782.61	416.08	53.16
NMDFC	416.86	315.19	75.61
NSKFDC	140.82	94.07	66.80
NHFDC	35.39	25.59	72.31
Total	**2142.94**	**1445.12**	**67.44**

12.4.2 Deficiencies in the disbursement of the loans

For drawal of the loan, NSFDC, NSKFDC and NHFDC required the SCAs to complete prerequisite formalities, viz. selection of beneficiaries, documentation with the beneficiaries and tie up of their share so that the funds were utilised immediately. In the case of NBCFDC and NMDFC, the SCAs were not required to submit the scheme wise list of beneficiaries before sanction of the loan, but was required to furnish it along with utilisation certificate.

It is observed that funds were disbursed to the SCAs without ensuring compliance of the pre-disbursement conditions as well as utilisation of the earlier funds. As a result, huge funds have been lying unutilised with the SCAs. The following table brings out the position of unutilised funds amounting to Rs.277.60 crore lying with the SCAs as on 31 March 2002, out of which a sum of Rs.140.54 crore was lying unutilised with the SCAs in respect of NSFDC, NBCFDC and NMDFC for more than one year.

(Rs. in crore)

Company	Unutilised funds with SCAs as on 31 March 2002
NSFDC	154.46
NBCFDC	71.29
NMDFC	4.75
NSKFDC	32.66
NHFDC	14.44
Total	**277.60**

Release of the funds to the SCAs without ensuring utilisation of earlier funds was mainly with a view to project better performance in terms of quantitative targets of disbursement of loans and repayments. Since the Companies did not effectively monitor the utilisation of funds by the SCAs and no system existed for effective monitoring of the progress of the business of the borrower, there were cases of non-utilisation as well as diversions and parking of funds for other purposes by the SCAs. Individual cases of deficiencies noticed in the disbursement of the loans/advances by the Companies and utilisation of the funds by the various SCAs are discussed below:

12.4.3 National Scheduled Castes Finance and Development Corporation (NSFDC)

(i) NSFDC did not ensure compliance of the pre-disbursement conditions and released (1998-99) funds amounting to Rs.15.28 crore to a SCA of Bihar for implementation of 14 schemes, even though Rs.2.06 crore released in 1996-97 had been lying unutilised. Further, while the funds were required to be utilised within three months, the SCA could utilise Rs.71 lakh only till June 2002 and refunded (December 2001 to March 2002) Rs.7.29 crore. The amount of Rs.9.34 crore has been lying unutilised with the SCA for more than three years (March 2002).

(ii) Though neither project report nor list of selected beneficiaries was submitted by the SCA of Tamil Nadu, NSFDC disbursed (March 1996) Rs.6.17 crore to the SCA for five schemes in transport sector on the plea that similar schemes of other SCAs had been sanctioned. As the SCA was not well prepared for disbursement of funds to the beneficiaries, it kept the entire amount in the fixed deposit and refunded the same in February 1997 stating that the scheme could not be implemented due to considerable price escalation for all type of vehicles.

(iii) SCA of Assam was released Rs.41 lakh in February 1993 for a jewellery shop scheme, against which it could utilise Rs.13.50 lakh. The balance amount of Rs.27.50 lakh was diverted (February 1999) to another scheme after a period of six years.

The Management of NSFDC stated (July 2003) that the SCAs were being reminded for utilisation of the funds. They, however, did not furnish reasons for not taking prompt action for recalling the unutilised amount of loans as well as discouraging the SCAs to keep the unutilised funds for a long time.

12.4.4 National Backward Classes Finance and Development Corporation (NBCFDC)

(i) Against the release of Rs.5.98 crore (1992-93 to 1996-97) for autorikshaw scheme, SCA of Karnataka could utilise Rs.4.10 crore and returned the balance amount of Rs.1.88 crore in May 1997. NBCFDC has also released (1993-94) Rs.1.45 crore of which only an amount of Rs.8.67 lakh could be disbursed by the SCA to beneficiaries because of lack of response from banks under margin money scheme. The SCA proposed (December 1995) diversion of Rs.1.36 crore to other schemes, which was allowed in July 1997. Thus, the funds of Rs.1.36 crore remained idle with the SCA for more than three years and Rs.1.88 crore for more than two years (March 2002).

(ii) NBCFDC released (March 1995) Rs.2.70 crore to the SCA of Orissa for providing loan to beneficiaries. After a lapse of more than four years, the SCA refunded (April/August 1999) a sum of Rs.76.72 lakh on the grounds of lack of infrastructure facilities and shortage of staff. Out of the balance funds of Rs.1.93 crore, a sum of Rs.1.86 crore was utilised with delays ranging between 33 months to 80 months and Rs.6.92 lakh was refunded in March 2002.

(iii) Though the utilisation of funds had ranged between 31 and 58 per cent, i.e. less than the prescribed 80 per cent, the Company continuously released the funds aggregating Rs.25.29 crore to SCA of Madhya Pradesh during the period 1995 to 2002.

(iv) To rehabilitate victims of cyclone, SCA of Andhra Pradesh was released (October 1997) first instalment of Rs.10.49 crore, which could not be disbursed to beneficiaries because of non-receipt of the subsidy amount from the State Government. Nonetheless, NBCFDC released three more instalments amounting to Rs.14.64 crore during December 1997 to March 1999. The SCA utilised the funds during the period from March 1999 to June 2001.

(v) Despite the poor utilisation of the funds by SCA of Bihar, NBCFDC continued to release funds aggregating Rs.27.11 crore (31 March 2002).

(vi) SCA of Tamil Nadu was released Rs.18.40 crore during 1993-94 to 1996-97. Out of this Rs.7.94 crore remained unutilised with the SCA ranging from 28 months to 90 months.

In respect of SCA of Karnataka, the Management contended (July 2003) that it was not a case of diversion of funds. They added that the SCAs were being regularly persuaded for timely utilisation and recovery. The reply is not acceptable, as the Company had allowed the SCA of Karnataka to employ the unutilised funds on different schemes and there have been abnormal delays in utilisation of the funds by the SCAs.

12.4.5 National Minorities Development and Finance Corporation (NMDFC)

(i) NMDFC continued releasing the funds to SCA of Madhya Pradesh despite abnormal delays in utilisation by the SCA. The Management admitted (July 2003) the unsatisfactory position of utilisation of the funds and stated that because of its rigorous follow up, the SCA utilised the balance funds by March 2003. The reply is factually incorrect, as a sum of Rs.1.96 crore was lying unutilised with the SCAs as on 31 March 2003.

(ii) SCA of Uttar Pradesh was released Rs.62.09 crore during March 1995 to March 2000 which was utilised with delays up to 20 months. The Management stated (July 2003) that the period of utilisation of funds at the initial stages during 1995 to 1997 was quite high and with the streamlining of the policy and increased follow up, the same has come down. The reply is not acceptable as the funds released till October 1999 were utilised by the SCA with delay of 20 months.

(iii) Despite poor utilisation of the earlier funds, NMDFC continuously made disbursements aggregating Rs.2.29 crore to the SCA of Rajasthan during the period from October 1998 to March 2001. The delay in utilisation of these funds ranged between 9 to 35 months and Rs.55 lakh was lying unutilised with the SCA (31 March 2002). In reply, the Management stated (July 2003) that they had to consider the request (March 2001) of the SCA as unutilised funds were locked at district level awaiting completion of codal formalities by the beneficiaries.

(iv) Out of the release of Rs.11.38 crore during March 1995 to August 2001, the SCA of Kerala utilised Rs.10.88 crore with delay up to 31 months and Rs.50.00 lakh was lying unutilised with it (31 March 2002). The Management admitted (July 2003) that initially the period of the utilisation of funds was quite high, which has significantly come down.

(v) SCA of Tamil Nadu was released (March 1995) Rs.4.64 crore, which were disbursed to the beneficiaries by February 2003 with delays ranging from 24 to 92 months.

(vi) SCA of Gujarat was released Rs.2.65 crore in March 1999, out of which Rs.96 lakh was utilised with delays ranging from 16 months to 38 months and Rs.92.15 lakh remained unutilised till August 2002. Nonetheless, the Company further released Rs.1.47 crore in February 2000 on the plea of reconciling the disbursement of funds based on scheme-wise identification of beneficiaries as the SCA was bifurcated in to two entities.

(vii) SCA of Orissa was released Rs.4.99 crore during 1999 and 2000, out of which Rs.3.01 crore was utilised with delays of 10 months to 23 months and Rs.47.82 lakh was lying unutilised (31 March 2002). Despite poor utilisation of the funds, Rs.1.50 crore was further disbursed (November 2001) to the SCA. The Management stated (July 2003) that Rs.1.50 crore were disbursed as the SCA had utilised about 85 per cent of the funds and remaining funds were locked at the district level. The reply is not acceptable, as the Company had received utilisation certificates to the extent of 73 per cent only on the date of release.

12.4.6 National Safai Karamcharis Finance and Development Corporation (NSKFDC)

(i) SCA of Assam was released (March 2000/2001) Rs.1.98 crore, which remained unutilised for one year. Despite repeated poor performance of the SCA, further disbursement of Rs.4.61 crore was made during 2001-02. Out of total disbursement of Rs.6.59 crore, an amount of Rs.97.00 lakh only was utilised by the SCA till July 2003.

(ii) Out of total disbursement (1998-99 to 2001-02) of Rs.9.06 crore to SCA of Madhya Pradesh, a sum of Rs.4.43 crore has been utilised by the SCA till 30 June 2003 and Rs.1.31 crore have been refunded leaving an unutilised amount of Rs.3.32 crore with the SCA.

(iii) Out of Rs.64.58 lakh disbursed (December 1999) to the SCA of Gujarat, Rs.54.89 lakh remained unutilised and against another disbursement (September 2000) of Rs.1.46 crore, nothing was utilised till 31 March 2002. Nonetheless, NSKFDC disbursed further loans amounting to Rs.5.54 crore during March 2001 to March 2002. The Management confirmed that a sum of Rs.5.89 crore was lying unutilised with the SCA till July 2003.

(iv) NSKFDC has released funds of Rs.17.74 crore to the various SCAs under the sanitary mart scheme[4]. In many cases, the funds were released without obtaining utilisation details for the earlier instalments of loans. While the unspent balance lying with the SCAs as on 31 March 2002 stood at Rs.5.63 crore, the percentage of unspent balance to the funds released ranged between 19.63 to 100. In fact, neither were the beneficiaries interested in this scheme, nor did the SCAs find it practical to form the groups of 25 scavengers to run the sanitary mart. As such, the scheme failed to achieve its objective. So, release of further funds without monitoring the proper utilisation of loan released earlier, led to blockage of un-utilised funds with the SCAs. The

---

[4] ***A Sanitary Mart is a shopping place where the sanitary needs of the common man could be met including materials and equipment. The concept of rehabilitation of scavengers through the establishment of sanitary marts was included in the National Scheme for Liberation and Rehabilitation of Scavengers in January 2000 by the Ministry.***

Management stated (July 2003) that the funds released to SCAs for setting up of sanitary mart has been utilised and in some cases it was under the process of implementation.

12.4.7 National Handicapped Finance and Development Corporation (NHFDC)

(i) Despite poor utilisation of funds released earlier, NHFDC disbursed (2001-02) Rs.3.72 crore to SCA of Orissa, which was lying unutilised (November 2002).

(ii) Though only 9.28 per cent of the funds amounting Rs.3.62 crore released (2000-01) could be utilised by the SCA of Haryana after lapse of 20 months against the stipulated period of 3 months, an amount of Rs.1.10 crore was further disbursed in 2001-02, out of which utilisation of Rs.86.15 lakh was awaited (November 2002).

(iii) Although out of Rs.2.57 crore released to SCA of Gujarat during 2000-01, Rs.2.55 crore was lying unutilised even after a period of 20 months, NHFDC disbursed (2001-02) Rs.1.07 crore, which also could not be utilised by the SCA (November 2002).

Management of NHFDC stated (July 2003) that actual utilisation status might be different from what was derived based on the utilisation data received. The fact, however, remains that the Company must at least obtain correct utilisation data.

12.4.8 Shortfall in government guarantees

In contravention to their lending policies, the Companies disbursed funds to the SCAs without obtaining adequate guarantees of the State Governments. Loans amounting to Rs.178.96 core were not covered by the government guarantees as on 31 March 2002. The position of loan outstanding vis-à-vis government guarantees available as on 31 March 2002 was as under:

(Rs. in crore)

Company	Outstanding loan	Guarantees available	Shortfall in guarantees
NSFDC	122.66	78.76	43.90
NBCFDC	116.18	47.04	69.14
NMDFC	104.65	92.95	11.70
NSKFDC	46.02	5.50	40.52
NHFDC (up to March 2003)	20.67	6.97	13.70
Total	**410.18**	**231.22**	**178.96**

12.4.9 Release of funds for training to targeted beneficiaries

NSFDC, NBCFDC, NMDFC provide funds as grant for imparting skill and training to targeted groups to generate self employment and wage employment and to take up projects under the self employment schemes. It is observed that there was no linkage between the training schemes and the financing schemes, so as to ensure that the trainees were provided with financial assistance by the SCAs to undertake their own self employment schemes. Further, as NBCFDC released entire funds in most of the cases before commencement of the training, the funds remained unutilised with the SCAs for a long time.

12.5 Micro financing

As per the guidelines of the GOI (October 1998), the scheme of micro financing was started by all the Companies to reach the maximum number of target groups for low investment oriented income generating economic activities through self-help groups. The Companies have disbursed funds amounting to Rs.74.83 crore to the SCAs/NGOs under the micro-financing scheme till 31 March 2002 as under:

(Rs. in crore)

Company	Disbursement
NSFDC	35.67
NBCFDC	14.18
NMDFC	6.73
NSKFDC	17.74
NHFDC	0.51
Total	**74.83**

12.5.1 Shortcomings in disbursing loans under micro financing

Following deficiencies were observed in disbursing loans under the micro financing scheme:

(i) No bank guarantee was obtained from the NGOs before advancing loans.

(ii) The monitoring of the performance of the NGOs was not satisfactory.

(iii) Decision to sanction loan in most of the cases was based on the scrutiny of documents submitted by the NGOs, without visiting the office of the NGOs for verifications of their genuineness.

In the case of NMDFC and NBCFDC, repayments amounting to Rs.35.23 lakh and Rs.24.26 lakh were overdue from 36 NGOs and 20 NGOs as on 31 May and March 2002 respectively. The recovery percentage in respect of 6/5 NGOs was between 1 and 33 per cent only.

12.6. Recovery of loans

12.6.1 Repayment of principal

Term loans sanctioned/ released to the SCAs are to be repaid in quarterly instalments within a maximum period of 10 years in the case of NSFDC, NBCFDC, NMDFC and NSKFDC and 7 years in the case of NHFDC. Following table shows percentage of recovery of principal amount of loan from the SCAs:

Company	Percentage of recovery				
	1997-98	1998-99	1999-00	2000-01	2001-02
NSFDC	87	89	86	81	89
NBCFDC	74	79	86	87	90
NMDFC	64	89	84	90	84
NSKFDC	-	-	63	85	66
NHFDC	-	1.4	25	46	61

It is observed that:

(i) The recovery of loans from the SCAs has been satisfactory in the case of NSFDC, NBCFDC and NMDFC. However, recoveries made by the SCAs from ultimate beneficiaries was very poor in all the Companies and was as low as 43 per cent in the case of NBCFDC (2000-01), 41 to 45 per cent in the case of NSFDC (1997 to 2001-02) and 61 per cent in NMDFC (2001-02). The Management of NSFDC accepted (July 2003) that there was a time lag between amount paid by the SCAs and amount recovered by them from the beneficiaries.

(ii) On certain occasions repayment of overdue amounts were adjusted by NSFDC against the disbursements. In one such case, against the proposed disbursement of Rs.4.95 crore, the SCA of Bihar was allowed to get Rs.1.50 crore adjusted against the outstanding amount of Rs.1.53 crore. In another case, NSFDC obtained a request from the SCA of Madhya Pradesh for further release of funds amounting to Rs.1.45 crore and adjusted Rs.1.44 crore against the outstanding/unutilised amount of the loans released for the earlier schemes.

(iii) Loans aggregating Rs.1.62 crore were released by NHFDC to SCA of Andhra Pradesh during 1997-98 to 1999-2000, out of which the SCA refunded Rs.22.83 lakh and utilisation of Rs.30.17 lakh were awaited (November 2002). The undisbursed amount of Rs.44 lakh was kept by the SCA in fixed deposits. Owing to poor rate of recovery, NHFDC stopped disbursement in August 2002. The outstanding amount as on 30 September 2002 stood at Rs.60.43 lakh (including interest of Rs.14.67 lakh). Neither had the SCA agreed to NHFDC's proposal for carrying out a detailed inspection of its accounts, nor has the Government of Andhra Pradesh carried out investigation into the mismanagement in the SCA (November 2002), though the same had been promised in January 2000.

12.6.2 Refund of unutilised funds

(a) Refund of funds without utilisation

The Companies have not ensured identification of the beneficiaries and availability of matching contributions from the SCAs/beneficiaries before providing financial assistance to the SCAs. This led to refund of funds by the SCAs without disbursing to the beneficiaries as discussed below:

(i) In the case of NSFDC, the SCAs of Madhya Pradesh, Tamil Nadu, Bihar and Punjab refunded the amount of Rs.12.14 crore after delays of 311 days to 1517 days, without disbursing the funds to the ultimate beneficiaries.

(ii) In the case of NBCFDC, the SCA of Bihar refunded Rs.1.57 crore in March 1997 and Rs.5 crore in September 2000 after retaining the funds for a period of about 36 months and 32 months respectively. In the case of SCA of Kerala, out of Rs.4.96 crore released by NBCFDC during 1994-96, Rs.1.35 crore was utilised towards repayment of instalments during the period 1996-99. The Management's reply (July 2003) that it was a case of refund of the unutilised funds, is not acceptable, as the same was treated as refund in February 2003 at the request of SCA to show total utilisation of the funds.

(iii) As a result of disbursement of funds by NSKFDC much in advance of requirement, the SCAs of West Bengal, Gujarat, Maharashtra, Pondicherry, Kerala, Chandigarh and Chhatisgarh refunded (2000-01 and 2001-02) Rs.7.20 crore after a delay of up to 22 months without disbursing these to the ultimate beneficiaries.

(iv) In the case of NHFDC, the SCAs of Andhra Pradesh, Orissa and Madhya Pradesh refunded the unutilised funds after a delay of 16 to 31 months.

(b) Refund of funds due to non-implementation of the schemes

NSFDC, NBCFDC and NMDFC sanctioned power loom scheme proposed by Mahatma Phule Backward Classes Development Corporation, against which Rs.10.37 crore were released during March /June 1995. NBCFDC also released (September 1995) an amount of Rs.2.34 crore to Vasantrao Naik Vimukata Jatis and Nomadic Tribes Development Corporation of Maharashtra for a similar scheme. These schemes could not be implemented because of following reasons:

(i) The SCAs started implementing the schemes through the co-operative societies instead of disbursing the loan directly to individual beneficiaries, which was against the provisions of the loan agreement.

(ii) The powerloom co-operatives societies financed by the SCAs did not fulfil the objectives for which the schemes were conceived and the SCAs have no control on the co-operative societies as regards recovery of the loan amount from them.

(iii) The SCAs could not arrange the requisite working capital requirement.

As a result, the Companies received back (August 2000) their funds with simple interest, barring an amount of Rs.16.81 lakh to be received by NSFDC. However, none of the Companies had levied penal interest (HRI) on the SCAs. The Management of NSFDC stated (June 2003) that the State Government of Maharashtra has taken action against the officials of the SCA and recovery of HRI amount was being followed up. The Management of NBCFDC stated (July 2003) that the matter had been taken up with the State Government. While admitting (July 2003) that the co-operative societies did some bungling, which could not be controlled by the SCA, the Management of NMDFC stated that the Ministry has taken up the matter with the State Government and the dues were settled after negotiating for waiver of penal interest.

12.7 Recovery of interest

12.7.1 Loss of interest due to non-compliance of government guidelines

According to the guidelines of the Government (October 1998), the Companies were required to charge interest at rates of 4 and 7 per cent per annum from the SCAs. The Companies were, however, not following the guidelines, which resulted in loss of interest to an extent of Rs.7.63 crore as discussed below:

(i) NSFDC framed its revised lending policy without taking into consideration the Government guidelines. Accordingly, it charged interest w.e.f. 1 April 1999 at a rate of 4/6 per cent against the prescribed 7 per cent on term loans above Rs.2.00 lakh. As a result, NSFDC had foregone revenue of Rs.6.16 crore on account of interest till 31 March 2002 on the term loan of Rs.185.57 crore disbursed during 1999-2000 and 2001-02, besides a recurring annual loss of revenue to an extent of Rs.4.88 crore.

(ii) Though NBCFDC had approved the policy of advance funding to the SCAs at a rate of 6 per cent as per the Government guidelines, it subsequently agreed (March 1999), on the request of the SCAs, to reduce the rate of interest to 4.5 per cent till March 2001. As a result, it suffered a loss of revenue of Rs.71.58 lakh from April 1999 to March 2001.

(iii) NSKFDC has been charging interest from the SCAs at a flat rate of 4 per cent per unit/beneficiary and incurred a loss of Rs.75.47 lakh till 31 March 2002.

Managements of NSFDC, NBCFDC and NSKFDC stated (July 2003) that the lending policies for financing soft term loan to the target groups were approved by the respective BODs. The fact, however, remains that the Companies have neither followed the guidelines, nor taken up the matter with the Ministry for deviating from the guidelines.

12.7.2 Non-recovery of higher rate of interest

According to terms and conditions of the loans, the SCAs were required to utilise the funds within the stipulated period, failing which they were liable to pay higher rates of interest (HRI) of 10/12 per cent. Out of total penal interest of Rs.94.57 crore leviable on the SCAs as on 31 March 2002, interest of Rs.24.37 crore has been waived and Rs.70.20 crore were recoverable from the SCA's, as per details given below:

(Rs. in crore)

Company	Interest recoverable	Interest waived	Total interest
NSFDC	53.59	-	53.59
NBCFDC	3.07	22.66	25.73
NMDFC	9.84	-	9.84
NSKFDC	3.70	-	3.70
NHFDC	-	1.71	1.71
Total	**70.20**	**24.37**	**94.57**

It is observed that all the Companies (except NSKFDC) have not been raising bills for HRI regularly. Further, no serious efforts were made to realise the higher rate of interest from the SCAs. Though the BODs of NSFDC had desired that a committee be formed to review each case for waiver of outstanding penal interest, the NSFDC has not taken any action in this regard (June 2002). BODs of NHFDC decided to discontinue the practice of levying HRI, which is in contravention of the guidelines of the Ministry.

Managements of NMDFC and NBCFDC stated that the HRI could not be recovered due to administrative and financial limitations. NMDFC added that insisting upon payment of the penal interest would be an additional burden on the SCAs. The reply is not acceptable, as invoking the levy of HRI would discourage the SCAs against retaining the funds beyond the stipulated period.

12.7.3 Non-recovery of liquidated damages

The Companies have been charging penal interest at rates ranging from 3 to 12 per cent on defaulted repayments against 12 per cent as prescribed by the Ministry. It is observed that demands for liquidated damages (LD) were not being raised by NSFDC and NMDFC on regular basis. In the case of NHFDC, the penal interest has neither been calculated nor levied on the SCAs despite poor recovery from them.

Against the demands for an amount of Rs.2.06 crore raised by NSFDC up to 30 June 2000, only a sum of Rs.3.3 lakh was received and no further demand was raised thereafter. NMDFC also could recover a nominal amount of Rs.1.48 lakh against the LD of Rs.2.11 crore (31 March 2002).

Out of the outstanding amount of Rs.12.41 crore up to March 2002, NBCFDC recovered penal interest of Rs.7.06 crore and waived penal interest of Rs.4.06 crore, leaving a sum of Rs.1.29 crore to be received from the SCAs as on 31 March 2002. NSKFDC was to recover penal interest amounting to Rs.20.28 lakh (31 March 2002).

12.8 Evaluation of implementation of project/ scheme

One of the main objectives of these Companies was to promote economic and development activities for the benefit of members of targeted groups. Mere disbursements of funds to the SCAs for implementation of schemes/projects do not serve the purpose unless follow-up action or review of implementation is done and corrective measures taken. However, NSKFDC and NHFDC had never conducted such evaluation studies. Summarised findings of these studies conducted by the other three Companies revealed that the money had been disbursed through middlemen in some cases and there was a need to permit beneficiaries to choose the trade to ensure timely recovery of loan.

The Management of NBCFDC stated (July 2003) that they have written to all the SCAs to take remedial steps. NMDFC stated (July 2003) that they have taken action on the study report. The fact, however, remains that the Companies were yet to evolve a system for conducting evaluation studies regularly and to act on their findings.

12.9 Other points of interest

12.9.1 Loss due to non-recovery of funds

(i) NBCFDC invested (February 1993) Rs.7.50 crore at 22.60 per cent per annum in Cement Corporation of India Limited (CCI) for a period of 90 days, which was renewed from time to time on the same rate of interest up to August 1995. CCI was regular in repayment till February 1995, but did not pay any amount thereafter. It was declared a sick Company and referred to BIFR in August 1996. As the CCI had not repaid the dues after disposal of its Yeragumtla plant although it had promised to repay the dues in February 1997, the outstanding amount of Rs.8.88 crore (including interest) had been considered by the Company as doubtful of recovery in the accounts.

(ii) NSFDC invested a total of Rs.15.00 crore in 16.5 and 17 per cent non-convertible debentures of M/s. Punjab Wireless Systems Limited (PUNWIRE) in April, June and July 1998. Though the amount was due for repayment in September and November 1998, PUNWIRE could not repay the same, even after extension of maturity date till September 1999. While PUNWIRE paid only Rs.15.00 lakh, its post-dated cheques of Rs.15.00 crore were dishonoured by their banker. NSFDC filed winding up petition against PUNWIRE in the Punjab and Haryana High Court, which appointed (July 2000) an official liquidator. As the chances of recovery were very bleak, the outstanding amount of Rs.15.40 crore including interest of Rs.54.99 lakh (till 31 March 2000) had been considered by NSFDC as doubtful of recovery in the accounts for the year 2000-01. Management of NSFDC stated (June 2003) that based on directions of the Government, investigations have been carried out and action to fix responsibility was in progress.

12.9.2 Extra avoidable expenditure

NSFDC hired an area measuring 11104 square feet on a monthly rent of Rs.14.00 per square feet for its registered office in New Delhi and executed a lease deed (June 1989) with the owners of the premises. The Company hired (February 1994 and December 1994) additional areas of 3860 square feet at a monthly rate of Rs.17.15/16.00 per square feet and 2590 square feet (open terrace) at a monthly rent of Rs.5000 in the same premises to accommodate additional staff and to make room for safe custody of office records.

On direction of the Ministry (February 2000), NSFDC analysed the requirement of space and surrendered (September 2000) the area of 6450 square feet. As such, NSFDC incurred an avoidable expenditure of Rs.64.04 lakh on hiring of office accommodation in excess of its requirement during the period from February1994 to September 2000.

The Management of NSFDC stated (September 2001/July 2003) that additional space was taken on rent in accordance with the BOD's decision, which was surrendered after the instructions of the Ministry. The fact, however, remains that NSFDC had not assessed the requirement of additional space properly after taking into consideration the scale of office accommodation as prescribed by the Ministry of Works and Housing.

12.10 Conclusions

There were several deficiencies at all stages of implementation of the schemes such as release of funds without fulfillment of stipulated conditions and without ensuring utilisation of the funds released earlier. Disbursement of funds to the SCAs/NGOs have been low as compared to the available funds. Since the Companies did not effectively monitor the utilisation of funds by the SCAs and no system existed for effective monitoring of the progress of the business of the borrowers, there were cases of non-utilisation as well as diversions and parking of funds for other purposes by the SCAs. In this way, the objectives for which the funds were disbursed to the SCAs have not been achieved by the Companies. Out of total funds of Rs.2042.31 crore disbursed to the SCAs up to 31 March 2002, funds amounting to Rs.277.60 crore were lying unutilised with the SCAs. Though a sum of Rs.75.81 crore was due from them on account of penal interest/LD, no significant efforts had been made by the Companies to recover the amount of penal interest.

12.11 Recommendations

The Companies should ensure utilisation of the funds released earlier to the SCAs before disbursing further funds. They also need to evolve an effective system of monitoring the utilisation of the funds by the SCAs. There is a need to evolve some mechanism to evaluate the economic impact on beneficiaries, who have been granted loan by these Companies so as to ensure the fulfillment of the objectives for which the Companies have been established. As the income generation from the project is linked to the kind of activity undertaken, the Companies should identify new areas and innovative activities to be undertaken by the targeted beneficiaries. Besides, the Companies need to build up a system of in-house monitoring of the performance of the SCAs/NGOs.

The review was issued to the Ministry in September 2003; their reply was awaited (October 2003).

MINISTRY OF STEEL

CHAPTER : XIII

National Mineral Development Corporation Limited

Performance of Plant and Equipment, Marketing and Implementation of Project

Highlights

The Company despite having 30 years of experience in iron ore mining operations did not fix norms for various plant and equipment till June 1999. The Company fixed benchmark norms without conducting time and motion study.

The percentage of utilisation of Plant and Equipment (P&E) was far below the norms of BICP and also generally below the Company's own benchmark norms in all its projects.

(Para 13.2.1)

Tertiary Crushing Plant procured by the Company was not suitable to the hard ore at Deposit-5. It resulted in its under-utilisation and as also the Company not being able to meet the contractual demand for Calibrated Lump Ore.

(Para 13.2.2)

Delay of seven years for addition of a fourth line to match the rated capacity of screening plant with that of the crushing and loading plants resulted in loss of production apart from cost overrun of Rs.3.15 crore.

(Para 13.2.3)

The Company instead of optimising the utilisation of existing equipment, resorted to excess procurement of Heavy Earth Moving equipment at a cost of Rs.41.22 crore during the seven year period ended 31 March 2001.

(Para 13.2.4)

Procurement of two more Hydraulic Shovels during 1994-95 and 1995-96 at a cost of Rs.11.15 crore without first establishing their performance vis-a-vis electric shovels resulted in increase in cost of operations.

(Para 13.2.8)

Failure to incorporate a penal clause in the purchase order for the shortfall in the guaranteed availability of H-121 Hydraulic Shovel resulted in loss of Rs.1.38 crore to the Company.

(Para 13.2.9)

The percentage of breakdown to schedule hours in respect of H-121 Hydraulic Shovels was very much on high side. The Company did not analyse the reasons for idle time hours for other reasons so as to take corrective action.

(Paras 13.2.10 and 13.2.11)

Failure to enforce the contractual provision in regard to pre-determined shortages resulted in loss of Rs.33.74 crore.

(Para 13.3.1)

Failure to enforce the contractual provisions regarding sharing of exchange rate variation on sale from the stocks lying at the year end resulted in loss of Rs.8.14 crore.

(Para 13.3.2)

Dispatch of contaminated iron ore to South Korea resulted in avoidable loss of Rs.59.33 lakh.

(Para 13.3.3)

Delay in compliance with the recommendations of tax consultants resulted in the Company foregoing tax rebate of Rs.20.46 crore.

(Para 13.3.4)

Issuance of the work orders for execution of civil and structural works without obtaining forest clearance led to claims amounting to Rs.14.42 crore for compensation towards men and machinery deployed by the contractors and lying idle.

Procurement of plant and equipment even though there was no progress in the civil works resulted in additional expenditure on a) prolonged storage and insurance charges, b) expiry of warranty period in respect of some equipment even before commissioning and c) idling of electrical substation 'B' valued at Rs.3.03 crore.

(Para 13.4.1)

Non commissioning of the Ultra Pure Ferric Oxide Plant, due by December 1997, owing to deficiencies in know-how and basic engineering and delay in conveying the Company's decision to run the plant with the three stages as originally envisaged resulted in locking up of funds of Rs.54.39 crore.

(Para 13.4.2)

Development of low Silica Limestone Project subsequent to SAIL's decision to withdraw from the Project and incurring expenditure of Rs.2.41 crore thereafter lacked justification. Inadequate down the line tie up resulted in rendering the Rs.5.25 crore spent on the project infructuous though the limestone was of good quality.

(Para 13.4.3)

The Company incurred an expenditure of Rs.72.08 lakh for obtaining statutory clearance for site at Geedam even before the State Government handed over the private land for setting up the Company's Iron and Steel Plant. This became infructuous with the decision to shift the project to Nagarnar.

(Para 13.4.4)

Inadequate marketing and non execution of the Chawandia Limestone Project as per the contract by the sub-contractor resulted in a loss of Rs.8.61 crore including cash loss of Rs.7.53 crore.

(Para 13.4.5)

13.1 Introduction

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

The turnover of the Company has increased from Rs.299.05 crore in 1994-95 to Rs.1209.58 crore in 2002-03. Similarly, profit before tax has gone up from Rs.101.68 crore in 1994-95 to Rs.420.18 crore in 2002-03. The net worth which stood at Rs.403.47 crore as on 31 March 1995 increased to Rs.1591.74 crore as at the end of 2003. The Company paid dividend amounting to Rs.290.75 crore during the last nine years ending 31 March 2003. The Company was declared a Mini-Ratna from December 1998 and was given the status of Schedule 'A' Company with effect from 4 June 2001.

From 1991-92 onwards, the Company has been signing a Memorandum of Understanding (MOU) with the Administrative Ministry on an annual basis fixing targets for various activities with weightages. The performance of the Company as a whole with reference to MOU targets was rated as "Excellent" during the period 1994-95 to 2001-2003 except during the year 1998-99 when it was rated as "Very Good".

The activities of the Company were last reviewed in the Report of the Comptroller and Auditor General of India, Union Government No.5 (Commercial) of 1989. The present review covers the developments subsequent to 1989 and with particular reference to performance of plant and equipment, marketing and implementation of projects during the period 1994-95 to 2002-2003.

13.2 Plant and Equipment Performance

13.2.1 Utilisation vis-à-vis BICP norms

Mining operations are carried out with heavy-duty mining equipment viz., blast-hole drills, shovels and dumpers, which are quite expensive and, therefore, it is essential that their utilisation is as productive as possible. It was seen that the Company has not fixed any norms for operation of these equipment till June 1999 when it fixed Benchmark Norms. These norms were based on the previous three years operational averages and the maximum production availability/utilisation in the three iron ore mines. No study was conducted for fixing the norms on a scientific basis. The Benchmark Norms fixed were lower than the Bureau of Industrial Costs and Prices (BICP) norms of 1984.

A review of utilisation of Plant and Equipment (P&E) revealed that the percentage of utilisation of P&E was far below the norms of BICP in all the projects during the last nine years (1995-2003). The utilisation of P&E was also generally below the Company's own Benchmark Norms during 2000 to 2003.

The Ministry in their reply (February 2003) stated that looking into the tough operations in the iron ore mines, the BICP norms, which are theoretical and impractical, framed with the experience of coal mines could not be adopted by the Company. The above reply is not acceptable as BICP norms were fixed after comparing their performance at Deposit-14 and Depsoit-5 and other similar mines of Steel Authority of India Limited (SAIL) and were accepted by the Company.

13.2.2 Under-utilisation of Tertiary Crushing Plant

In order to meet the anticipated demand of about 4 million tons of Calibrated Lump Ore (CLO), the Company installed (March 1992) Tertiary Crushing Plant at a total cost of Rs.10.16 crore at Deposit-5. They had an installed capacity of 22 lakh tons of CLO per annum. The actual production of CLO ranged from 1.02 lakh tons (1992-93) to 11.9 lakh tons (1996-97) since its commissioning as design of the crushers was unsuitable to the hard ore of Deposit-5. Due to this there was shortfall in production of 21.12 lakh tons and consequently the Company could not meet its contractual demand for CLO from 1993-94 to 1999-2000.

The Ministry stated (February 2003) that the Tertiary Crushing Plant produced 21.48 lakh tones of CLO in 1996-97, which was very near to its installed capacity. It was further stated that the characteristic of ore in upper benches of Deposit-5 was less hard when tested for preparing specifications for the crusher and accordingly the crusher suitable for that hardness was procured. The above reply is not factually correct in as much as the CLO produced during 1996-97 was only 1.19 million tonnes out of total lump of 1.48 million tonnes was fed to the Tertiary Crushing Plant. Further, the detailed project report of Deposit–5 considered all the aspects and characteristics of the entire ore body including the lower benches.

Adoption of different parameters in different DPR/ MMS

An analysis of the technical assumptions made in the different Detailed Project Reports and Modified Mining Scheme (MMS) for working out the requirement of mining equipment revealed that though mining equipment were of the same capacity, different technical/physical parameters were adopted for working out the requirement of the equipment for different projects. However, Audit did not find evidence of an objective analysis of factors for doing so.

The Management accepted (July 2001) that there was a mistake in taking job efficiency of shovels in respect of Deposit 14/11C as 100 per cent instead of 90 per cent and agreed to re-examine the specifications of technical parameters. The Ministry in its reply did not comment on this aspect.

13.2.3 Imbalances in the rated capacities of Crushing and Screening plants in DIOP

The Company identified mismatch in capacities of crushing plant, surge pile and screening plant as posing a constraint in Donimalai Iron Ore Project (DIOP) attaining the rated capacity of 40 lakh tons of Run of Mined ore (ROM). Based on the Report (September 1987) of a three member team of the Company, it was proposed (January 1991) to increase the existing rated capacity of the screening plant to match the crushing plant. The Company, however, decided (June 1998) after a delay of seven years to match the rated capacity of screening plant with that of the crushing and loading plants by addition of a fourth line including the extension of surge pile at an estimated cost of Rs.6 crore to increase the production capacity by 15.3 lakh tons of both lump and fine ore. Thus, as a result of delayed decision, mismatch of capacities continued with consequent loss in production. Besides, it also resulted in cost overrun of Rs.3.15 crore on addition of the fourth line.

The Ministry stated (February 2003) that the rated capacity of all the three plants for crushing, screening and loading was 1800 Tonne Per Hour (TPH) and that the fourth line of screening plant was planned to take load of Kumaraswamy mine and not to match the capacities. The above reply is not tenable as the rate of screening plant was only 1000-1050 TPH against the rated capacity of 1800 TPH of crushing and loading plants resulting in frequent "surge pile full" and stoppage of crushing plant. As such, it was decided to add the fourth line to achieve rated capacity of 4 million tonnes of ROM per annum. Further, the BICP Report of 1984 also confirms that the output of screening plant at Donimalai was 1200 TPH as against 1800 TPH of the Crushing Plant.

13.2.4 Procurement and performance of heavy earth moving (HEM) equipment

The Company instead of optimising the utilisation of existing equipment resorted to excess procurement of HEM equipment viz., Blast Hole Drills, Electrical/Hydraulic Shovels, and Dumpers valued at Rs.41.22 crore during the last seven year period ended 31st March 2001 as discussed below:

Excess procurement of HEM Equipment (Number) Rs. in lakh					
Equipment	**DIOP**	**Deposit-5**	**Deposit-14/11C**	**Deposit 10&11A**	**Total**
BH Drills	(2) 177	--	(1) 153	--	(3) 330
Shovels	(2) 576	--	(1) 545	(2) 1054	(5) 2175
Dumpers	(2) 280	(5) 580	(5) 757	--	(12) 1616
Total	**(6) 1033**	**(5) 580**	**(7) 1455**	**(2) 1054**	**(20) 4122**

13.2.5 Excess procurement of Blast Hole Drills

Donimalai Iron Ore Project

The utilisation of Blast Hole Drills at DIOP ranged between 25 per cent and 31 per cent during 1995-96 to 2002-03, which was far below the BICP norms. Despite low utilisation of drills the Company procured 2 additional Blast Hole Drills at a cost of Rs.1.77 crore during 1997-98 and 2000-01 resulting in unnecessary blocking up of funds. As such this procurement lacked justification.

Bailadilla Deposit 14

The utilisation of Blast Hole Drills at Deposit-14 ranged from 12 per cent to 17 per cent during nine years ending 31 March 2003, which was far below the BICP norms. Despite the low utilisation the Company procured one additional drill at a cost of Rs.1.53 crore during 1996-97 resulting in unnecessary blocking up of funds. The reply of the Management in respect of Deposit-14 that the number of drills has to be almost matching with the number of benches is not correct, in as much as the project operated five mining benches with the utilisation of 3 drills in Deposit-14 during 1994-2000. The project authorities realised the fact of under utilisation and decided (April 2000) to review and reduce the fleet of drills at Deposit-14 and 11C.

13.2.6 Excess procurement of Shovels

Donimalai Iron Ore Project (DIOP)

The DIOP project achieved 100 per cent designed capacity of excavation of ore and waste during 1995-96 and 1997-98 by utilising 38 per cent and 40 per cent of electric shovels and 26 per cent of hydraulic shovels against the BICP norm of 55 per cent/50 per cent respectively. In spite of under utilisation of the electric and Hydraulic Shovels, the Company procured (October 1999) two more electric Shovels at a cost of Rs.5.76 crore increasing the total fleet to nine as on 31 March 2001 as against seven shovels of 4.6 M^3 (including 6 Shovels of 1.89 M^3 capacity equivalent to 3 Shovels of 4.69 M^3 capacity) as envisaged in the Modified Mining Scheme. Thus, procurement of two shovels valued at Rs.5.76 crore, in excess of requirement, lacked justification.

Bailadilla Deposit -11 C

In spite of under-utilisation of electric shovels during 1994-95 at Deposit-11/C, the Company procured two H 121 Hydraulic Shovels, one in 1994-95 and another in 1995-96 at a total cost of Rs.11.15 crore. Thus, at Deposit 11C had seven shovels as on 31 March 1996 as against the requirement of six envisaged in the DPR. Therefore, procurement of one shovel at a cost of Rs.5.45 crore, which was in excess of the requirement, lacked justification.

Deposit 10/11A

As against the requirement of two shovels during the construction period, envisaged in DPR, the Company procured four Hydraulic Shovels at a cost of Rs.21.10 crore. The two electric shovels received during May / September 1998 remained idle for want of power lines to mine faces. Thus, the procurement of two H-121 shovels far in advance of requirement resulted in blocking up of funds amounting to Rs.10.54 crore with consequential loss of interest of Rs.4.80 crore up to June 2002.

13.2.7 Excess procurement of Dumpers

The utilisation of dumpers ranged between 18 to 27 per cent at Deposit–14, 22 to 28 per cent at Deposit-11C, 23 to 30 per cent at Deposit-5, and 32 to 40 per cent at DIOP as against the BICP norm of 49, 49, 45, and 50 per cent respectively during all the nine years ending 31 March 2003. Nonetheless, the Company procured 12 dumpers valued at Rs.16.17 crore in excess of the requirement during the period 1995-99 in the three projects viz. Deposit 14/11C, Deposit-5, and DIOP the details of which are discussed below.

Deposit-14/11C had a fleet of 35 dumpers as on 31 March 1996 and their utilisation during 1995-96 was only 24 per cent of the scheduled hours and haulage of ore and waste was 80.43 lakh MT representing 95 per cent of the designed capacity of 85 lakh MT. In spite of gross under utilisation as compared to BICP norms of 49 per cent, the Company procured 2 more dumpers in 1997-98 and 3 more dumpers in 1998-99 at a cost of Rs.7.57 crore which could have been avoided by better utilisation of existing fleet.

While arriving at the requirements of dumpers at Deposit 11C and DIOP the Company adopted the average speed of a dumper as 25 kmph (May 1978 and July 1987). However, the dumper requirement at Deposit-5 was assessed taking the average speed of 15 Kmph. Considering average speed of 25 Kmph, the requirement of dumpers at Deposit-5 would have worked out to 18 as against 22 projected in the DPR and actual procurement of 24 dumpers as on 31 March 2001. Thus, there was an excess fleet of 6 Dumpers at Deposit-5 of which 5 Dumpers valued at Rs.5.80 crore were procured during 1995-98.

The Company reassessed (July 1987) the requirement of dumpers at 17 for DIOP for handling 90 per cent of the designed capacity of excavation of ore and waste taking the average lead distance of 2.5 KM for ore and 1.25 KM for waste. It was, observed that the maximum haul distance for ore and waste during six year period ended 31 March 2000 was only 2.18 KM and 0.75 KM respectively as compared to the projected/estimated haul distance of 2.5 KM and 1.25 KM. The requirement of dumpers would work out to 14 considering the actual haul distance for ore and waste. The Company, however, procured two more dumpers in 1997-98 and 1998-99 at a cost of Rs.2.80 crore which were in excess of the requirement considering the actual haul distance.

The Ministry attributed (February 2003) the excess holding of HEM equipment to maintain the quality of the product, and lower utilisation of the equipment to their poor design. It informed that the Company has assured to reduce the fleet wherever possible after re-assessment of the condition and utilise the same wherever required in future.

13.2.8 Procurement of Hydraulic Shovels without establishing the performance

The Company for the first time procured one H-121 hydraulic shovel in 1993-94 at a cost of Rs.4.90 crore and commissioned the same in September 1993 at DIOP. Without establishing the performance of the said shovel, it procured two more H-121 Shovels in 1994-95 and 1995-96 for Deposit-11/C at a cost of Rs.11.15 crore and commissioned them in May 1994 and August 1995.

A review of operational performance of H-121 Hydraulic Shovels vis-à-vis Electric Shovels revealed that on an average the total quantity of ore and waste handled by an Electric Shovel was 50.15 lakh MT against 27.47 lakh MT by the H-121 Hydraulic Shovel. The cost of operations per ton of ore/waste excavated by an Electric Shovel and a Hydraulic Shovel worked out to Rs.3.96

and Rs.14.71 respectively in DIOP and Rs.5.16 and Rs.19.13 in Deposit-11/C. The cost of operations by Hydraulic Shovels was much higher than that of Electric Shovels owing to high capital cost and poor availability due to high incidence of breakdowns.

The Ministry stated (February 2003) that the lack of knowledge in maintenance and pressure of production resulted in neglect of these shovels. It was further stated that as the number of these equipments in the projects were less, these equipment could not get proper attention and hence the performance was adversely affected. The Ministry also stated that the Company had assured it would have Annual Maintenance Contract (AMC) with the OEM to get better performance from these equipments. The reply of the Ministry is not tenable as the availability of the Hydraulic Shovel during 1994-95 in DIOP was extremely low due to high incidence of breakdowns as brought out in para 13.2.10.

13.2.9 Loss of Rs.1.38 crore due to failure to incorporate a penalty clause

The Company procured (July 1993 to June 1995) three H 121-Hydraulic Excavators from M/s. Hyderabad Industries Limited, Hooghly at a total cost of Rs.16.05 crore. In terms of a clause in the purchase orders, the supplier had given performance guarantee for a minimum average availability of the equipment at 85 per cent during the warranty period of 24 months from the date of commissioning and had furnished a bank guarantee of Rs.1.38 crore equivalent to 10 per cent of the ex-works price of the equipment.

However, the actual average availability of three shovels was only 68.82 per cent, 73.71 per cent and 75.10 per cent during the warranty period. Despite the shortfall in the guaranteed availability, the Company could not effect recovery of penalty, as no penal clause was included in the purchase order. As a result, the Company was deprived of the benefit of claiming Rs.1.38 crore for the shortfall in the guaranteed availability of the equipment.

The Management stated (July 2001) that all the future purchases would have a penal clause with regard to performance of the equipment.

13.2.10 Excess Downtime of equipment

An analysis of data of break down time of HEM equipment showed that:

(a) Breakdown hours to scheduled hours in respect of H-121 Hydraulic Shovels ranged from 45 per cent to 88 per cent in Deposit-14/11C and 44 per cent to 66 per cent in DIOP during 1995-2003 which was very much on the high side;

(b) Breakdown hours in respect of Blast Hole Drills in Deposit-5 and Deposit-14/11C were higher than the BICP norm of 30 per cent in all the nine years, except in 1996-97 in Deposit-14/11C; and

(c) The percentage of breakdown hours in respect of Crawler Mounted Drills ranged from 21 to 74 warranting the attention of the Management.

The Ministry stated that (February 2003) that the working conditions of iron ore mine are tough due to highly abrasive characteristic of iron ore and as such the equipment require more maintenance and breakdown of equipments are also more. As regards hydraulic shovels, the Company could not get the desired performance due to lack of service support from the Indian agent of the German manufacturer and low operational and maintenance skills of the staff. The Ministry had further stated that the Company has assured of efforts to bring improvement in maintenance practices by introducing condition based monitoring.

13.2.11 Idle time

The idle time to schedule hours in respect of Deposit-14/11C and Deposit-5 was rather on the high side and more than the BICP norms during 1995-2003, as may be seen from the following table:-

(in per cent)

Equipment	BICP Norm	Deposit 14/11C	BICP Norm	Deposit 5
Dumpers	16	19 to 36	15	18 to 37
Electric Shovels	20	25 to 47	20	28 to 44
Blast Hole Drills	14	29 to 55	14	29 to 50

The following table indicates the percentage of total idle hours for want of operator/helper to total available hours for Shovels, Dumpers, Blast Hole Drills, and Crawler Drills in respect of Deposit 14, Deposit 11C, Deposit 5 and DIOP during the last nine year period ended 31 March 2003. Moreover, the Company has not analysed the reasons for idle time in respect of 'others' column so as to take corrective action.

(Percentage of idleness)

Equipment	Deposit –14	Deposit – 11C	Deposit – 5	DIOP
Shovels	13	5	4	2
Dumpers	12	6	3	9
B/H Drills	21	5	26	14
CM Drills	32	8	49	15

The Ministry stated (February 2003) that due to low skill of maintenance and operational staff of the Company, the performance of the equipment suffered and the Company has not been able to achieve optimum utilisation of the equipment. The idle hours not filled in specified reasons in the equipment utilisation report are counted as others and the Company has issued instructions to all the mines to fill in "others" column mentioning the reasons.

13.3 Marketing

The Company exports iron ore through MMTC, but sells directly in the domestic market. It started exporting iron ore directly to China and Japan from 1999-2000. It sells diamonds through tenders/auctions at Mumbai and Panna. The Company also provides consultancy services connected with mining activity.

13.3.1 Excess payment of Rs.33.74 crore due to incorrect assessment of shortages

The Company signs a Record Note of Discussions (RND) with MMTC, which defines the terms and conditions of supply of iron ore. According to the RND, shortages in lumps and fines would be recovered by MMTC at pre-determined percentages that were to be based upon the shortages to be assessed through a joint survey by MMTC and the Company. However, joint surveys as envisaged were not carried out during 1995-96 to 1999-2000 except in 1997-98.

The physical verification reports relating to the years 1994-95 to 1999-2000 generated by MMTC revealed that the actual value of shortages were less than the pre-determined shortages. The actual shortages for the six year period ended 31 March 2000 worked out to Rs.17.51 crore while the Company reimbursed an amount of Rs.51.25 crore resulting in excess payment of Rs.33.74 crore.

The Ministry stated (February 2003) that from 2001-02 the pricing mechanism with MMTC has been changed according to which the Company is reimbursing the actual expenditure to MMTC and paying a fixed percentage as service charges. The Ministry has not explained the loss sustained due to failure on part of the Company to enforce provisions of RND.

13.3.2 Loss of Rs.8.14 crore due to not claiming exchange rate variation as per RND

The RND of 1997-98 provided for sharing the benefit on account of exchange rate fluctuations beyond Re.0.65 over the base-exchange rate between the Company and MMTC in the ratio of 80:20.

There was a stock of 2.57 lakh tons of lump ore and 1.62 lakh tons of fine ore lying at the Vizag Port as on 31 March 1998 out of the ore dispatched during the year 1997-98. MMTC shipped this stock on/after 1 April 1998. While MMTC paid the Company @ Rs.35.67 per US$ for the ore lying at Vizag Port at the year-end, it realised Rs.40.25 per US$ on sale. MMTC did not pay the Company its share of exchange rate variation amounting to Rs.2.76 crore nor did the Company make a claim. It did not claim such benefit amounting to Rs.1.95 crore on the stocks of ore lying at Vizag Port as on 31 March 1999 and 31 March 2000. It did, however, lodge a claim for the stocks lying as on 31 March 2001 amounting to Rs.3.43 crore.

The Ministry stated (February 2003) that the loss is purely speculative and notional and could be both ways depending on the fluctuation of rupee. The reply is not tenable as the benefit on account of exchange rate variance should have been claimed as per the provisions of the RND. Failure to enforce the contractual provisions, thus, resulted in substantial loss of Rs.8.14 crore to the Company.

13.3.3 Avoidable loss of Rs.59.33 lakh on export of coal contaminated iron ore

The Company has been supplying iron ore to MMTC for export to South Korea through Chennai Port. The Company has an arrangement with Railways for supply of clean wagons before loading to avoid contamination of the ore with other foreign material.

The Company noticed during the month of November 1998 that a few wagons in every rake were half or more than half-full of coal. The Company declared these wagons as sick and loaded the remaining wagons. Railways dispatched these rakes to Chennai port without detaching the wagons containing coal. All the wagons were unloaded together resulting in the coal getting mixed with iron ore and remaining covered up in the huge stockpile of iron ore, which was shipped to the customer in South Korea.

On unloading the customer found that the ore was contaminated with carbon and made (February 1999) a claim for US$ 249,699 towards cost of iron ore equivalent to coal content, inventory holding charges, cost of segregation of coal from iron ore fines, etc. After verifying the claim, the Company paid (April 1999) Rs.59.33 lakh. The Company, however, did not lodge a claim with the Railways towards compensation for supplying contaminated wagons. They have not so far fixed responsibility for this nor was this matter brought before the Board - even at the time of making the payment of Rs.59.33 lakh to the Korean firm.

The Ministry stated (February 2003) that after much pursuing, the Railways had taken up the wagon cleaning work from June 1999 and the wagons so cleaned were being inspected by the Company since then. While this does take care that such an incident is not repeated, the Ministry's reply is silent about the action taken by the Company to fix responsibility for the lapse that resulted in a loss of Rs.59.33 lakh.

13.3.4 Failure to availing tax rebate of Rs.20.46 crore

The prices of iron ore were based on FOR Bailadila/Ranjitpura up to 1994-95. The Company as a part of tax planning, sought (December 1992) suggestions from M/s. A.F.Ferguson & Co. who suggested (April 1993) a change in terms of supply from FOR Bailadila/Ranjitpura to FOR Vizag Port/Madras Port to claim tax exemption for export turnover including the element of freight under section 80 HHC of Income Tax Act 1961. It was possible for the Company to incorporate the changes suggested in the year 1993-94 itself as RND with MMTC defining the terms and conditions of supply of iron ore for the year 1993-94 was signed (May 1993) subsequent to the receipt of the report. However, the Company incorporated the suggested changes only in 1995-96 and claimed the tax rebate from the assessment year 1996-97 onwards. Thus, the Company failed to avail tax rebate amounting to Rs.20.46 crore for no valid reason.

The Ministry did not furnish any reply to the above. Management, however, stated (October 2000) that RND is a mutually agreed document and it was not possible to make unilateral changes without the consent of the other party and they had taken the first opportunity to implement the recommendations with the consent of MMTC. The reply is not tenable as the Company was required to only incorporate the change in the upcoming RND and not seek amendment of the already signed RND. Therefore, the question of making unilateral changes did not arise.

13.4 Project Implementation

13.4.1 Expansion of Bailadila 10 and 11A Projects

The Company obtained (August 1995) approval of Ministry of Steel, Government of India for development of Bailadila 10 and 11A mines at an estimated cost of Rs.430.50 crore to produce 5 million tons of ROM yielding 2.4 million tons of lump ore and 2.1 million tons of fine ore per annum. The original estimated cost of the project was revised (August 1998) to Rs.466.69 crore against which the Company had incurred Rs.334.83 crore to the end of March 2003. The project was to be completed within 48 months from the date of sanction i.e., by August 1999 but was revised to July 2002. As against this, the first load trial runs of the project commenced on 15 July 2002. The commercial operations are yet to commence (August 2003). This is mainly due to delay in obtaining renewal of mining lease and forest clearance for use of forestland and in applying for mining lease for additional land required for construction of the main pump house to provide water supply to crushing/screening plants. The water system package is yet to be completed (August 2003).

The mining lease of Deposit-10 had expired on 10 September 1995. The Forest (Conservation) Act, 1980 stipulated that no work would be started on forestland as well as non-forestland without forest clearance. Notwithstanding this, the Company issued work orders in June 1996 and September 1996 for execution of civil and structural works in Deposit-10 for installation of Crushing and Screening Plants. Accordingly, the contractors mobilised men and machinery and commenced the work, which was stopped (February 1997) on the directives of forest authorities. The issue of work orders not only contravened the provisions of the Forest (Conservation) Act, 1980 but also led to claims amounting to Rs.14.42 crore for compensation towards men and machinery deployed by the contractors and lying idle.

Further, the Company placed orders for procurement of equipment at a cost of Rs.43.72 crore subsequent to the directions (February 1997) of Forest Department to stop all works till the mining lease of Deposit-10 was renewed. Consequently, the plant and equipment supplied by vendors remained idle due to non-completion of civil works for want of forest clearance.

The Company should have initiated procurement action for primary and secondary crushers, stackers, re-claimer, wagon loader and equipment relating to sub-station and screens after the related civil works had somewhat progressed. Disregarding the fact that there was no progress in the civil works for want of forest clearance the Company issued purchase orders for procurement of the above in May 1996 and October 1996 at a cost of Rs.41.38 crore. Thus, improper procurement resulted in unnecessary blocking up funds of Rs.85.10 crore. The Company also prematurely released balance 10 per cent to 20 per cent payments to suppliers before erection and commissioning of P&E with attendant risks. Besides, it has also resulted in (a) prolonged storage contributing to additional expenditure towards storage and insurance charges, (b) expiry of warranty period in respect of primary crusher and EOT cranes valuing Rs.12.62 crore even before commissioning and utilisation and (c) idling of electrical substation 'B' valued at Rs.3.03 crore since October 1998.

The Ministry disagreed (February 2003) with audit's contention that the Company would have completed the work by July 2002 according to the revised schedule even if the Company had placed orders for procurement of equipment after getting final forest clearance (which was in February 2000 and not in 1998). It further stated that considering the activities and their duration the plant could have been completed after 48 months i.e. by February 2004 only if the zero date of project execution was taken as February 2000 when the Company actually received the communication for the clearance from the Madhya Pradesh Forest Department.

The reply of the Ministry is not tenable as the maximum lead time required for procurement of any equipment was 110 weeks and the Company had revised the scheduled date of completion as July 2002 after the actual date of receipt of the forest clearance i.e., February 2000. Hence, the Company would have received the equipment by July 2002 according to the revised schedule even if it had placed orders for procurement of P&E after getting final forest clearance (February 2000). Therefore, the advance release of purchase orders for procurement of P&E involving substantial funds lacked justification.

13.4.2 Diversification of Ultra Pure Ferric Oxide Plant at Visakhapatnam

The Detailed Project Report for setting up of an Ultra Pure Ferric Oxide Plant at Visakhapatnam (UPFO) was approved by the Board in February 1995 at an estimated cost of Rs.45.98 crore. The project envisaged production of 6000 tons of UPFO per annum at 90 per cent capacity utilisation. The cost was revised (September 1998) to Rs.49.18 crore. The Company entered into an agreement (August 1995) with M/s. International Steel Services Inc., USA (ISSI) for procurement of process know-how, technology, basic and detailed engineering, supply of equipment, erection, commissioning and for conducting performance guarantee test of UPFO plant for a total price of US$ 2.72 million (equivalent to Rs.8.57 crore) plus Rs.21.63 crore (excluding taxes and duties payable in India). The plant was to be commissioned within 28 months i.e. by December 1997.

As per the contract, the plant was to be operated in three stages. However, the Company took up trial runs (July 1998) without installation of the third stage and the final output as per DPR specification could not be achieved. It later decided (December 1999) to commission the plant as originally envisaged with three stages. Further, the Management (April 2001) noticed deficiencies in the know-how, basic engineering and equipment after a lapse of 68 months from the date of entering into an agreement. The plant performance was not reliable and it could operate only at 50 per cent of the rated capacity and could not produce required quality of UPFO (May 2001). The Company issued show cause notices (June 2001) to M/s. ISSI and its associate M/s. KTI, asking as to why the plant should not be taken over by the Company at their risk and cost. Further, supply of defective Fibre reinforced tanks and agitator containers contributed to the delays in the commissioning of the plant. Of the liquidated damages of Rs.2.34 crore on account of the above defective supplies, an amount of Rs.1.07 crore has been recovered. Balance is yet to be recovered.

Thus, due to deficiencies in know-how and basic engineering, and delay in deciding about third stage led to a delay of 64 months (July 2003). The project is yet to be commissioned for commercial production (July 2003). The Company blocked up Rs.54.39 crore which was avoidable. It is worth noting that the Management considered bringing the progress of implementation of this project before the Board of Directors only in May 2001.

The Ministry stated (February 2003) that the proposal to explore the feasibility of eliminating Tributyl phosphate in third stage did not in any way cause delay in commissioning of the plant as all the equipments pertaining to third stage were already installed. The reply of the Ministry is not tenable as the Company has lost considerable time of about 20 months from the date of initiating the process of exploring the feasibility of eliminating the third stage in March 1998 to finally conveying their decision in November 1999 to run the plant with three stages as originally envisaged. The fact remains that the plant is inoperative since April 2002 as it has not yet stabilised and the marketing of the product is still to be tied up with the actual users. Thus, the objective for which the plant was set up at a cost of Rs.54.39 crore could not be achieved so far (August 2003).

13.4.3 Low Silica Lime Stone Project at Arki

In order to meet the requirement of Low Silica Limestone for steel plants, the Company signed a MOU with SAIL (November 1989) for jointly taking up detailed geological exploration/investigations and preparation of Environmental Management report for development of Low Silica Limestone Deposit at Arki. It was agreed that SAIL would contribute 60 per cent of the total cost subject to a maximum of Rs.60 lakh. Government of India approved (August 1990) taking up Stage-I of this project at a cost of Rs.2 crore. The Company incurred Rs.2.45 crore to the end of March 1993. SAIL, however, decided (September 1993) not to participate in the project on the ground that the requirement of Low Silica Limestone had reduced considerably in view of the improvement in technology and usage of imported coke and due to high cost of production. Despite SAIL's decision to pull out, the Company continued its operations and incurred further expenditure of Rs.2.41 crore from April 1993 to March 1998. It was decided only in May 1998 that Arki Limestone Deposit was not viable for development in the near future and the project was kept under care and maintenance since then. Of the total expenditure of Rs.5.25 crore incurred to the end of March 1999, the Company has charged off Rs.3.89 crore during 1999-00, as there were no positive signs of further development of the deposits.

The Ministry stated (February 2003) that the deposit has high quality limestone and for keeping the lease intact bare minimum activities/essential developmental works were carried out incurring an extra expenditure of Rs.2.41 crore during April 1993 to March 1998. The reply of the Ministry is not tenable in view of the fact that the Government of Himachal Pradesh served a show cause notice in September 2002 intimating that it is proposing to cancel the lease, as the mining operations have not commenced as stipulated in the lease agreement. Inadequate down the line tie up has, thus, resulted in rendering Rs.5.25 crore spent on the Limestone Project infructuous.

13.4.4 Romelt Plant for production of Pig Iron at Geedham, Madhya Pradesh

The Company proposed (December 1998) to set up a plant using Romelt technology from Russia for conversion of slimes into pig iron. For setting up the plant, the requirement of land was identified as 853.24 acres comprising 376.89 acres of private land and 476.35 acres of Government land. Though

Government of Madhya Pradesh allotted 476.35 acres of Government land for the project, it could not hand over the private land. Construction of the project, therefore, could not be taken up at site. Therefore, the Company had made an application to the District Collector, Jagdalpur, for allotment of an alternative site at Nagarnar village. The allotment of private and Government land at Nagarnar was made in September and October 2001 respectively.

The Company, however, went ahead even before the private land was handed over at Geedam by the State Government and incurred an expenditure of Rs.72.08 lakh for obtaining statutory clearance for site at Geedam. With the decision to shift the project from Geedam to Nagarnar, the above expenditure has become infructuous and again similar expenditure had to be incurred at Nagarnar. This has been written off in the accounts for the year 2001-02.

The Ministry admitted (February 2003) that in view of the change in site some of the preliminary works taken up considering the establishment of plant to be at Geedam became infructuous.

13.4.5 Chawandia Limestone Project, Jodhpur

Based on Government recommendation to develop low silica limestone deposits for supply to steel plants the Company took up Chawandia Lime stone Project, at Jodhpur over an area of 3.35 sq km with a mining lease of 20 years. The Company procured a mobile Crushing and Screening Plant, which was commissioned in November 1994. Capital expenditure incurred up to March 2003 worked out to Rs.2.40 crore. The Company placed (February 1994) a work order on M/s. Sachdeva & Sons, New Delhi for hiring and leasing of equipment required for mining and transportation. The scope of the work order was for a period of 3 years for (a) production of overburden of 1.20 lakh tons (b) Dolomite/Lean ore waste 1.80 lakh tons and (c) ROM limestone 2.40 lakh tons per annum. As against the agreed quantity of 7.2 lakh tons over 3 years period, the contractor mined 0.86 lakh tons of limestone and fed 0.48 lakh tons of limestone to the crushing plant. The contractor, however, stopped production in December 1995. An amount of Rs.83.74 lakh was paid to the contractor. After a gap of two and half years the Company again awarded three contracts (May/June 1998) to M/s. B.D.Mohta.

Of the total quantity of 1.24 lakh tons of limestone produced, a quantity of only 1.05 lakh tons, could be sold to Steel Authority of India Limited during the seven year period ended 31 March 2002. The Company in the process suffered a loss of Rs.8.61 crore including a cash loss of Rs.7.53 crore up to the end of March 2002 as against the estimated profit of Rs.5.68 crore. It is also pertinent to note that, as in the case of UPFO plant at Vishakapatnam, the Management did not bring this before the Board even once till March 1999.

The Ministry stated (February 2003) that the market could not be tied up for stablised production, as the product was not found suitable for steel making. The above reply indicates that the Company has not carried out investigations properly which has resulted in the product not being found suitable in steel making. Thus, the entire expenditure of Rs.8.61 crore proved to be infructuous. Since the project is not viable even at 100 per cent capacity the Board has decided (June 2002) to wind up the project and locate a suitable buyer/customer who can take over the entire assets at the project.

13.5 Recommendations

(a) The norms for utilisation of P&E should be fixed scientifically based on time and motion study rather than average utilisation based on previous three years performance.

(b) HEM equipment should be procured after giving due consideration to the technological developments and other important parameters like lead, speed, swing etc, for their proper utilisation.

(c) The Company should keep in view the statutory requirements and ground realities before initiating action for implementation of projects to avoid time and cost overrun, blocking up of funds, infructuous expenditure etc.

Sudha Rajagopalan

(Sudha Rajagopalan)
Deputy Comptroller and Auditor General
Cum Chairman, Audit Board

New Delhi
Dated 31 December 2003

Countersigned

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

New Delhi
Dated 31 December 2003

Annexure -1

(Referred to in para 1.4.2)

Details of Designed Capacity, Budgetted Production, Actual Production and Shortfall in Production in respect of various plants in Trombay Division During 1994-95 to 2002-03

Sl. No.	Product	Year	Designed Capacity (MT)	Actual Production (MT)	Shortfall Quantity (MT)	Value (Rs./Crore)	Budgetted Production (MT)	Percentage of Actual Production to Designed Capacity	Percentage of Actual Production to Budgeted Capacity
1	2	3	4	5	6	7	8	9	10
Intermediary Products:									
1.	Ammonia-I	1994-95	115500	97475	18025	12	108000	84	90
		1995-96	115500	81000	34500	26	100000	70	81
		1996-97	115500	100215	15285	12	100000	87	100
		1997-98	115500	95400	20100	17	95000	83	100
		1998-99	115500	99870	15630	12	95000	86	105
		1999-00	115500	100110	15390	13	95000	87	105
		2000-01	115500	92560	22940	18	100000	80	93
		2001-02	115500	36420	79080	60	115500	32	32
		2002-03	115500	15070	100430	71	8000	13	188
2.	Ammonia-V	1994-95	297000	242600	54400	26	265000	82	92
		1995-96	297000	219700	77300	48	270000	74	81
		1996-97	297000	241365	55635	35	275000	81	88
		1997-98	297000	259700	37300	24	288000	87	90
		1998-99	297000	219560	77440	56	291000	74	75
		1999-00	297000	265080	31920	26	275000	89	96
		2000-01	297000	242545	54455	43	275000	82	88
		2001-02	297000	234785	62215	47	216000	79	109
		2002-03	297000	247730	49270	35	237600	83	104
3.	Phosphoric Acid	1994-95	30000	22015	7985	12	18000	73	122
		1995-96	30000	20420	9580	18	25000	68	82
		1996-97	30000	21685	8315	15	25000	72	87
		1997-98	30000	23730	6270	12	25000	79	95
		1998-99	30000	23750	6250	12	25000	79	95

1	2	3	4	5	6	7	8	9	10
		1999-00	30000	26240	3760	7	25000	87	105
		2000-01	30000	22595	7405	15	25000	75	90
		2001-02	30000	24760	5240	10	25000	83	99
		2002-03	30000	25353	4647	9	25000	85	101
4.	Nitric Acid-I	1994-95	105600	47110	58490	19	10500	45	449
		1995-96	105600	55400	50200	17	73000	52	76
		1996-97	105600	64440	41160	14	77200	61	83
		1997-98	105600	55315	50285	18	88600	52	62
		1998-99	105600	56350	49250	17	94000	53	60
		1999-00	105600	76220	29380	12	57000	72	134
		2000-01	105600	36780	68820	38	55500	35	66
		2001-02	105600	67155	38445	17	64000	64	105
		2002-03	105600	54865	50735	31	62000	52	88
5.	Nitric Acid-IV	1994-95	247500	218020	29480	6	222800	88	98
		1995-96	247500	226525	20975	5	247500	92	92
		1996-97	247500	224235	23265	6	247500	91	91
		1997-98	247500	222795	24705	6	235125	90	95
		1998-99	247500	226290	21210	5	235100	91	96
		1999-00	247500	261350	---	---	244220	106	107
		2000-01	247500	236315	11185	3	247500	95	95
		2001-02	247500	243625	3875	1	255000	98	96
		2002-03	247500	247845	---	---	255000	100	97
6.	Sulphuric Acid	1994-95	99000	89993	9007	1	81000	91	111
		1995-96	99000	96383	2617	0	93000	97	104
		1996-97	99000	99265	---	---	96000	100	103
		1997-98	99000	93201	5799	1	96500	94	97
		1998-99	99000	92480	6520	1	96500	93	96
		1999-00	99000	103050	---	---	96500	104	107

1	2	3	4	5	6	7	8	9	10
		2000-01	99000	84820	14180	2	96500	86	88
		2001-02	99000	88805	10195	1	99000	90	90
		2002-03	99000	88460	10540	2	99000	89	89
II.	Finished Products: Fertilizers:								
7	Urea-V	1994-95	330000	273820	56180	24	330000	83	83
		1995-96	330000	241800	88200	40	330000	73	73
		1996-97	330000	289600	40400	20	330000	88	88
		1997-98	330000	317000	13000	7	330000	96	96
		1998-99	330000	270200	59800	30	330000	82	82
		1999-00	330000	302920	27080	15	340000	92	89
		2000-01	330000	290765	39235	24	340000	88	86
		2001-02	330000	39200	290800	178	200000	12	20
		2002-03	330000	20840	309160	304	45000	6	46
8	Suphala (15:15:15)	1994-95	300000	240185	59815	30	270000	80	89
		1995-96	300000	313355	---	---	360000	104	87
		1996-97	300000	351475	---	---	360000	117	98
		1997-98	300000	331620	---	---	360000	111	92
		1998-99	300000	354525	---	---	360000	118	98
		1999-00	300000	410400	---	---	365000	137	112
		2000-01	300000	300185	---	---	365000	100	82
		2001-02	300000	351385	---	---	385000	117	91
		2002-03	300000	303755	---	---	385000	101	79
9	Ammonium Nitrate Phosphate (20.8:20.8:0)	1994-95	361000	253350	107650	59	200000	70	127
		1995-96	361000	238000	123000	78	290000	66	82
		1996-97	361000	249000	112000	77	300000	69	83
		1997-98	361000	246700	114300	84	290000	68	85
		1998-99	361000	241500	119500	89	300000	67	81

1	2	3	4	5	6	7	8	9	10
		1999-00	361000	311700	49300	38	265000	86	118
		2000-01	361000	251795	109205	86	265000	70	95
		2001-02	361000	268600	92400	68	280000	74	96
		2002-03	361000	248590	112410	83	270000	69	92
III.	Industrial Product:								
10	Methanol	1994-95	49500	53001	---	---	42100	107	126
		1995-96	49500	46640	2860	3	49500	94	94
		1996-97	49500	49821	---	---	49500	101	101
		1997-98	49500	46375	3125	3	49500	94	94
		1998-99	49500	49415	85	0	52000	100	95
		1999-00	49500	52380	---	---	52000	106	101
		2000-01	49500	48710	790	1	52000	98	94
		2001-02	49500	45625	3875	5	49500	92	92
		2002-03	49500	53720	---	---	49500	109	109
11	Ammonium Bicarbonate	1994-95	4000	5610	---	---	4800	140	117
		1995-96	4000	6220	---	---	5000	156	124
		1996-97	4000	6500	---	---	5000	163	130
		1997-98	4000	7010	---	---	5000	175	140
		1998-99	4000	7025	---	---	5000	176	141
		1999-00	4000	8677	---	---	5000	217	174
		2000-01	4000	10735	---	---	5000	268	215
		2001-02	4000	13823	---	---	11000	346	126
		2002-03	4000	16930	---	---	11000	423	154
12	Concentrated Nitric Acid	1994-95	20000	20200	---	---	20000	101	101
		1995-96	20000	20037	---	---	20000	100	100
		1996-97	20000	21364	---	---	20000	107	107
		1997-98	20000	24065	---	---	20000	120	120
		1998-99	20000	21325	---	---	20000	107	107

1	2	3	4	5	6	7	8	9	10
		1999-00	20000	19880	120	0	15000	99	133
		2000-01	20000	17630	2370	2	15000	88	118
		2001-02	20000	20015	---	---	20000	100	100
		2002-03	20000	23017	---	---	20000	115	115
13	Sodium Nitrite/Nitrate	1994-95	4000	4560	---	---	5000	114	91
		1995-96	4000	4745	---	---	5000	119	95
		1996-97	4000	4820	---	---	5000	121	96
		1997-98	4000	3142	858	1	5350	79	59
		1998-99	4000	2524	1476	3	6000	63	42
		1999-00	4000	925	3075	5	1850	23	50
		2000-01	4000	2777	1223	2	4200	69	66
		2001-02	4000	3789	211	0	4200	95	90
		2002-03	4000	4647	---	---	4000	116	116
14	Methylamines	1994-95	4000	3165	835	2	3500	79	90
		1995-96	4000	4052	---	---	3400	101	119
		1996-97	4000	4226	---	---	3600	106	117
		1997-98	4000	3742	258	1	3600	94	104
		1998-99	4000	4331	---	---	3800	108	114
		1999-00	4000	4791	---	---	4100	120	117
		2000-01	4000	4384	---	---	4100	110	107
		2001-02	4000	4647	---	---	4400	116	106
		2002-03	4000	5500	---	---	4400	138	125
	THAL DIVISION Intermediary Products:								
1	Ammonia	1994-95	891000	822740	68260	20	860000	92	96
		1995-96	891000	891240	---	---	838000	100	106
		1996-97	891000	744575	146425	51	855000	84	87

1	2	3	4	5	6	7	8	9	10
		1997-98	891000	859200	31800	11	892000	96	96
		1998-99	891000	893400	---	---	970000	100	92
		1999-00	990000	930115	59885	---	931400	94	100
		2000-01	990000	840600	149400	85	923000	85	91
		2001-02	990000	831175	158825	117	986000	84	84
		2002-03	990000	885550	104450	90	990000	89	89
	Finished Products:								
2	Urea	1994-95	1485000	1387130	97870	31	1455000	93	95
		1995-96	1485000	1500350	---	---	1420000	101	106
		1996-97	1485000	1218280	266720	100	1450000	82	84
		1997-98	1485000	1401750	83250	35	1487000	94	94
		1998-99	1485000	1442900	42100	19	1635000	97	88
		1999-00	1485000	1488585	---	---	1518500	100	98
		2000-01	1485000	1329400	155600	106	1535000	90	87
		2001-02	1485000	1451150	33850	30	1650000	98	88
		2002-03	1485000	1537300	---	---	1550000	104	99
	Industrial Products:								
3	Methylamines	1994-95	5000	2564	2436	8	3000	51	85
		1995-96	5000	3290	1710	6	3600	66	91
		1996-97	5000	4405	595	2	4500	88	98
		1997-98	5000	4622	378	1	4200	92	110
		1998-99	5000	5921	---	---	5000	118	118
		1999-00	5000	5330	---	---	5150	107	103
		2000-01	5000	5700	---	---	5000	114	114
		2001-02	5000	5970	---	---	5000	119	119
		2002-03	5000	7068	---	---	5000	141	141
4	Di-methyl Formamide	1994-95	2500	693	1807	11	2200	28	32
		1995-96	2500	1465	1035	7	1500	59	98
		1996-97	2500	800	1700	11	1500	32	53

1	2	3	4	5	6	7	8	9	10
		1997-98	2500	400	2100	12	1975	16	20
		1998-99	2500	720	1780	9	2500	29	29
		1999-00	2500	1765	735	3	2120	71	83
		2000-01	2500	1610	890	4	2500	64	64
		2001-02	2500	1589	911	---	2500	64	64
		2002-03	2500	2320	180	1	3000	93	77
5	Di-methyl Acetamide	1994-95	5000	873	4127	20	1100	17	79
		1995-96	5000	930	4070	18	2000	19	47
		1996-97	5000	498	4502	24	2000	10	25
		1997-98	5000	164	4836	28	1200	3	14
		1998-99	5000	515	4485	27	1100	10	47
		1999-00	5000	955	4045	22	1000	19	96
		2000-01	5000	585	4415	24	1350	12	43
		2001-02	5000	803	4197	22	1350	16	59
		2002-03	5000	1326	3674	20	1500	27	88

The value of shortfall of production have been worked out on the basis of cost of production in respect of intermediary products and average net realisation in respect of final products.

Annexure -2

(Referred to in para 1.4.6)

Shutdown of the Plants at Trombay and Thal Divisions during 1997-98 to 2002-03

I. Trombay Division (Figures in Number of Days)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	Total
i) Ammonia-I:							
a) Equipments Failure and Process Problems.	8	7	8	3	6	5	**37**
b) Utilities External (Power, Water, **Gas**)	8	2	8	**85**	**254**	**311**	**668**
c) Raw Material, Utilities and Material Handling Problems.	3	6	4	0	1	0	**14**
d) Planned Shutdown.	28	10	14	5	0	0	**57**
e) Less Off Take.	3	0	0	0	0	0	**3**
f) Others.	0	0	0	0	1	0	**1**
Total:	**50**	**25**	**34**	**93**	**262**	**316**	**780**
ii) Ammonia-V:							
a) Equipments Failure and Process Problems.	33	56	43	4	11	26	**173**
b) Utilities External (Power, Water, Gas)	5	3	5	60	56	1	**130**
c) Raw Material, Utilities and Material Handling Problems.	3	9	5	2	3	0	**22**
d) Planned Shutdown.	31	46	19	30	32	6	**164**
e) Less Off Take.	2	2	0	0	0	0	**4**
f) Others.	0	9	0	0	2	4	**15**
Total:	**74**	**125**	**72**	**96**	**104**	**37**	**508**
iii) Urea-V:							
a) Equipments Failure and Process Problems.	13	3	3	2	3	0	**24**
b) Utilities External (Power, Water, **Gas**)	2	4	9	40	259	**312**	**626**
c) Raw Material, Utilities and Material Handling Problems.	34	86	51	8	16	31	**226**
d) Planned Shutdown.	21	26	24	36	48	0	**155**
e) Less Off Take.	3	0	0	0	0	0	**3**

(Figures in Number of Days)

		1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	Total
	f) Others.	0	9	0	0	0	0	**9**
	Total:	**73**	**128**	**87**	**86**	**326**	**343**	**1043**
iv)	Suphala (15:15:15):							
	a) Equipments Failure and Process Problems.	10	13	13	7	2	9	**54**
	b) Utilities External (Power, Water, Gas)	0	0	0	1	5	1	**7**
	c) Raw Material, Utilities and Material Handling Problems.	72	39	11	11	16	10	**159**
	d) Planned Shutdown.	14	20	19	16	7	13	**89**
	e) Less Off Take.	3	2	1	41	62	74	**183**
	f) Others.	0	18	0	0	0	11	**29**
	Total:	**99**	**92**	**44**	**76**	**92**	**118**	**521**
v)	Ammonium Nitrate:							
	a) Equipments Failure and Process Problems.	77	67	42	42	44	29	**301**
	b) Utilities External (Power, Water, Gas)	4	2	1	26	28	9	**70**
	c) Raw Material, Utilities and Material Handling Problems.	46	56	47	33	53	41	**276**
	d) Planned Shutdown.	25	26	13	35	0	0	**99**
	e) Less Off Take.	0	0	0	12	10	53	**75**
	f) Others.	7	13	3	7	6	26	**62**
	Total:	**159**	**164**	**106**	**155**	**141**	**158**	**883**
vi)	Methanol:							
	a) Equipments Failure and Process Problems.	23	28	3	8	19	13	**94**
	b) Utilities External (Power, Water, Gas)	0	2	22	38	13	6	**81**
	c) Raw Material, Utilities and Material Handling Problems.	2	1	5	0	1	0	**9**
	d) Planned Shutdown.	30	16	4	14	20	13	**97**

(Figures in Number of Days)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	Total
e) Less Off Take.	0	0	1	0	19	1	**21**
f) Others.	0	0	0	0	0	0	**0**
Total:	**55**	**47**	**35**	**60**	**72**	**33**	**302**

II. Thal Division:

vii) Ammonia Plant:

	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	Total
a) Equipments Failure and Process Problems.	49	20	26	8	1	23	**127**
b) Utilities External (Power, Water, Gas)	0	73	13	5	0	0	**91**
c) Raw Material, Utilities and Material Handling Problems.	0	0	0	2	0	0	**2**
d) Planned Shutdown.	34	13	0	66	80	21	**214**
e) Less Off Take.	0	0	0	0	0	0	**0**
f) Others.	0	0	11	0	0	0	**11**
Total:	**83**	**106**	**50**	**81**	**81**	**44**	**445**

viii) Urea Plant:

	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	Total
a) Equipments Failure and Process Problems.	30	28	19	53	0	11	**141**
b) Utilities External (Power, Water, Gas)	16	96	52	44	0	1	**209**
c) Raw Material, Utilities and Material Handling Problems.	35	36	23	5	0	18	**117**
d) Planned Shutdown.	48	0	0	59	164	25	**296**
e) Less Off Take.	0	0	0	0	0	0	**0**
f) Others.	12	0	12	0	4	0	**28**
Total:	**141**	**160**	**106**	**161**	**168**	**55**	**791**

Annexure-3

(Referred to in para No.1.4.7)

PLANTWISE TOTAL VARIANCE (COMPARING OF DESIGN NORMS WITH ACUTAL CONSUMPTION)

(Rs.in CRORE)

	TROMBAY DIVISON							THAL DIVISION	
YEAR	AMMONIA I	AMMONIA V	UREA I	UREA V	SUPHALA	A.N.P.	METHANOL	AMMONIA	UREA
1994-95	-0.38	2.02	2.01	-1.69	0.82	3.15	2.03	-32.71	-18.35
1995-96	-1.65	-34.39	-11.23	-15.95	0.76	1.66	-0.69	-36.46	-21.73
1996-97	0.83	-27.03	0.00	-14.24	1.42	4.30	-1.61	-38.41	-20.56
1997-98	-2.70	-348.03	0.00	-7.81	2.91	4.79	-2.25	-42.66	-38.93
1998-99	7.63	14.89	0.00	-13.51	2.36	3.40	-3.58	-53.67	-38.81
1999-00	5.95	28.14	0.00	-28.46	4.75	5.39	3.79	-48.49	-31.74
2000-01	18.48	16.94	0.00	-19.87	3.05	5.82	3.82	-51.48	-25.22
2001-02	-3.42	-9.41	0.00	-3.02	12.72	-16.18	0.83	-112.48	-56.18
2002-03	-1.79	-4.1	0	-1.01	12.01	-13.8	2.11	-43.73	-38.4
TOTAL	-9.94	-422.96	-11.23	-105.56	0	-29.98	-8.13	-460.09	-289.92

Excess Consumption Comparing to Design Norms	
Trombay Division	-587.80
Thal Division	-750.01
Total	-1337.81

Annexure –4
(Referred to in para 2.1)
Statement of bilateral agreements entered into with various unions/associations

Name of the Union/ Assn	Date of Ist PLI agreement	Effective from	Financial impact as informed to Board (Rs. in crore)	Date of IInd PLI agreement	Effective from	Financial impact as informed to Board (Rs. in crore)	Date of IIIrd PLI agreement	Effective from	Financial impact as informed to Board (Rs. in crore	Financial impact at Executives cadre (Rs. in crore)	No. of employees as on 31.1.2003
ACEU	12.8.1994	1.4.1994		30.3.1996	1.1.1995	27.00					13532
IATA	7.6.1994	1.4.1994	3.40	16.11.1995 9.11.1996	1.1.1995 1.7.1996	20.00 21.00s	**3.8.2002**	1.7.2002	23.00		2570
ICPA	11.11.1993	1.11.1993	-	26.1.1996	1.1.1996	30.00	**21.2.2001**	1.2.2001	35.00		338
AIAEA	25.5.1994	20.5.1994	2.70	22.5.1996	1.1.1996	20.00	**30.7.2001**	1.7.2001	21.00	12.40	636
ARO & FOOA	12.5.1995	1.4.1994	0.36	7.2.1997	1.1.1996	2.00	-	-	-		102
IAOA	19.1.1995	1.4.1994	3.43	**20.1.1997**	1.1.1996	18.00	-	-	-		1457
AGIA	19.4.1995	1.4.1994	0.07	27.3.1997	1.1.1996	0.60	-	-	-		17
IFEA	20.6.1994	1.4.1994	-	6.6.1996	1.2.1996	2.25	**19.5.2001**	1.4.2001	NA		20
ACEU (Cabin Crew)	21.9.1995	-		**7.10.1997**	1.5.1996 to 1.12.96	18.50	-	-	-		
ACEU (Tech. Category)				25.5.1996	January 1995	0.50	10.3.1998				
Total						**159.85**				**12.40**	**19391***

* *Excludes 209 employees of erstwhile Vayudoot Ltd. Whose seniority has not been merged with Indian Air Lines Limited*

Annexure –5
(Referred to in Para 2.5)

Pay Roll Allowance

Sl. No.	Name of Allowance	Association to whom being paid (Refer Note 1)	Date of Commencement
1.	Basic Pay	All Category	NA
2.	Variable Dearness Allowance	All Category,	NA
3.	Efficiency Bonus	1,3,8	NA
4.	Command Pay	1,3	NA
5.	Licence Allowance	1,3	1.4.1994
6.	Check Allowance	1,2,3,5,8,10	NA
7.	Stipend Pay	1,2,3,4,7,9,10	NA
8.	Computer Allowance	1,2,3,6,7,8,	1.1.1992
9.	PL Encashment	All Category	NA
10.	Production Allowance	1,2,3,6,7,9	NA
11.	Shift Allowance	1,2,4,6,8,9,	NA
12.	Overtime Allowance	1,2,4,8,9,	NA
13.	Holiday pay	1,2,4,6,8,9,	NA
14.	Flying Allowance	1,2,3,4,5,6,7,8,10	1.11.93
15.	Non Practicing Allowance	1,2,	NA
16.	Personal Pay Non -PF	2,8	NA
17.	Special Pay	1,2,6,8,10	NA
18.	Conveyance Allowance – Handicapped	2,4,8,9	NA
19.	Personal Pay Qualification Allowance	All Category,	NA
20.	Type Allowance	1,3,5,	NA
21.	Approval Allowance	1,4,6,9	1.1.1996
22.	Executive Allowance	1,3,4,8	NA
23.	City Compensatory Allowance	All except trainees	NA
24.	Qualification Pay – Pilot	1,3	NA
25.	Charge Allowance	1,2,8	NA
26.	Machine Allowance	2,8	NA
27.	R.T. Allowance – Pilot	1,3,9	NA
28.	Compensatory Allowance	1,2,3,5,8	NA
29.	Technical Pay	1,2,4,6,7,8,9	NA
30.	Holiday Pay – Officers	2,4,6,8	NA
31.	Deputation Allowance	1,2,3,4,6,8,9,10	NA
32.	Instructor Allowance	1,2,3,5	NA

33.	Sick Leave Encashment	1,2,3,4,8,9,10	NA
34.	Special Compensatory Allowance	1,2,3,10	NA
35.	ECG Allowance	2,8	NA
36.	Attendance Allowance	1,2,6,7	1.1.1996
37.	House Rent Allowance	All Category	NA
38.	Cur Charge Allowance	1,2,4,5,6,8,9	NA
39.	RT Allowance	1,2,3,4,9	NA
40.	Personal Allowance	1,2,8,9	NA
41.	Hindi Increment Allowance	1,2,9	NA
42.	Professional Dev Allowance	1,2,4,6,7,8	1.1.1992
43.	Lecture Allowance	1,2,4,9	1.4.1994
44.	Support Allowance	1,2,3,6,7,8	NA
45.	Patient Care Allowance	2,8	NA
46.	Voice Communication Allowance	1,2,6	NA
47.	Flight Voice Allowance	1,6	NA
48.	Surveilance Allowance	4,8,9	NA
49.	Educational Allowance	All except trainees	1.4.1994
50.	Special Allowance	2,8,9	NA
51.	Conveyance Allowance non taxable	1,2,6,7,8,9,10	NA
52.	Off Day Compensation	1,8	NA
53.	Telephone Allowance	1,2,3,4,5,8,10	NA
54.	Reimbursement Kit Maintenance Allowance	All Category	NA
55.	Pax Incentive	1,2,6,7,8,9	NA
56.	On Time Incentive	1,2,6,7,8,9	NA
57.	Flying Hours Incentive	1,2,4,6,7,8,10	NA
58.	Technical Dispatch Regularity	1,2,4,8,9,10	1.1.96
59.	Aircraft on Major Maintenance	1,2,4,8,9,10	1.1.96
60.	Fixed Productivity	1,2,3,4,5,8,9,	1.1.1996
61.	License Expiry Allowance	1,2,4,8,9,10	NA
62.	Experience Allowance	1,2,3,6,7,8,9	1.11.93
63.	Special Production Allowance	1,2	NA
64.	38/44 Hours Compensation	2,6,8	NA
65.	Special Pay Qualification – PF	1,2,8	NA
66.	Lay Over Allowance	1,3,10	1.2.2001
67.	Utility/Deployment Flexibility Enhancement	2,4,6	NA

68.	Conveyance Allowance – Taxable	1,2,7,8,10	NA
69.	Radio Telephony Allowance – PF Qualification	1,5	NA
70.	Duty Allowance	8,10	NA
71.	Towing Allowance Tech	4,8,9	NA
72.	Other Allowance	3,4,8,10	NA
73.	Subsistence Allowance	1,2,4,8,9	NA
74.	Exec. Flying Allowance	1,3,5	NA
75.	Taxing Allowance	1,4,9	NA
76.	Qualification Pay	1,2,4,7	NA
77.	Flight Communication Allowance	1,6,9	NA
78.	Foreign Allowance Sundry Charges	1,2,8	NA
79.	Compass Allowance	1,4,8	NA
80.	Weekly Off Allowance	1,2,8,9	NA
81.	Bad Envrnt Allowance	8,9	NA
82.	Annuity	3,8,10	NA
83.	Driving Allowance	1,2,8,9	NA
84.	Duplicating Allowance	8	NA
85.	Winter Fuel Allowance	1,2,8,9	NA
86.	Ops. Control Allowance	1,3	NA
87.	Retired privileged leave Encashment	1,2,3,4,6,7,8,9,10	NA
88.	Kit/Con/Tel Arrear	1,2,3,4,5,6,8,9,10	NA
89.	Special Pay 89	1,2,6,7	NA
90.	License approval/ special qualification allowance	1,6,7,8	NA
91.	House Keeping Allowance	8,9	NA
92.	Foreign Allowance	1,2,8	NA
93.	Pers Pay Qly – PF	1,2,4,8,9	NA
94.	Additional Pay		NA
95.	A P S Allowance	9	NA
96.	Two crew Comp	2,3,8	NA
97.	Additional Landing Allowance	1,3,10	NA
98.	50% H. Rent Allowance	2,4,6,8	NA
99.	PLI LLP Adjustment	1,2,3,5,8,9	NA
100.	Special Flying Allowance		NA
101.	Flight performance Monitoring Allowance	1,5	1.4.2001
102.	PLI 0001		NA
103.	Daily Training Allowance	1,3,5,10	1.1.96

Note 1.

Sl. No.	Name of the Union
1	MANAGERIAL
2	INDIAN AIRLINES OFFICERS ASSOCIATION
3	INDIAN COMMERCIAL PILOTS ASSOCIATION
4	ALL INDIA AIRCRAFT ENGINEERS ASSOCIATION
5	INDIAN FLIGHT ENGINEERS ASSOCIATION
6	AIRLINE RADIO OFFICERS AND FLIGHT OPERATIONS OFFICERS ASSOCIATION
7	AIRLINE GROUND INSTRUCTORS ASSOCIATION
8	AIR CORPORATION EMPLOYEES UNION
9	INDIAN AIRCRAFT TECHNICIAN ASSOCIATION
10	TRAINEES

Annexure-6

(Referred to in Para .3.4.3)

Break up of element wise cost of procurement and realisation

Year	Sales (Qty.) in lakh tons	Sales Rs		Cost of procurement (Purchases) (Rs.)		Inland transportation (freight) (Rs.)		Clearing and Handling charges (Rs.)		Demurrage (Rs.)		Other charges (Rs.)		Total (Rs.)		Profitability (Rs.)	
		Amt. in crore	Rs. Per MT	Amt. in crore	Rs. Per MT	Amt. in crore	Rs. Per MT	Amt. in crore	Rs. Per MT	Amt. in crore	Rs. Per MT	Amt. in crore	Rs. Per MT	Amt. in crore	Rs. per MT	Amt. in crore	Rs. Per MT
98-99	103.26	869.26	841.82	569.57	551.61	129.05	124.97	80.19	77.66	3.64	3.52	11.83	11.45	794.28	**769.21**	74.98	**72.61**
99-00	116.19	891.19	767.01	589.44	507.31	143.12	123.17	87.41	75.23	5.46	4.7	11.11	9.56	836.54	**719.97**	54.65	**47.04**
00-01	148.48	1219.97	821.63	762.54	513.56	215.12	144.88	118.59*	79.86	12.88*	8.68	17.70*	11.92	1126.83	**758.90**	93.14	**62.73**
01-02	141.62	1229.95	868.51	826.55	583.64	221.44	156.36	65.57*	46.30	15.27*	10.80	11.64*	8.22	1140.47	**805.32**	89.48	**63.19**
02-03	128.25	1087.38	847.87	760.88	593.28	183.25	142.89	49.86*	38.88	11.69*	9.12	8.62*	6.72	1014.30	**790.89**	73.08	**56.98**

Sales includes dispatch money, claims received and other incomes

Cost of procurement = Purchases+opening stock including Goods in transit+stock received on transfer- closing stock including Goods in transit-stock sent on transfer

*Effective 1 April 2001 the modalities and arrangement for procurement through NMDC had undergone a change; accordingly expenditure previously booked on account of clearing and handling, demurrage and other charges are no longer booked by the Company in its account while purchases through procurement from NMDC as well as realization continues to be booked by the Company in its account.

Annexure-7

(Referred to in Para 3.6.1)

Shortages adjusted in various Regions

Year	Name of the Region	Goa	Bhubneshwar	Kolkata	Chennai	Bellary	Total
1998-1999	Quantity in MT	6940	*	No Operations	*	23142	30082
	Value Rs. in lakh	32.41	*		*	58.32	90.73
	% to Export	0.6	*		*	3.5**	
	Closing stock in MT	97268				864917	
1999-2000	Quantity in MT	*	30028		91461	*	121489
	Value Rs. in lakh	*	170.79		616.89	*	787.68
	% to Export	*	3.16		1.87	*	
	Closing stock in MT		798568		167123.97		
2000-2001	Quantity in MT	32642	20222	14902	134901	*	202667
	Value Rs. in lakh	232.24	129.09	67.98	1017.24	*	1446.55
	% to Export	1.31	0.77	8.34	2.63	*	
	Closing stock in MT	156964		44518	368447.44		
2001-2002	Quantity in MT	4799	14990	26451	31564	*	77804
	Value Rs. in lakh	32.46	109.67	129.02	245.28	*	516.43
	% to Export	0.20	0.80	7.23	0.59	*	
	Closing stock in MT	186858	308041	63327	137499		
2002-2003	Quantity in MT	*	20744	16880	*	*	37624
	Value Rs. in lakh	*	142.84	8.43	*	*	151.27
	% to Export	*	1.69	5.48	*	*	
	Closing stock in MT		82497	14403			
	Total						**Rs.29.92 crore. 4.69 LMT**

(* Reported excess, ** Percentage has been worked out on the basis of material transferred to other regions; Bellary being centre of procurement)

Annexure – 8

(Referred to in Para 3.6.5)

Details of delay in loading of vessels and payment of demurrage

Regions	Name of Vessel	Quantity to be loaded	NOR tendered	Date of arrival	Actual time taken Days-Hr-Minutes	Delay in days Days-Hr-Minutes	Demurrage (Rupees in lakh)
Goa	Edco Stana	60,000 MT	20-10-2001	20-10-2001	6-12-00	2-9-16	9.26
Chennai	Farak	60,000 MT	29-10-2000	29-10-2000	15-21-26	14-08-52	38.84
Goa	Nand Shiv Chand		17-11-2000		4-3-5	1-6-41	3.57
Bhubanesh-war	Rishikesh Amphion Alaknanda Gangasagar				7-6-58 2-20-30 8-3-14 8-3-21	5-13-45 1-10-10 5-19-53 4-09-30	22.01 3.96 19.11 12.30
Bhubanesh-war	20 vessels between June 2001 to Dec.2001						179.08
Goa	Wiltrade	60,000 MT	28-10-2002	28-10-2002	16-11-00	14-13-45	41.55
Goa	Hugo Sulmir	1,20,000 MT	3-11-2000	3-11-2000	5-20-27	4-06-17	11.92
Goa	Shenzhen Sea	60,000 MT	22-10-2002	22-10-2002	9-8-27	7-15-39	26.50
Goa	Pearl		23-5-2000	23-5-2000	12-2-50	8-23-14	25.07
Goa	Invadar – I	60,000 MT	26-3-2001	26-3-2001	6-2-18	4-07-55	12.11
Total							**405.28**

Annexure - 9

{Referred to in Para 5.4(b)}

Statement indicating market share retained by the Company in some of the equipment

Year	Dozer	Wheel Dozer	Excavator	Wheel loader	Dumper	Motor grader
1996-97	91	100	28	14	50	100
1997-98	92	-	14	8	59	83
1998-99	85	11	11	13	46	44
1999-00	89	100	6	12	64	62
2000-01	95	100	6	7	54	76
2001-02	93	96	4	6	52	20
2002-03	96	96	7	9	61	30

Annexure-10

(Referred to in Para 5.8)

Unit wise details of loss in sales of certain equipments for the period 1999-00 to 2002-03

(Rs. in crore)

Unit	Cost of sales	Sale value	Loss
KGF			
1999-00	176.95	153.42	-23.53
2000-01	53.23	43.52	-9.71
2001-02	241.91	216.40	-25.51
2002-03	246.66	223.41	-23.25
Mysore			
1999-00	11.19	10.57	-0.62
2000-01	66.41	55.72	-10.69
2001-02	93.62	84.21	-9.41
2002-03	44.03	39.46	-4.57
Bangalore			
1999-00	100.52	73.99	-26.53
2000-01	100.47	94.21	-6.26
2001-02	82.09	75.28	-6.81
2002-03	112.53	108.33	-4.20
Total	**1329.61**	**1178.54**	**-151.09**

Annexure –11

(Referred to in Para 5.9)

Statement showing sector-wise sales for the period from 1996-97 to 2002-03

(Amount Rs. in crore)

Year	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
EM Eqpt./Spares	1076.89	1152.33	1085.11	1079.66	1012.69	855.12	1091.21
Defence	77.47	61.15	98.70	177.54	266.98	541.58	593.78
Railways	41.82	55.32	66.14	84.79	37.43	28.09	--
Others	16.43	46.28	16.61	31.59	36.42	13.10	8.57
Total sales*	1212.61	1315.08	1266.56	1373.58	1353.52	1437.89	1693.55
% of EM/spares to sales	89%	88%	86%	79%	75%	59%	64%
% of Defence to sales	6%	4%	8%	13%	20%	38%	35%
% of Railways to sales	4%	5%	5%	6%	3%	2%	-
% of Others to sales	1%	3%	1%	2%	2%	1%	1%

*Before sales returns and adjustments.

Annexure-12

(Referred to in Para 5.9)

Statement indicating sector-wise sales of Earth Moving equipment from 1998-99 to 2002-03

(Value Rs. in crore- Qty in Nos.)

	1998-99			1999-00			2000-01			2001-02			2002-03		
	Qty	**Value**	**%**	**Qty**	**Value**	**%**	**Qty**	**Value**	**%**	**Qty**	**Value**	**%**	**Qty**	**Value**	**%**
Sales (EM Eqpt)	840	668.24	100	738	671.13	100	643	579.85	100	503	443.24	100	543	690.33	100
Coal	439	446.71	67	371	427.11	64	223	316.54	55	112	185.75	42	231	489.66	71
Defence	152	69.05	10	146	71.06	10	179	80.13	14	186	99.85	22	106	52.63	8
Exports	7	5.00	1	7	2.75	1	36	28.91	5	22	33.59	8	4	1.80	-
Steel/Mines	24	18.86	3	8	6.56	1	17	22.43	4	79	56.49	13	94	90.00	13
Irrigation/ Power	12	11.20	2	41	19.31	3	17	13.61	2	16	16.29	4	13	9.95	1
Cement	7	7.63	1	14	9.91	1	18	28.75	5	9	9.18	2	6	7.02	1
Contractors/Others	199	109.79	16	151	134.43	20	153	89.48	15	79	42.09	9	89	39.27	6

Annexure-13

(Referred to in Para 5.13)

Statement indicating outstanding Sundry Debtors as on 31st March 2003 and supplies effected in respect of subsidiaries of M/s. Coal India Limited.

(Rs. in lakh)

Name of Company	Out standing payments pertaining to						Supplies effected in		
	Upto 99	99-00	00-01	01-02	02-03	Total	00-01	01-02	02-03
BCCL	218.96	73.62	35.82	351.87	2549.45	3229.72	2737.57	2909.29	1627.45
ECL	91.02	201.11	75.48	286.71	2205.95	2860.27	4059.50	4582.40	3331.70
CCL	0	15.97	150.80	226.26	1778.71	2171.74	5427.95	4373.43	3128.05
WCL	6.23	0.48	112.55	585.98	1552.11	2257.35	10030.97	3589.88	2077.70
NCL	0	8.64	62.34	207.23	10633.37	10911.58	7096.27	16394.88	7446.51

Annexure –14
(Referred to in Para 5.14.4)

Statement indicating the position of demands raised by Sales Tax Authorities and appeals pending as on 31.3.2003

(Rs. in lakh)

Sl. No.	Name of office	Year	Demand raised	Amount paid	Remarks
1	Mumbai RO	1989-90 to 1998-99	410.28	51.00	Appeal pending
2	Corporate Office	1995-96 to 1997-98	59.99	8.32	Appeal pending.
3	Hyderabad RO	1992-93	1.86	0.10	Appeal pending.
4	Nagpur RO	1988-89 to 1998-99	356.49	106.76	Appeal pending.
5	New Delhi RO	1997-98 to 1999-00	3.92	0.20	Appeal pending.
6	Ranchi RO	1985-86 and 1993-94	5.03	-	Appeal pending.
7	Bilaspur RO	1996-97 and 1997-98	6.36	1.10	Appeal pending.
Total			**843.93**	**167.48**	

Annexure- 15
Performance of the terminals
(Referred to in Para 10.4)

Sl No	Name of ICD/ Terminal	Date of Comm.	Investt. Upto 01-02	Forecasted performance as per feasibility report/proposal (TEUs)					Actual performance (TEUs)					Percentage of actual performance to forecast				
			Rs in crore	98-99	99-00	00-01	01-02	02-03	98-99	99-00	00-01	01-02	02-03	98-99	99-00	00-01	01-02	02-03
1.	Gwalior (E)	25.6.98	1.71	2700	3960	4356	4792	5271	600	638	541	1266	3713	22	16	12	26	70
2.	Aurangabad (E)	11.2.99	5.24	-	9840	11320	13032	14976	-	1441	5757	11164	9401	-	15	51	86	63
3.	Madurai (E)	3.3.99	0.97	-	7200	7560	7938	8336	-	Nil	144	295	173	-	Nil	2	4	2
	(D)				2400	2400	2400	2400		70	17	121	174		3	1	5	7
4.	Ballabhgarh	18.6.99	1.44	No projections – commissioned as empty stack yard														
5.	Vadodra (E)	12.7.00	2.37	-	-	6400	10080	10584	-	-	854	7008	9639	-	-	13	70	91
	(D)					2067	3100	3100			357	828	618			17	27	20
6.	Turbhe (D)	3.8.00	2.51	-	-	4800	7200	7200	-	-	1419	2646	10734	-	-	30	37	149
7.	Kanpur (E)	28.9.00	3.80	-	-	5000	10500	11026	-	-	3382	10934	14578	-	-	68	104	132
8.	Jodhpur (E)	7.7.01	2.20	-	-	-	9600	15120	-	-	-	11394	18273	-	-	-	119	121
9.	Salem (D*) Market	16.7.01	0.35	-	-	-	#	7200	-	-	-	-	4532	-	-	-	-	63
10.	Khodiyar (D)	9.11.01	12.30	-	-	-	#	23760	-	-	-	-	14167	-	-	-	-	60
11.	Jaipur (E)	6.12.01	7.84	-	-	-	2100	9240	-	-	-	3427	22557	-	-	-	163	244
12.	Miraj (E)	21.12.01	1.51	-	-	-	3000	12600	-	-	-	934	1363	-	-	-	31	11
13.	Balasore (E)	27.12.01	2.68	-	-	-	1250	5250	-	-	-	Nil	Nil	-	-	-	Nil	Nil
	(D)						400	1260				Nil	44				Nil	3
14.	Bhusawal (E)	29.1.02	4.21	-	-	-	2333	14700	-	-	-	448	1370	-	-	-	19	9
15.	Jamshedpur (E)	1.7.01	3.66	-	-	-	7950	11660	-	-	-	252	2519	-	-	-	3	22
	(D)						4500	6600				2	2091				Nil	32
16.	Pondicherry (E)	29.8.01	0.05	-	-	-	4200	7920	-	-	-	984	2449	-	-	-	23	31
	TOTAL		**52.84**															

E- EXIM, D- Domestic (outward loaded only), D*- Domestic (inward and outward loaded)

#- The projections have not been compared with the actuals during 2001-02 because actuals of these terminals for this year included container handling done at make shift arrangements for part of the year

Annexure- 16

(Referred to in Para 10.5.1)

Terminal wise International traffic

(In TEUs)

S.N.	Name of ICD	1998-99	1999-00	2000-01	2001-02	2002-03
I. Northern Region						
1.	Tuglakabad	192633	217966	249994	278485	324657
2.	Ludhiana	30804	43679	43660	66490	69764
3.	Moradabad	18942	21338	23188	25854	29278
4.	Agra	3922	5136	6399	7772	6933
5.	Ballabhgarh (Comm. on 19.6.1999)	--	3969	5858	8169	2743
6.	Kanpur (Comm. on 28.9.2000)	--	--	3382	10934	14578
7.	Panipat	1318	1730	3064	5382	7314
8.	Gwalior (Comm. on 25.6.1998)	600	638	541	1266	3713
9.	Jodhpur (Comm. on 7.7.01)	-	-	-	11394	18273
10.	Jaipur (Comm. on 6.12.01)	-	-	-	3427	22557
11.	Rewari (Comm. on 1.3.03)	-	-	-	-	62
	Other-Adhoc	6	1420	3920	8399	6012
	Total	**248225**	**295876**	**340006**	**427572**	**505884**
II. Western Region						
12.	Wadibunder	8257	2868	1885	484	Nil
13.	Mulund	44608	42820	46489	60070	69868
14.	New Mulund	81975	93152	92203	100400	92280
15.	Indore	9363	12484	18134	21567	21930
16.	Pune	1073	1165	786	1512	82
17.	Turbhe (Comm. on 3.8.2000)	-	-	93	1679	564
18.	Miraj (Comm. on 21.12.01)	-	-	-	934	1363
19.	Donagiri Node (Comm. on 3.6.02)	-	-	-	-	30721
	Other-Adhoc	Nil	Nil	Nil	Nil	Nil
	Total	**145276**	**152489**	**159590**	**186646**	**216808**
III. North Western Region						
20.	Ahmedabad	36849	44748	60999	79083	72154
21.	Vadodra (Comm. on 12.7.2000)	-	-	854	7008	9639
22.	Kandla	5913	2004	952	1273	539
23.	Rajkot	-	-	-	53	Nil
	Other-Adhoc	Nil	Nil	Nil	1338	30
	Total	**42762**	**46752**	**62805**	**88755**	**82362**
IV. Central Region						
24.	Nagpur	14830	19691	23162	28806	36732
25.	Aurangabad (Comm. on 11.2.1999)	Nil	1441	5757	11164	9401
26.	Bhusawal (Comm. on 29.1.01)	-	-	-	448	1370
	Other-Adhoc	Nil	36	Nil	Nil	Nil
	Total	**14380**	**21168**	**28919**	**40418**	**47503**
V. Southern Region						
27.	Tondiarpet	29995	26503	26221	31545	29284
28.	Harbour of Madras	23329	27455	32277	21515	29041
29.	Bangalore	33452	41000	46048	45152	49406
30.	Coimbatore	7550	11995	11598	12047	13192
31.	Milavittan	3027	6250	7454	10830	6970
32.	Cochin	4888	7528	6475	5038	3957
33.	Madurai (Comm. on 3.3.1999)	Nil	Nil	144	295	173

34.	Pondicherry (Comm. on 29.8.01)	-	-	-	984	2449
	Other-Adhoc	Nil	3	Nil	462	623
	Total	**102241**	**120734**	**130217**	**127868**	**135095**
VI	**South Central Region**					
35.	Sanatnagar	10500	13653	16666	20560	24060
36.	Guntur	Nil	Nil	Nil	202	230
37.	Anaparti	952	888	580	Nil	Nil
38.	Chirala	Nil	Nil	Nil	Nil	Nil
	Other-Adhoc	Nil	Nil	Nil	Nil	Nil
	Total	**11452**	**14541**	**17246**	**20762**	**24290**
VII	**Eastern Region**					
39.	Cossipore	2934	4465	5025	5040	5611
40.	Shalimar	478	275	234	449	1493
41.	Amingaon	4856	4059	4671	4033	4000
42.	Haldia	3295	2791	3853	3203	6360
43.	Jamshedpur (Comm. on 15.12.01)	-	-	-	252	2519
44.	Balassore (Comm. on 27.12.01)	-	-	-	Nil	Nil
	Other-Adhoc	341	1340	926	60	Nil
	Total	**12004**	**12930**	**14709**	**13037**	**19983**
	Grand Total	**576790**	**664490**	**753492**	**905058**	**1031925**

Annexure – 17

(Referred to in Para 10.5.2)

Terminal wise Domestic traffic

(In TEUs)

S.No.	Name of Domestic terminal	1998-99	1999-2000	2000-01	2001-02	2002-03
I	**Northern Region**					
1.	Delhi	35478	50047	60877	75452	85020
2.	Moradabad	Nil	Nil	528	131	169
3.	Kanpur (Comm. on 28.9.2000)	-	-	5065	5320	4146
4.	Phillaur (Ludhiana) (Comm. in 2001-02)	-	-	-	9257	7668
5.	Agra	2384	531	NIL	1020	1250
6.	Jodhpur (Comm. on 7.7.01)	-	-	-	70	2063
7.	Jaipur (Comm. on 6.12.01)	-	-	-	930	4687
8.	Ballabhgarh (Comm. on 19.6.99)	-	NIL	NIL	NIL	NIL
9.	Rewari (comm. on 1.3.03)	-	-	-	-	1
	Other – Adhoc	46857	41946	44437	32508	38603
	Total	**84719**	**92524**	**110907**	**124688**	**143607**
II	**Western Region**					
10.	Miraj (Comm. on 21.12.01)	-	-	-	Nil	178
11.	Turbhe (Comm. in 9/2000)	-	-	1902	4706	8655
12.	Wadibunder	8706	7516	6035	9537	9416
	Other – Adhoc	24824	17922	13304	3272	616
	Total	**33530**	**25438**	**21241**	**17515**	**18865**
III	**North West Region**					
13.	Kankaria/Khodiyar	13924	18281	24090	23751	18135
14.	Vadodra (Comm. on 12.7.2000)	-	-	387	1044	622
	Other – Adhoc	-	-	-	5455	1217
	Total	**13924**	**18281**	**24477**	**30250**	**19974**
IV	**Southern Region**					
15.	Tondiarpet	17929	27035	33561	35328	39268
16.	Bangalore (Whitefield)	5191	10968	14294	18737	19320
17.	Madurai (Comm. on 3.3.1999)	-	NIL	144	725	505
18.	Salem (Comm. in 16.7.2001)	-	-	-	4349	4532
	Other – Adhoc	7177	8985	8159	5173	6691
	Total	**30297**	**46988**	**56158**	**64312**	**701316**
V	**South Central Region**					
19.	Hyderabad (Sanatnagar)	Nil	Nil	902	9572	11593
20.	Guntur	335	447	255	779	671
21.	Vishakhapatnam (Comm. In 01-02)	-	-	-	437	3589
	Other – Adhoc	5903	7150	15992	11829	7167
	Total	**6328**	**7597**	**17149**	**22617**	**23020**
VI	**Central Region**					
22.	Nagpur	Nil	Nil	4049	7356	8268
23.	Bhusawal (Comm. on 29.1.01)	-	-	-	4	36
24.	Aurangabad (Comm. on 11.7.1999)	-	Nil	Nil	7	Nil
	Other – Adhoc	20344	3986	324	54	NIL
	Total	**20344**	**3986**	**4373**	**7421**	**8304**
VII	**Eastern Region**					
25.	Shalimar	11497	14633	19196	24540	23711
26.	Cossipore	4083	10720	12817	14523	15427
27.	Balassore (Comm. on 27.12.01)	-	-	-	Nil	44
28.	Jamsedpur (Tatanagar) (Comm. on 15.12.01)	-	-	-	268	2817
29.	Fatuha (comm. on 22.1.03)	-	-	-	-	56
30.	New Guwahati (comm. on 4.2.03)	-	-	-	-	3002
	Other – Adhoc	20524	18494	25042	20641	22095
	Total	36104	43847	57055	59972	67152
	Grand Total	**225156**	**238661**	**291360**	**326775**	**351238**

Annexure – 18

(Referred to in Para 12.4.1)

Statement Showing Funds Management

Year	Available funds (Rs. in crore)			Loan disbursed (Rs. in crore)	Percentage of loan disbursed to available funds	Surplus funds at year end (Rs in crore)	
	Internal sources	Equity from Government	Total			Funds in Govt. Public A/c.	Funds in bank
NSFDC							
1997-98	183.03	20.23	203.26	73.62	36.22	-	105.79
1998-99	178.93	81.00	259.93	118.70	45.67	-	114.62
1999-00	196.04	30.00	226.04	95.55	42.27	-	105.91
2000-01	221.53	0.00	221.53	132.51	59.82	-	85.70
2001-02	178.30	25.00	203.30	173.81	85.49	-	22.56
NBCFDC							
1997-98	103.33	00	103.33	66.03	63.90	--	30.85
1998-99	92.26	91.50	183.76	91.18	49.62	45.50	40.78
1999-00	161.92	100	261.92	69.72	26.62	114.00	60.46
2000-01	265.49	00	265.49	71.54	26.95	114.00	55.21
2001-02	246.59	00	246.59	117.77	47.76	--	119.40
NMDFC							
1997-98	84.35	2.26	86.61	23.41	27.03	37	25.18
1998-99	81.74	37.70	119.44	60.08	50.30	32	26.44
1999-00	89.86	28.72	118.58	61.32	51.71	20	35
2000-01	90.93	28.20	119.13	73.44	61.65	25	17.75
2001-02	90.62	19.91	110.53	96.94	87.71	-	10.18
NSKFDC							
1997-98	0.15	4.75	4.90	3.84	78.37	-	0.90
1998-99	1.38	10.00	11.38	10.91	95.87	-	0.17
1999-00	2.56	20.00	22.56	20.16	89.36	-	1.95
2000-01	10.48	22.00	32.48	29.12	89.65	-	0.82
2001-02	17.92	25.00	42.92	30.04	70.00	-	7.07
NHFDC							
1997-98	0.15	14.30	14.45	0.26	1.80	-	14.09
1998-99	16.19	28.00	44.19	0.93	2.11	-	41.81
1999-00*	45.99	10.00	55.99	5.63	10.25	10	39.68
2000-01*	56.75	--	56.75	9.60	16.92	10	34.21
2001-02*	53.57	--	53.57	9.17	17.12	10	29.32

These are provisional figures, as the accounts of NHFDC are in arrears after 1999-2000.

64

Annexure – 19

(Referred to in Para 12.4.1(b))

Statement Showing Disbursements of Loans

(Rs. in crore)

	1997-98	1998-99	1999-2000	2000-01	2001-02
NSFDC*					
Sanctions	137.36	126.91	114.13	154.94	233.92
Disbursements	73.62	118.70	95.55	132.52	173.80
Beneficiaries (Nos).	14164	17036	13464	52861	94845
NBCFDC					
Sanctions	125.02	133.61	133.26	174.53	216.19
Disbursements	66.02	91.18	69.72	71.49	117.67
Beneficiaries (No)	51816	109920	42344	21518	45827
NMDFC					
Sanctions	59.21	61.42	74.29	101.22	120.72
Disbursements	23.41	60.08	61.32	73.44	96.94
Beneficiaries (Nos.)	4932	14333	22510	20274	21489
NSKFDC					
Sanctions	3.85	21.43	20.81	54.13	40.60
Disbursement	3.84	10.91	20.16	29.12	30.04
Beneficiaries (Nos)	423	1606	4909	20489	9249
NHFDC					
Sanction	0.26	3.13	4.97	12.85	14.18
Disbursement	0.26	0.93	5.63	9.60	9.17
Beneficiaries (Nos)	11	230	1146	2448	2375

Figures for the year 2001-02 are after transfer of one third to NSTFDC