FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2019-2021)

NINETY SIXTH REPORT

(Presented on 1st July, 2019)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2019

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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NINETY SIXTH REPORT

On

TRANSFORMERS AND ELECTRICALS KERALA LIMITED

(Based on the Reports of the Comptroller and Auditor General of India for the years ended 31 March, 2013 and 2014)

818/2019.

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS
(2019-2021)

COMPOSITION OF THE COMMITTEE

Chairman:

Shri C. Divakaran.

Members:

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri Thiruvanchoor Radhakrishnan

Shri P. T. A. Rahim

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Shri C. F. Thomas

Shri M. Ummer

Shri P. Unni.

Legislature Secretariat:

Shri C. Jos, Secretary-in-Charge

Shri P. B. Suresh Kumar, Joint Secretary

Shri G. Harish, Deputy Secretary

Smt. Reji D. O., Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2019-2021) having been authorised by the Committee to present the Report on its behalf, present this Ninety Sixth Report on Transformers and Electricals Kerala Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2013 and 2014 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2013 and 2014 were laid on the Table of the House on 10-6-2014 and 23-3-2015 respectively. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2016-2019 at its meetings held on 11-1-2018 and 11-4-2018. The recommendations of the Committee on the basis of audit para are included as Chapter I. In order to obtain more clarification, the Committee visited Transformers and Electricals Kerala Limited on 3-5-2018. Recommendations of the Committee on the basis of the visit are included as Chapter II.

This Report was considered and approved by the Committee (2019-2021) at its meeting held on 19-6-2019.

The Committee places on record its appreciation for the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit paragraphs included in this Report.

The Committee wishes to express its thanks to the officials of the Industries Department of the Government Secretariat and Transformers and Electricals Kerala Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government- Industries and Finance Departments and the officials of the Transformers and Electricals Kerala Limited who appeared for evidence and assisted the Committee by placing their views before it.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
19th June, 2019.

REPORT

ON

TRANSFORMERS AND ELECTRICALS KERALA LIMITED (TELK)

AUDIT PARAGRAPH 4.6 (2012-13)

Short remittance of advance income tax due to wrong estimation of current income resulted in avoidable payment of interest of ₹ 1.17 crore.

Section 208 of the Income Tax Act, 1961 stipulates that advance tax shall be payable during a financial year where the amount of tax payable by the assessee as computed in accordance with the provisions of the Act is ₹ 10,000 or more (₹ 5,000 prior to financial year 2009-10). Further, as per Section 210 read with Section 211 of the Act, each person who is liable to pay advance tax under Section 208 shall, of his own accord, estimate his current income, compute the tax thereon and pay it in four installments during each financial year (on or before 15 June, 15 September, 15 December and 15 March). Failure of the assessee to pay advance tax or if the advance tax paid is less than 90 per cent of the assessed tax, or the assessee being a company, the advance tax paid in each quarter is less than the prescribed percentage, it is liable to pay simple interest at the rate of one per cent per month on the amount of the shortfall (Section 234B and C)

Transformers and Electricals Kerala Limited (Company) is a profit making Public Sector Undertaking (PSU) engaged in the manufacture of power transformers. The Company earned profit of ₹ 50.81 crore and ₹ 45.58 crore during the financial years 2008-09 and 2009-10 respectively and was liable to pay advance tax in four instalments between June and March of the respective financial years. The Company, however, did not remit any advance tax during the first three quarters in 2008-09 and remitted ₹ 7.50 crore in March 2009 which constituted only 65.39 per cent of the tax due (₹ 11.47 crore). Similarly in 2009-10, though the Company remitted advance tax quarterly, the total tax paid upto March 2010 was ₹ 11.92 crore which constituted only 81.59 per cent of the tax due (₹ 14.61 crore). As the Company did not remit advance tax on due dates and the advance tax remitted was less than 90 per cent of the total tax due in 2008-09 and 2009-10, it had to pay (December 2009 and August 2010) interest of ₹ 1.17 crore under Section 234B (₹ 0.42 crore) and 234C (₹ 0.75 crore) of the Act.

Government replied (July 2013) that it was difficult to estimate precisely profitability for future periods due to external factors. It was also stated that during 2008-09 and 2009-10, on account of currency fluctuations, earnings were higher and due to change in product mix material cost during these years were less than budgeted cost.

The reply was not acceptable as the Company carried out production against confirmed orders only and there was no ambiguity regarding sales turnover and profit. Moreover, the Company did not avail the opportunity to make up the shortfall in payment of advance tax, in the succeeding quarter or in the last quarter to avoid the burden of interest.

[Audit paragraph 4.6 contained in the Report of the Comptroller & Auditor General of India for the year ended 31 March, 2013].

The Notes furnished by the Govt. on Audit paragraphs are given in Appendix II.

AUDIT PARAGRAPH 3.1 (2013-14)

3.1.1 Transformers and Electricals Kerala Limited (Company) was incorporated (December 1963) with the main objective to establish manufacturing units for the manufacture of heavy electrical equipments such as transformers, turbines and other electrical and allied machinery required by power sector institutions. The Company commenced its commercial activities in 1966. The Company is presently manufacturing power transformers, current and potential transformers in the range of 33KV[1] to 400KV. The major raw materials used in production process are copper, steel, press boards and transformer oil.

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1 Kilo volts, 1000 volts; one volt is defined as the difference in electric potential between two points of a conducting wire when an electric current of one ampere dissipates one watt of power between those points.

3.1.2 The cost of production per MVA[2] of transformer manufactured by the Company increased from ₹ 3.21 lakh in 2009-10 to ₹ 3.89 lakh in 2013-14, registering an increase of 21.18 per cent. As a result, the Company had incurred operating loss of ₹ 0.73 lakh per MVA during 2013-14 as against profit of ₹ 0.70 lakh per MVA during 2009-10. The hike in cost of production was due to increase in cost per MVA of raw materials from ₹ 2.13 lakh in 2009-10 to ₹ 2.51 lakh in 2013-14 and the employee cost from ₹ 0.74 lakh in 2009-10 to ₹ 1.07 lakh in 2013-14 as shown below:

Table 3.1: Cost of production per MVA

Period	Production (MVA)	Cost of Materials consumed		Employee Cost		Others[3]		Grand Total	
		Total (₹ crore)	Per MVA (₹ lakh)	Total (₹ crore)	Per MVA (₹ lakh)	Total (₹ crore)	Per MVA (₹ lakh)	Total (₹ crore)	Per MVA (₹ lakh)
2009-10	5080.73	108.03	2.13	37.55	0.74	17.72	0.34	163.30	3.21
2010-11	5168.92	124.06	2.40	39.06	0.76	17.38	0.34	180.50	3.50
2011-12	5789.31	120.24	2.08	45.26	0.78	16.89	0.29	182.39	3.15
2012-13	5175.69	95.35	1.84	49.14	0.95	13.61	0.26	158.10	3.05
2013-14	4260.68	107.14	2.51	45.61	1.07	13.39	0.31	166.14	3.89

The major reasons for increase in cost of production are deficiencies in procurement of raw materials and payment of unproductive wages as discussed in the succeeding paragraphs:

Absence of procurement through open tender

3.1.3 The basic principle of any public buying is to procure the materials of the specified quality at the most competitive prices and in a fair and transparent manner. As per clause 7.11 of Kerala Stores Purchase Manual, all purchases exceeding ₹ 10 lakh must be made through open tender.

2 Mega Volt Ampere.
3 Manufacturing, administration, selling expenses, finance cost, depreciation, etc.

Open tender was, however, defined in the Purchase Manual framed by the Company as " where enquiries were made with all the known sources, not less than six, and responses were received from not less than four sources". This was contrary to the provisions in the Kerala Stores Purchase Manual according to which tenders are required to be invited by public advertisements by giving wide publicity.

On a review of the procurements made by the Company during 2009-10 to 2013-14, following deficiencies were noticed in the system of procurement:

3.1.4 The Company made purchases from few sources without resorting to open tender as prescribed in the Kerala Stores Purchase Manual and thus violated the purchase rules. Out of the total 289 product groups procured during 2011-12, the Company had only single vendor each for 121 product groups and two vendors each for 69 product groups when 9 to 15 suppliers were available for these items in India and abroad. Out of 5141 purchase orders for ₹ 240.69 crore placed by the Company during the period from January 2011 to December 2013, 45 major purchase orders[4] for ₹ 106.65 crore[5] were checked by Audit and the position was as follows:

Table 3.2: Comparison of purchase orders issued

Year	Enquiries made with more than three sources		Enquiries made with two to three sources		Enquiries made with single source		Total (₹ crore)
	Number	Value of PO (₹ crore)	Number	Value of PO (₹ crore)	Number	Value of PO (₹ crore)	
2011	1	1.68	11	29.87	1	2.45	34.00
2012	0	0	15	30.62	1	2.01	32.63
2013	0	0	16	40.02	0	0	40.02
Total	**1**	**1.68**	**42**	**100.51**	**2**	**4.46**	**106.65**

4 Costing more than ₹1 crore per PO.

5 Represented 44.30 per cent of total purchases.

In the absence of obtaining competitive quotes, the Company did not have price discovery mechanism and was deprived of the advantages of competitiveness in the prices.

The Government replied (September 2014) that major customers specify their approved vendors for major raw materials and components along with tender specifications and that was the reason for procurement from limited sources. The reply was not acceptable because the conditions about tendering in Company's purchase manual were in contravention of Kerala Stores Purchase Manual. Further, despite the fact that the customers had specified a range of 6 to 15 vendors, the Company had failed to send tender enquiries even to those vendors preferred by customers (Annexure 13). Thus, purchases were made by ignoring not only the provisions of the Kerala Stores Purchase Manual but were limited only to few vendors even ignoring wide range of the vendors preferred by customers which calls for review of procedure.

Extra expenditure due to dependence on few vendors

3.1.5 Audit analysed the trend of prices at which the Company purchased raw materials vis-a-vis the market prices of these items over five years from 2009-10 to 2013-14. It was noticed that the increase in market price[6] of copper[7], when compared to that in 2009-10 ranged from 28.03 per cent in 2010-11 to 48.44 per cent in 2013-14, whereas the increase in actual procurement rate of the Company ranged from 32.18 per cent in 2010-11 to 60.88 per cent in 2013-14. The reason for such increase in rate was Company's dependence on two sources[8] for the purchase of Paper Covered Copper Conductor (PCC)[9] and on three to four sources[10] for Continuously Transposed Copper Conductor (CTC) despite presence of many suppliers in India and abroad for these items. Due to its dependence on

6 Based on London Metal Exchange rates.

7 Both PCC and CTC which accounted for nearly 35 per cent of total purchase expenditure of raw materials.

8 Sterlite Industries Limited and Hindalco Industries Limited.

9 Except one more source, namely HCL in 2012-13 with whom the Company had placed orders forsmaller quantity.

10 Chandra Proteco, KSH International, Asta India and Sree Cables.

few vendors, the Company was deprived of the benefit of fair competition and had to procure materials at higher rates incurring extra expenditure of ₹ 7.29 crore **(Annexure 14).**

The Government replied (September 2014) that Sterlite Industries Limited and Hindalco Industries Limited were the only major approved suppliers for copper rods in India. The reply is not acceptable since the customer-preferred vendor list furnished by the Government itself contained names of six suppliers, which is a matter of investigation.

Failure to utilise export incentive

3.1.6 The Company has been exporting transformers to the Sultanate of Oman for the last five years. As per the foreign trade policy in vogue from time to time, the Company was issued[11] Advance Authorisations (AAs) which allow duty free import of inputs, which are physically incorporated in the exported product. The main inputs used for manufacture of transformers are CRGO[12] steel sheets, copper wire rods, transformer oil and press boards. The Company also has the option to procure materials indigenously from domestic suppliers by invalidating the AAs in favour of the suppliers who, in turn, can obtain and utilise the same for duty free import. The suppliers pass on the benefit of duty exemption to the Company.

The validity of an AA is initially for two years which can be extended for a further period of six months on request.

In the production process, the copper wire rod is used in two forms viz., CTC and PCC. The former is directly procured in finished state and the latter is got fabricated through job contractors by supplying copper rod. The rate of copper quoted by the suppliers was *'(LME[13] CSP[14] rate + premium)* x *multiplication factor* x *exchange rate'* for supply through domestic route and for supply through deemed export route, the multiplication factor was not considered. Thus, for procurement through deemed export route the rate was lower.

11 By Joint Director General of Foreign Trade, Ministry of Commerce and Industry.

12 Cold Rolled Grain Oriented.

13 London Metal Exchange.

14 Cash Settlement Price

On audit scrutiny, it was noticed that the Company had invalidated nine AAs for 185.29 MT of copper wire rod during the period from December 2010 to July 2011 in favour of two suppliers[15] after getting specific consent from them to supply through deemed export route against each AA. The Company, however, procured 185.29 MT copper wire rod through domestic route at higher rates incurring extra expenditure of ₹ 41.36 lakh[16] . Audit observed that the suppliers had utilised these AAs for duty free import but the benefit of duty exemption was not passed on to the Company. Failure of the Company to procure copper through deemed import route even after invalidating the AAs in favour of the suppliers resulted in extending undue benefit to private firms.

The Government admitted in the reply (September 2014) that there was avoidable expense but stated that the suppliers had returned the original unutilised invalidation letters to the Company. It was, however, evident from the records of Joint Director of Foreign Trade, Cochin that the suppliers had utilised the nine AAs for import of copper to the fullest extent. The Company may, therefore, take up the matter with private firms for recovery of the amount in question.

Other deficiencies in procurement

3.1.7 The Company failed to comply with the procedures and practices prescribed in the purchase manual as mentioned below:

- The manual stipulated that a purchase committee consisting of heads of departments of materials, planning, design, finance and production has to be constituted for deliberating and taking decisions on purchases exceeding ₹ 15 lakh. Though the purchase committee was constituted, the committee never met. Instead, purchase decisions were taken by circulating the purchase files among the members. Thus, the objective of doing deliberations behind formation of purchase committee was defeated.

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15 Sterlite Industries Limited and Precision Wires Limited.

16 41.36 lakh = 5 per cent of (185.29 MT x ~446441).

- As per the manual, the purchase department shall prepare an annual purchase budget based on the price data/trends, market information, etc. However, the Company did not prepare purchase budget thereby losing the benefits of getting best materials at competitive prices.
- The manual further stipulated that the purchase department shall have a price discovery mechanism for the major high value items like CRGO steel, copper conductors, transformer oil, mild steel and press board and that it shall make price trend analysis of the major materials based on past records, prices prevailing in the market from time to time and also possible changes due to Government regulations. However, such procedures were not complied with, due to which the Company lost the opportunities of discovery of actual market price of various materials.
- As per General Financial Rules, for the best public procurement practices, a financial limit shall be prescribed for adopting various modes of procurement viz., open, limited and single tendering procedure. However, such transparent procedure was not put in place by the Company. It was noticed that out of 45 purchase orders test checked by Audit, only 1.57 per cent[17] were made through open tender[18] during 2011 to 2013. The Government replied (September 2014) that open tender could be resorted only for general items but not for specific raw materials for manufacturing customised product. The reply is not acceptable due to the fact that the customer specifications were not restricted to any single supplier but to a group of suppliers. Thus, the action of the Company was arbitrary in nature which needs investigation.

In the circumstances, the Company may broaden its vendor base for raw materials to promote competition and obtain best rates and may also resort to import of raw materials wherever found economical. The Company may also go in for LME based long term contracts with suppliers.

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17 ₹ 1.68 crore / ~106.65 crore x 100.

18 As defined in the Company's purchase manual, Open tender means-where enquiries were made with all the known sources, not less than six, and responses were received from not less than four sources.

Incidence of high employee cost

3.1.8 The employee cost per MVA of transformer manufactured had increased from ₹ 0.74 lakh in 2009-10 to ₹ 1.07 lakh in 2013-14 registering an increase of 45 per cent. The major reasons for the increase in employee cost per MVA of transformers manufactured were low labour productivity, abnormal idle time and abnormal absenteeism as discussed below:

Unproductive wages

3.1.9 Scrutiny of monthly production reports by audit revealed that though the Company had fixed norms for production per man day in each shop, the actual production was much lower resulting in payment of unproductive wages of ₹ 31.02 crore as detailed in the table below:

Tabe 3.3 : Details of unproductive wages paid in different shops

Sl. No.	Particulars	Coil & Insulation Shop	Core shop	Plate Shop	Assembly Shop	OLTC Shop	CTPT Shop
1	2	3	4	5	6	7	8
1	Nature of job in the Shop	Coil winding	Assembly of core	Fabrication of tank	Final assembly of transformer	Manufacture of OLTC	Manufacture of CTPT
2	Norm/Man day	31.36 kg	170 kg	66.80 kg	0.303 MVA	0.36 SU[19]	0.80 SU
3	Executed quantity during 2010-11 to 2013-14	23.31 lakh kg	28.63 lakh kg	25.99 lakh kg	14.668 MVA	201.82 SU	728.47 SU
4	Man days' requirement as per the norm	74,331	16,840	38,907	48,410	561	911
5	Actual utilisation of man days	1,12,113	20,956	72,446	54,557	8,409	15,695

19 Standard Unit.

1	2	3	4	5	6	7	8
6	Excess utilisation of man days than norms	37,782	4,116	33,539	6,147	7,849	14,784
7	Unproductive wages (₹ in crore)[20]	11.37	1.21	9.91	1.83	2.25	4.45
8	Total unproductive wages for six shops: ₹ 31.02 crore						

The Government replied (November 2014) that the higher productivity was envisaged under the assumption that modern jigs and production techniques would be introduced and that due to bad market situation and paucity of funds, most of the plans were deferred.

The reply is not tenable in view of the fact that it was agreed (June 2012) between the workers and the Company during long term wage settlement to increase labour productivity by a minimum of 25 per cent from the existing level. This proves that there was scope for improvement in productivity.

Abnormal idle time

3.1.10 The main reason for poor labour productivity was abnormal idle time. The management assessed that out of 14.12 lakh man hours booked during the period 2011-14, 2.35 lakh (16.63 per cent) man hours were unproductive due to abnormal idle time resulting in payment of unproductive wages amounting to ₹ 9.85 crore as mentioned in the following table:

Table 3.4 : Year-wise details of unproductive wages paid

Year	Total wages paid (₹ lakh)	Total man hours booked	Idle man hours	Unproductive wages (₹ lakh)
1	2	3	4	5 (2x4/3)
2011-12	2103.53	604601	106635	371.00
2012-13	2155.43	457085	82236	387.79
2013-14	1726.21	350745	45969	226.23
Total	**5985.17**	**1412431**	**234840**	**985.02**

20 At the average man hour rate

The idling was on account of prolonged lunch break, tea break, waiting for want of instructions, crane and materials, etc.

The Government replied (November 2014) that the number of hours spent would vary from unit to unit depending on factors like availability of crane, condition of raw material, etc. The reply is not acceptable since the assessment of idle time was made by the management itself and the reasons cited were prolonged lunch break, waiting for want of instructions, crane, material, etc. which were documented in the monthly production statements. The Government also confirmed (November 2014) the audit observation by stating that constant efforts were being made through regular communication with trade unions for improving engagement time by reducing the tea break and lunch break time.

Abnormal absenteeism

3.1.11 The Company fixed the norm of 10 per cent for absenteeism among permanent workers. Audit, however, noticed that the actual absenteeism among permanent workers during the three years from 2011-12 to 2013-14 ranged from *20.35* per cent (Plate shop in 2012-13) to 12.34 per cent (Assembly shop in 2011- 12) and as such 3.19 lakh man hours (17.30 per cent) were lost out of the total available man hours of 18.45 lakh. The man hours loss due to abnormal absenteeism was compensated by engaging workers on overtime and by engaging contractual workers. During the period from 2010-11 to 2013-14, the Company engaged workers for 47,302 man hours on overtime incurring ₹ 3.94 crore towards overtime wages. Similarly, the Company employed workers on contract basis incurring ₹ 1.02 crore.

The Government replied (November 2014) that the absenteeism was due to eligible leave availed by the permanent workers. The reply was not tenable as the cost of production had increased due to payment of overtime wages and payment of wages to contract workers in addition to leave salary to the workers on leave.

Non-compliance of long term labour agreement assurances

3.1.12 As per the long term wage settlement entered into (June 2012) between the workers and the Company, it was agreed to increase labour productivity by a minimum of 25 per cent from the existing level. The productivity, however, had either declined or remained the same in the subsequent years. The Company, however, did not take measures to improve productivity but paid increased wages as per the revised pay structure. Further, it was agreed to introduce third shift from 1 April 2012 which was also not implemented and thereby the Company lost the benefit of better contribution by the optimum utilisation of the available infrastructure and workforce.

The Government replied (September 2014) that the third shift was not introduced since the Company did not have either orders or other factors of production to run third shift. The reply is not acceptable since outsourcing part of Plate Work Shop operations indicated that working of first and second shift was not sufficient to meet the requirements.

Thus, the Company should take steps to increase productivity by optimal utilisation of labour force by reducing idling time and absenteeism.

[Audit paragraph 3.1.1 to 3.1.12 contained in the Report of the Comptroller & Auditor General of India for the year ended 31 March, 2014].

The Notes furnished by the Government on Audit Paragraphs are given in Appendix II.

Discussion & Findings of the Committee

The Committee enquired about short remittance of advance tax on due dates during 2008-09 and 2009-10 resulting in avoidable expenditure of ₹ 1.17 crore.

The witness explained that maximum production of the company usually occurs in the last quarter of the year, which decide the profit or loss of the company in that year. During 2008-09 and 2009-10 there was a hike in Company's profits amounting to ₹ 50.81 crore and ₹ 45.58 crore respectively over the estimated profit of ₹ 10 crore, due to foreign exchange variations and other external factors. The Company was unable to estimate such hike in profit at the beginning of the year owing to change in product mix and currency variations during that period. Besides, during 2008-09 and 2009-10, TELK obtained major export orders of about ₹ 70 crore and achieved profit much more than expected on account of currency fluctuation, as the value of dollar fluctuated between ₹ 40 to ₹ 50 during the period, and hence TELK received an extra income of ₹ 10.

The Committee remarked that the Company failed to estimate profit accurately and to remit advance tax in time and demanded to know the reason for failure in paying 90% advance tax due, even in the last quarter of the financial year, thus resulting in payment of interest around ₹ 1.17 crore. The witness submitted in defence that the Company was unable to foresee the currency fluctuation during the invoicing time, but only during the realisation time. He added that all payments after 2008-09 have however been made on the basis of AG's report.

To a query of the Committee about disciplinary action taken against the delinquent officers, the witness replied that no disciplinary action had been taken against the concerned officer.

The Committee expressed dismay at the action of the Company in not taking action against the erring official and stated that there was clear dereliction of duty from the part of the Company.

The Industries Secretary stated that the amount received as profit by TELK was kept as fixed deposit and thereby earned interest out of that amount. He also added that the Company could even claim that the profit thus earned by TELK had balanced the economic loss incurred by the company on account of the difficulty which arose from non payment of advance taxes.

The Committee enquired about the reason for mentioning the pending cases of appeals in the government reply for other assessment years before the Commissioner (Appeals), Kochi and expressed annoyance that the Company had been intermingling unnecessary information in the reply furnished to the audit para.

The Committee concluded that there was clear failure seen on the part of the Company to pay advance taxes in time which resulted in the subsequent difficulties.

The Committee sought explanation for procuring raw materials from various sources during 2009-10 to 2013-14 without resorting to open tender thereby violating clause 7.11 of the Kerala Stores Purchase Manual. The witness submitted in defence that provisions in the Stores Purchase Manual could not be said to have been violated explaining further that the Stores Purchase Manual also gives the freedom for limited tender, in cases where open tender was not felt feasible and that they were following this course of action. They further stressed the point that TELK makes purchases from approved vendors and that the customers specify the vendors. They further added that NTPC is their principal company and that their purchase manual is being followed.

The Committee was not convinced with the reply and stated that TELK was bound to follow the Stores Purchase Manual under any circumstances as long as it remains as a Public Sector Undertaking. The Committee stated further that NTPC, being under the direct control of the Government, do not have the authority to make their own purchase manual and that Stores Purchase Manual is applicable to all public sector undertakings.

The Committee blamed the officials of the company for submitting vague and unacceptable replies before the Committee and refraining from following the Stores Purchase Manual on the grounds that these were their internal issues. The Committee also strongly refuted the Company's reply that they were not in a position to violate the customer specifications.

The Committee found that TELK had not obtained the approval of the Government for deviating from Stores Purchase Manual and pointed out that they should have explained it before the government and got special permission and submitted the same to the Committee. The witness submitted that the Company had obtained permission from the Company's Board.

The Committee refuted this, stating that the Board of the Company being neither an autonomous body nor a competent authority did not have the power or authority to take such crucial decisions. It reminded that the Government is the sole authority for making such decisions and TELK was bound in every sense to do business as per the government rules.

The Committee noted the audit objection that TELK made purchases from some sources without resorting to open tender as prescribed in the Kerala Stores Purchase Manual thus violating the purchase rules and that TELK is seen to have ignored even the customer preferred vendors, thereby depriving itself of the advantages of competitiveness in prices. The Committee expressed displeasure at the act of the Company in violating the provisions of Kerala Stores Purchase Rules and on incurring losses amounting to crores of rupees.

The Committee pointed out that serious violations had occurred in the purchase and that purchase order was seen issued even for single tender. The Committee considered that the financial wing of the Company was directly responsible for this lapse and sought explanation from the financial wing of the Company.

On enquiring as to whether TELK had Purchase Manual of its own, the Committee learnt that TELK had a separate purchase manual which had been approved by the Board of the Company in 2010. The Manual was prepared by incorporating relevant facts from the Kerala Stores Purchase Manual and the Purchase Manual of BHEL.

The Committee learnt along with that the Purchase Manual of the Company lacked Government approval.

To a query of the Committee about the representatives from the Finance Department in the Company Board, the witness replied that the Under Secretary, Finance Department was the current representative of the Department in the Board. The Committee emphasised that it was the duty of the representative to give proper guidance to the Company in following Government norms.

The witness further explained the practical difficulties faced by them in inviting open tenders in accordance with the Government Stores Purchase Manual for making purchases from various sources and stated that, resorting to open tender would result in a long list of vendors and the evaluation of these vendors would be a time consuming process. Hence, a vendors list had been prepared and that this was being updated every year. The Committee remarked that the intention of the Company clearly appeared to be one aimed at avoiding more vendors.

The Committee criticized the Company for not including more vendors in the vendor's list and suggested to examine the empanelling of vendors and how a single vendor only was selected by avoiding customer preferred vendors.

The Committee noted that the increase in actual procurement rate of copper by the Company during 2009-10 to 2013-14 was higher than the market price of copper during the same period as a result of the Company's dependence on a few vendors. The Committee wanted to know whether TELK had only two approved suppliers. The witness replied that only two domestic companies -Sterlite Industries Ltd. and Hindalco Industries Ltd. supply copper rods.

The Committee pointed out that the Company could have availed more suppliers if it had resorted to open tenders for procurement of materials. The Committee demanded to know whether the Company had taken measures to increase the number of vendors for copper rods to the Company.

The witness replied that out of the 6 suppliers mentioned in the Customer preferred vendor list, only 2 were Indian companies and 3 were foreign companies. Besides the terms & conditions put forth by foreign companies were hard to follow in practice, and further advance payments were being sought.

The explanation on the part of the Company was refuted by the Committee, with added criticism. The Committee refuted this explanation that it cannot overlook the fact that through the action of the company purchase rules have been violated.

The Committee pointed out that as per the AG observation the suppliers had utilised advance authorisations for duty free import, at the same time the benefit of duty exemption was not passed on to the Company. The Committee demanded an explanation for this misappropriation.

The witness submitted that the Company could not agree with this audit observation and emphasised that the private firms had neither misused the license nor availed any benefit as stated in the audit para and that full records proving that were procured from Joint Deputy General of Foreign Trade (JDGFT), Mumbai and besides these had been duly submitted to the C. & A. G.

The Committee sought to know the reason for non-utilisation of the invalidation letters. The witness clarified that many instances of such non-utilisation of invalidation letters by suppliers could be cited in the past too and that it had happened in this case also.

The AG official informed that the details regarding the Advance Authorisation amounts were not included in the documents submitted to Accountant General. The Accountant General therefore was unable to determine whether the advance authorisations mentioned in the submitted documents related to this particular case. Further, the records in this respect were submitted to Accountant General only after the finalisation of the audit report.

The witness while clarifying that there was indeed delay in receiving the documents from Joint Deputy General of Foreign Trade (JDGFT) expressed a view along with that the audit statements made in this regard should be considered incorrect in the present context. By the time the facts were submitted to A. G. the audit report had already been published.

The Committee blamed the Company for not furnishing reply to audit observation in due time to A. G. and remarked that if the audit observation was not felt accurate it should be specified in the reply furnished by the department to the Committee.

The Committee remarked severely that it could only view that the witness had appeared for giving evidence before the Committee without making necessary preparations.

The Committee was perturbed to note that though the Purchase Committee was constituted, even a single meeting was not held and that purchase decisions were seen taken by circulating the purchase file among the members, thereby violating the rules and procedures stipulated in the purchase manual. The Committee severely criticized the company for this and sought explanation.

The witness replied that the Purchase Committee has not met at that time due to the day to day bulk purchase and other exigencies. It was added that even though meetings were not held, notes were circulated among members and that at present Purchase Committee meet once or twice a week.

The Committee vehemently criticized the witness for violating the norms of an accredited purchase committee constituted by the government and for giving a reply which could be viewed only as vague and irresponsible.

The Committee enquired whether the Company had approached Government for exemption from holding meeting. The witness replied in the negative.

The Committee stated that the Company has no power to violate the norms of the purchase committee constituted by the Government and that the objective behind formation of purchase committee has been defeated deliberately. Hence the Committee insisted that purchase decision should not be taken without convening meeting of the Purchase Committee in future.

To a query of the Committee the witness replied that the Company has an approved purchase manual and a separate purchase committee. The Committee questioned the necessity of constituting a purchase committee which never met physically.

The Committee reminded that the Company constituted the purchase Committee to discuss and decide over purchases above 15 lakh. The Committee ruled out the reply furnished regarding non compliance of purchase procedures of the Stores Purchase Manual.

To a query of the Committee about bulk purchase, the witness clarified that purchases are made based on the specification of the orders received by the Company. He added that the expensive items like transformers could not be purchased and stocked for one year in advance, owing to the reason that transformers come of different sizes and hence bulk purchase for one year was not felt feasible.

The Committee pointed out that the Company had deliberately limited the vendors and sought reason behind limiting the number of vendors. The witness replied that at present 32 new vendors are included.

The Committee enquired whether e-tendering process is going on. The witness replied that from 2015 onwards, e-tender was in vogue for purchases of ₹ 5 lakh or above as specified in the Stores Purchase Manual. The Committee perceived that the tender process purchase, procurement and other transactions of the Company lack transparency and that they had limited the number of vendors.

The Committee sought explanation on the hike in employee cost per MVA of transformer manufactured from ₹ 0.74 lakh in 2009-10 to ₹ 1.07 lakh in 2013-14. The witness explained that this increase was in proportion to the benefits given as per the pay commission report and that the Company has taken measures for reducing the number of labourers to curb the expense. He added that there were only 320 labourers at present in the place of 640 in 2013.

The Committee pointed out that even though there was a long term agreement between the workers and the company to enhance productivity by 25%, this was not seen materialized and sought reason for non-achievement of targeted production.

The witness explained that productivity decreased due to sluggish market and lack of purchase orders.

The Committee while pointing out agreeing that the scarcity of raw materials was indeed a reason for decrease of production, however reminded that facilitating the infrastructure for production is the prime responsibility of the management and criticized the management for not taking any measures to enhance production. The Committee criticized the management for appointing casual labourers and for allotting over time allowance to them when there were permanent employees in the company. The Committee was astounded to note that ₹ 18 crore has been spent as wages to these casual labourers and that the agreement to introduce a third shift had also not been implemented.

The Committee blamed the Company for losing opportunities to make more profit utilising the available infrastructure and labour force. The Committee affirmed that a series of irregularities have taken place in TELK.

The witness submitted that TELK had not engaged contract labourers and that only casual labourers like sweepers, cleaners and helpers had been appointed through the employment exchange.

The Committee pointed out that proper notification should be issued before appointing labourers through employment exchange and that the Managing Director has no power to appoint employees directly from the employment exchange without Government sanction or decision of the Board.

To a query of the Committee about the decision taken by the Company to appoint supporting staff, the witness replied that the Board had taken the decision five years ago. The Secretary, Industries Department clarified alongwith that Government sanction is usually not sought for temporary appointments, but for making appointments on contract basis, prior approval has to be obtained from General Administration Department and Finance Department.

The Committee expressing its dissatisfaction over the reply pointed out that as per the audit observation, the Company had engaged workers on overtime basis and contracted workers from employment exchange in order to compensate the abnormal absenteeism among the permanent workers. However, according to the statement made by the witness, employees in addition were engaged from the employment exchange to support the existing staff, which remains contradictory to the report of the Accountant General.

Besides there was not any scientific study seen made about the necessity of temporary labourers before the appointment.

To a query of the Committee, the witness replied that there existed two shifts and that the temporary staff was not paid overtime allowance. They also stated that there are 200 temporary labourers and 284 permanent employees working in the factory. Regarding the permanent employees in TELK the witness replied that there are 473 permanent hands including technicians, engineers and 158 employees in the officer level. When the Committee learned that work has not been assigned to officers and that the officers and workers were in the ratio 1:2, the Committee commented that it appeared more that the officers were in excess already.

To a query of the Committee about reducing the number of labourers, the witness explained that when mechanisation came into being, the number of labourers were brought down. He also added that some labourers have been re-deployed.

The witness further elucidated that in 2009-10 there had been a hike in power market with the result that TELK faced difficulties in meeting orders received at that time, and by 2013-14 the power market had become very dull and company faced losses and besides, stiff competition was also there in the field. It was further added that at present TELK is making profit.

CHAPTER I

OBSERVATIONS & RECOMMENDATIONS BASED ON AUDIT PARAGRAPH

1. The Committee expresses dismay at the failure of the Company to remit advance taxes on due dates during 2008-09 and for the short remittance of advance tax due in 2008-09 and 2009-10 resulting in payment of interest of ₹ 1.17 crore by the Company. The Committee notes that the Company had not taken any disciplinary action against the delinquent officials. The Committee demands to take strict action against the responsible officials and furnish a report within a period of 3 months regarding the same.

2. The Committee observes that TELK being a PSU under Kerala Government shows reluctance in following the rules of Kerala Stores Purchase Manual and strongly recommends that the Company should strictly follow the rules of Kerala Stores Purchase Manual and must resort to open tender while making purchases.

3. The Committee criticises the Company's action of resorting to single tender system and insists that the Company should stop the practice of single tender system ignoring the vendors preferred by the customers. The Committee observes that this is a case of violation of the stock purchase manual and hence a criminal offence on the part of the officials. The Committee demands that a detailed report should be furnished within a period of 3 months on the circumstances which led to adopting the single tender system. The Committee also wants to take measures to increase the number of vendors during tender.

4. The Committee opines that the tender proceedings of the Company should be fair, transparent and in compliance with Government rules and recommends that the Company should conduct an internal level investigation by the state finance wing regarding irregularities perceived in the tender proceedings, purchase procurement and other transactions of the Company.

5. The Committee demands that the Company should take measures to increase labour productivity by a minimum of 25 per cent from the existing level as per the agreement between the workers and the Company during the long term wage settlement in 2012. The Committee also recommends to take disciplinary action against the Company officials responsible for the non-implementation of the agreement to increase labour productivity by 25 per cent from existing levels.

6. The Committee severely criticizes the Company for unnecessarily appointing casual labourers and providing overtime allowance to them despite the presence of adequate number of permanent employees. The Committee demands that the Company should take disciplinary action against the officials responsible for appointing temporary staff when the permanent employees of the Company were sitting idle without enough work, which had led to an extra expenditure of ₹ 1.02 crore. The Committee recommends that the above said amount should be recovered from the responsible officials.

7. The Committee recommends that the permanent workers in the Company should be re-deployed and opines that temporary staff if needed, should be appointed only after conducting proper scientific study. The Committee demands that the Company should appoint casual labourers through employment exchange only after issuing notifications to this effect and after obtaining Government sanction.

8. The Committee wants the Company to submit the details of the decision taken by the Company Board regarding appointment of supporting staff, the total number of employees including casual labourers in the Company, their per head work load, production, duties and responsibilities of the officers. The Committee also directs Industries Department to conduct a detailed work study about TELK and submit report to the Government within three months.

9. The Committee observes that the ratio of officers and workers in TELK is 1:2 which indicates an excess of officers. The Committee recommends to curtail the number of officers in TELK.

CHAPTER II

OBSERVATIONS & RECOMMENDATIONS BASED ON THE VISIT BY THE COMMITTEE

The Committee visited TELK on 3rd May, 2018 and entered into a discussion with the Company officials on the overall performance of the Company and aired the following recommendations:

10. **The Committee observes that the absence of timely upgradation of technologies is a contributing factor towards shortfall in production of the Company below targeted levels and recommends that the Company should upgrade its technologies. The Committee observes that the Company faces financial constraints for its better performance and recommends that the Government should take measures to obtain adequate financial support from National Thermal Power Corporation Ltd. (NTPC) for necessary technology upgradation in TELK.**

11. **The Committee demands that the Company should take necessary measures to address the issue of insufficient labour productivity explaining possibility of reducing the idle time of workers which occur in the name of entertainment hours and refreshment time. The time wasted by waiting for**

want of instructions, machinery and materials etc. should be reduced. The Company should also address the issue of abnormal absenteeism of permanent workers by ensuring that the fixed norm of 10 per cent for absenteeism among permanent workers is enforced.

12. **The Committee wants to be furnished with the details of appointment made by the Company in vacant posts, the appointment procedure followed by the Company for daily wage & contract basis workers, a detailed report on the conditions of service and wages of its workers and the existing staff pattern of the Company.**

13. **The Committee notes that public sector undertakings are legally obliged to invest a fixed portion of their profits for social service activities and recommends that TELK should accordingly invest a portion of its profits in CSR activities and should purchase an ambulance for a hospital inside the State.**

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
19th June, 2019.

818/2019.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para. No.	Department Concerned	Conclusions / Recommendations
1	2	3	4
1	1	Industries	The Committee expresses dismay at the failure of the Company to remit advance taxes on due dates during 2008-09 and for the short remittance of advance tax due in 2008-09 and 2009-10 resulting in payment of interest of ₹ 1.17 crore by the Company. The Committee notes that the Company had not taken any disciplinary action against the delinquent officials. The Committee demands to take strict action against the responsible officials and furnish a report within a period of 3 months regarding the same.
2	2	Industries	The Committee observes that TELK being a PSU under Kerala Government shows reluctance in following the rules of Kerala Stores Purchase Manual and strongly recommends that the Company should strictly follow the rules of Kerala Stores Purchase Manual and must resort to open tender while making purchases.
3	3	Industries	The Committee criticises the Company's action of resorting to single tender system and insists that the Company should stop the practice of single tender system ignoring the vendors preferred by the customers. The Committee observes that this is a case of violation of the stock purchase manual and hence a criminal offence on the part of the officials. The Committee demands that a detailed report should be furnished within a period of 3 months on the circumstances which led to adopting the single tender system. The Committee also wants to take measures to increase the number of vendors during tender.

1	2	3	4
4	4	Industries	The Committee opines that the tender proceedings of the Company should be fair, transparent and in compliance with Government rules and recommends that the Company should conduct an internal level investigation by the state finance wing regarding irregularities perceived in the tender proceedings, purchase procurement and other transactions of the Company.
5	5	Industries	The Committee demands that the Company should take measures to increase labour productivity by a minimum of 25 per cent from the existing level as per the agreement between the workers and the Company during the long term wage settlement in 2012. The Committee also recommends to take disciplinary action against the Company officials responsible for the non-implementation of the agreement to increase labour productivity by 25 per cent from existing levels.
6	6	Industries	The Committee severely criticizes the Company for unnecessarily appointing casual labourers and providing overtime allowance to them despite the presence of adequate number of permanent employees. The Committee demands that the Company should take disciplinary action against the officials responsible for appointing temporary staff when the permanent employees of the Company were sitting idle without enough work, which had led to an extra expenditure of ₹1.02 crore. The Committee recommends that the above said amount should be recovered from the responsible officials.
7	7	Industries	The Committee recommends that the permanent workers in the Company should be re-deployed and opines that temporary staff if needed, should be appointed only after conducting proper scientific study. The Committee demands that the Company should appoint casual labourers through employment exchange only after issuing notifications to this effect and after obtaining Government sanction.

1	2	3	4
8	8	Industries	The Committee wants the Company to submit the details of the decision taken by the Company Board regarding appointment of supporting staff, the total number of employees including casual labourers in the Company, their per head work load, production, duties and responsibilities of the officers. The Committee also directs Industries Department to conduct a detailed work study about TELK and submit report to the Government within three months.
9	9	Industries	The Committee observes that the ratio of officers and workers in TELK is 1:2 which indicates an excess of officers. The Committee recommends to curtail the number of officers in TELK.
10	10	Industries	The Committee observes that the absence of timely upgradation of technologies is a contributing factor towards shortfall in production of the Company below targeted levels and recommends that the Company should upgrade its technologies. The Committee observes that the Company faces financial constraints for its better performance and recommends that the Government should take measures to obtain adequate financial support from National Thermal Power Corporation Ltd. (NTPC) for necessary technology upgradation in TELK.
11	11	Industries	The Committee demands that the Company should take necessary measures to address the issue of insufficient labour productivity explaining possibility of reducing the idle time of workers which occur in the name of entertainment hours and refreshment time. The time wasted by waiting for want of instructions, machinery and materials etc. should be reduced. The Company should also address the issue of abnormal absenteeism of permanent workers by ensuring that the fixed norm of 10 per cent for absenteeism among permanent workers is enforced.

1	2	3	4
12	12	Industries	The Committee wants to be furnished with the details of appointment made by the Company in vacant posts, the appointment procedure followed by the Company for daily wage & contract basis workers, a detailed report on the conditions of service and wages of its workers and the existing staff pattern of the Company.
13	13	Industries	The Committee notes that public sector undertakings are legally obliged to invest a fixed portion of their profits for social service activities and recommends that TELK should accordingly invest a portion of its profits in CSR activities and should purchase an ambulance for a hospital inside the State.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

GOVERNMENT OF KERALA

INDUSTRIES DEPARTMENT

ACTION TAKEN STATEMENT ON PARA 4.6 IN THE REPORT OF COMPTROLLER & AUDITOR GENERAL FOR THE YEAR ENDED ON 31.03.2013 ON TRANSFORMERS & ELECTRICALS KERALA LIMITED

Para No.		Reply furnished by the Government
4.6		Profit before tax as a percentage of turnover has varied substantially over the years and advance estimation of profitability was rendered very difficult because of various reasons as discussed below:- 1. Company have engaged in the manufacture of large capacity Transformers with ratings of 5 MVA to 315 MVA (Mega Volt Ampere). Production of each transformer is based on specific order issued by the Customer. The specification of each transformer will be different from others according to the requirements of the customers for the design specification, Input material qualification, labour hours required for the production, process involved, testing requirements etc. Also, when the budgeted Product mix is changed for the execution of short delivery orders received subsequently, there will be deviations in the profit forecast. Therefore company cannot estimate the profitability of each transformer based on past experience as one transformer is not comparable with that of others. 2. During 2008-09 and 2009-10 the company had major export orders and had sizable earnings on account of currency fluctuation as the dollar fluctuated between Rs.40/- to Rs.50/-. The orders were [illegible] @ Rs.40/- per dollar against which are able to realize @ Rs.50/- per [illegible] the [illegible] in the Currency rate. This was the major [illegible] Profitability 3. The details if Sales MVA, Total income, PBT, [illegible] income over the past 10 years, based on Audited [illegible]

Sl.No.	Year	Sales MVA	Total income (RS.in crore)	PBT (Rs. In crores)	PBT as a % of Total Income
1	2004-05	3378	96	6.09	6.34
2	2005-06	3608	110	1.62	1.47
3	2006-07	3676	146	(-)4.27	(-)2.92
4	2007-08	4132	190	24.6	12.95
5	2008-09	4176	222	50.81	22.89
6	2009-10	5292	211	45.58	21.6
7	2010-11	5094	197	27.54	13.98
8	2011-12	5762	202	19.27	9.54
9	2012-13	4203	154	2.33	1.51
10	2013-14	5202	170	0.14	0.08

As may be seen, the PBT as a percentage of Total Income disproportionate during the years 2008-09 and 2009-10, due to various external reasons.

4. Moreover, the Income Tax appeals were pending before the Commissioner Appeals, Kochi for the Assessment years 2005-06, 2006-07, 2007-08 claiming various disallowances.

Company have obtained order from Commissioner (Appeals), Kochi for assessment years 2005-06 and 2006-07 allowing the already disallowed expenses to the tune of Rs.417 lakhs (disallowed by earlier assessment orders) and a refund of Rs.72 lakhs was received from Income Tax Department during July 2014 which relates to amounts already paid to the Income Tax Department by TELK in prior years.

The appeal for other assessment years is yet to be posted for hearing. If the matters in dispute are decided in the favour of the company. It is estimated that an additional refund of Rs.334 lakhs will be due to Company.

In line with the above facts and circumstances, it is requested that the Audit Paragraph may kindly be dropped.

VIJAYAKUMARAN NAIR K
Additional Secretary to Govt.

REPLY FURNISHED BY THE GOVERNMENT

GOVERNMENT OF KERALA
INDUSTRIES DEPARTMENT

Sl.No.	Para No	Reply furnished by the Government
1	3.1.3	**Absence of procurement through open tender** TELK ensures product quality with approved and proven suppliers meeting specific requirements. TELK purchase manual specifies open tender for general items other than those used for final product. As per TELK Purchase Manual, 'open Tenders shall be resorted to in such cases where adequate number of approved vendors are not listed or procurement from limited tender is considered not desirable'. With available approved vendor base, this condition is not applicable for major raw materials.
2	3.1.4	**Customer preferred suppliers** Major customers specify their list of approved vendors. 1. **MILD STEEL** Nine suppliers are preferred by customer for Mild Steel. TELK is having MOU with M/s. SAIL for meeting annual requirement, which is one among the 3 public sector companies as per the list. (HISCO is a SAIL subsidiary and RINL (Vizag Steel) is a PSE). TELK has the advantage of proximity of SAIL stockyard at Tripunithura, Kochi which evidently reduces transportation expense & time. They are getting rebate for their purchases from SAIL and it is convenient for periodic lifting of materials as and when required there-by reducing inventory carrying cost. Also, it may be noted that RINL is dealing with structurals, wire rods, billets etc and not dealing with flat products required by TELK. Prices from M/S Essar steel and M/S Jindal have been collected and found that SAIL rates are more economical. 2. **CRGO** TELK is procuring all the 7 makes of materials as per their design requirement. CRGO processors from whom TELK are regularly buying already include KRYFS, Mahindra, POSCO, Veer steel, NLMK, Vikarsh, Amod Stamping, etc. The other makes mentioned in the list are not making laminations as per their requirement and are primarily catering for the requirements of distribution and small power transformer manufacturers. 3. **Copper** TELK is procuring copper from Hindalco Industries, Sterlite and Hindustan Copper Ltd. 'Birla Copper' is the copper unit of Hindalco which is at Dahej, Bharuch Dist, Gujarat. The other sources outside India are not considered due to quantity and inspection constraints.

		4. CTC In addition to the suppliers mentioned in the list, TELK developed another source M/s. Shree Cables, Bhopal. Outside Indian suppliers are not considered since lead time is more for importing the CTC which is to be manufactured as per their specific requirements.
3	3.1.5	**Extra expenditure due to dependence on few Vendors.** The following additional data regarding purchase of copper in TELK with reference to Annexure 14 of the CAG report is furnishing for your kind consideration. **REASONS FOR CONSIDERING PCC AND CTC PROCUREMENTS SEPARATELY** A. As per Annexure 14 of the CAG report, the % change in LME rate and % change in actual purchase rate of copper are tabulated on yearly average basis. The procurement of CC rod for copper **(PCC)** is based on **monthly average of LME rates** and for **CTC** procurement, base data is the **copper booking date**. Hence these two procurements (CC rod for PCC and CTC) are to be considered separately. B. **TELK is purchasing CC rod for PCC from M/S HCL, Sterlite and** Hindalco based on Annual Order. CC rods are sent to fabricators for conversion into conductor and the fabrication rates for conversion are more or less uniform. On the other hand, CTC is procured from various Indian suppliers like M/S Asta, KSH International, Shree Cables, Chandra Proteco and Precision Wires based on separate e-tenders floated and Orders placed in each case. For CTC, dependence on M/S Hindalco and Sterlite is not applicable. For CTC, fabrication rate varies depending on size, no. of strands etc. which varies from design to design. Taking **yearly average value of LME rate** of copper for 2009-10 as

		reference and comparing the change in yearly average of LME price each year with **yearly average of actual purchase rates of CC rods** and CTC together as done in the CAG report will be different from actual figures considering LME variation on case to case basis. Please refer to the attached **(Attachment 1 & 2)** showing variation of rates in PCC and CTC separately for the year **2013-14.** 1. **TELK PCC 2013-14 (Attachment 1)** - The variation in actual rates of PCC procured by TELK for year 2013-14 is being compared with variation in monthly average of published LME rates. - The variation in actual rates is in line with LME variation and there is no extra expenditure incurred to the company due to rates higher than market rate of base metal. - As per Annexure 14 of CAG Report, % variation in actual rate and variation of LME rate for 2013-14 combining PCC and CTC is 160.88/148.44 = 1.0838, which is highest variation reported by CAG. - But the actual variation is less than 1 in many cases and if average of the variation is considered, it is 0.99 for PCC. 2. **TELK CTC 2013-14 (Attachment 2)** - The variation in actual rates of CTC procured by TELK is being compared with variation in LME rates on applicable copper booking dates case by case. - It can be seen that the variation in actual rates is in line with LME variation and there is no extra expenditure incurred to the company due to rates higher than market rates of base metal. The variation of fabrication rate depends upon size, no. of strands etc. which varies from design to design. - As per Annexure 14, % variation in actual rates and variation of LME rates is shown as 1.0838 combining PCC and CTC. For CTC, it is

8/8/19

seen as 1.01 if average is considered.

3. COMPARISON OF ORDERS FOR CC RODS (Attachment 3)

- In this sheet, the P.Os of CC rods for PCC for 5years are compared. This comparison is done considering the same LME price (Rs. /kg) with all other parameters as per the P.Os. This comparison shows that during the 5 years, the other parameters influencing the pricing have come down. This indicates that the variation is in line with LME variation and they could reduce the prices within these 5 years.

DEPENDENCE ON LIMITED VENDORS

- 1. TELK have been exporting transformers to Sultanate of Oman and duty free imports are allowed for inputs. M/S Sterlite and Hindalco were the only domestic CC rod suppliers from whom they can procure PCC through invalidation route. This is one of the major reasons for depending on them.
- 2. Customer preferred vendor list for copper wire rod (**Annexure 13 of CAG Report**) includes the following 6 parties.

- (1) Birla copper, Bharuch
- (2) Hindalco Industries, Dahej
- (3) Hindustan copper Ltd, Raigad
- (4) Kembel wire and rod, Australia
- (5) Norddeatsche Affinerie, Germany
- (6) Sterlite Industries, Silvassa

- 3. Among these, Birla copper is the copper unit of Hindalco Industries at Dahej, Bharuch Dist., Gujarat and hence both (1) and (2) are the same. They are buying copper from (1)/ (2), (3) and (6).
- 4.(4) & (5) are overseas suppliers and they had contacted both of them for import of copper along with some other overseas suppliers. (See **Attachment 4**)
- 5.Please note that M/S Norddeatsche Affinerie, Germany is renamed as Aurubis AG from March 2009 onwards.(**Attachment -5**)
- 6. Both parties were non-responsive to their enquiry.

		- 7. TELK have received responses from 3 other parties-M/S Metrod, Malaysia, M/S Union Copper, Abu Dhabi and Sterlite, Dubai. - 8. It was found that there was no significant price advantage for import considering blocking of funds, financial charges, extra amount for arranging third party inspection at their works etc. and delivery lead time of 4 to 6 weeks. Typical excel sheets are prepared for 2013-14, but this is applicable for all the 5 years. The loss figures calculated by CAG based on yearly average is exaggerated as the copper procurement is always made with reference to LME prices relevant at the time of procurement (Monthly average for PCC and Copper Booking date for CTC) and if compared on a case to case basis there is slight or no variation at all from the LME variation.
4.	3.1.6	**Failure to utilize export incentive** It has been alleged in the report that from C&AG verification of records of The Joint Deputy General of Foreign Trade (JDGFT), Kakkanad, Cochin, it was found that suppliers had utilized Advance Authorizations (AAs) for import of copper to the fullest extend and TELK should take up the matter with private firms for recovery of the amounts in question even though TELK produced before the C&AG Audit Team original unutilized invalidation letters returned by the suppliers. TELK approached Office of The Joint Deputy General of Foreign Trade (JDGFT), Kakkanad, Cochin to get the data mentioned by C&AG. Vide their letter F No 10/1/misc/DES.I/AM16/232 dated 23.06.2015, Office of the JDGFT, Cochin have informed that there is no such data available with them and also stated that the said firms (M/s Sterlite Industries (India) Ltd, Mumbai & M/s Precision wires (India) Ltd, Silvassa) have not availed any benefits using the invalidation letters issued by O/o JDGFT, Cochin. Copy of letter obtained from O/o JDGFT, Cochin is being attached here with. As directed by Cochin office of JDGFT, they have also approached O/o JDGFT, Mumbai, vide their Letter dated 29-06-2015 requesting for details, if any, available and had send reminder on 14-07-2015. As the matter related to basic factual information where the private firms had utilized the endorsed advance authorization at the cost of TELK as observed by Audit, the company also preferred RTI applications before the Additional Director General of Foreign Trade, Mumbai, Ministry of Commerce, Govt. of India seeking clarifications in the matter. Copy of Letter File No.03/CPIO/RTI/54/AM16/DES-IX/1170 dated 11-02-2016 and 03/CPIO/RTI/AM16/DES.XII dated 12-02-2016 received from DGFT, Mumbai is enclosed for your kind information and records. From the above letters, it may kindly be observed that against the invalidation letters issued to M/s. Sterlite Industries (India) Ltd., Mumbai and M/s. Precision Wires (India) Ltd., Silvassa no License/Authorization been issued by the

		Office of the Director General of Foreign Trade, Mumbai.
5	3.1.7	**Other deficiencies in procurement** • Purchase Committee did not meet in some cases as pointed out by Audit, but now the Committee meetings are held regularly. • The Company is preparing Annual Purchase budget based on the monthly price data/trends of major raw materials prepared by Purchase Dept. • Regarding the price discovery mechanism, the past records, prices prevailing in the market, changes in the Govt. regulations etc are well taken care of for arriving the reasonability of rates in all major raw material purchases. But considering the unpredictable changes in the international market, variation in exchange rates and impact of global economic fluctuations, there is no effective price discovery mechanism. But the fluctuation in price of major raw materials is taken care of by PVC formula applicable for transformer prices. • Prescribing a financial limit is difficult due to the reasons like variation in technical specification and limiting to customer approved/ TELK approved vendors. As explained earlier, various modes of procurement are adopted based on the technical specification of the item. • Steps are taken to increase the vendor base as a part of continuous improvement. For one of the major items-Pressboard-a new vendor has been developed.
6	3.1.8	**Incidence of High employee cost** The man hours required for the transformer manufacturing is not proportional to the MVA rating of the Equipment. Therefore, considering the technical aspects involved, employee cost per MVA is not a scientific parameter for any kind of performance evaluation. As furnished in the

		Annexure II of the Draft Audit Paragraph, the maximum man hours for a 315MVA transformer is 26963 whereas for 270MVA it is 17637. This is mainly because 270MVA is a single phase generator transformer with less work content where as 315MVA is a three phase auto transformer with more labour content. Similarly, as can be seen from our records, labour hours for a 20MVA transformer that we regularly manufacture for Oman market is about 5000 man hours. So with about one lakh man hours we can manufacture 20 Nos. 20MVA transformers resulting in only 400 MVA of Production where as TELK can manufacture 5.5 Nos. 270MVA transformers with the same labour resulting in a Production of 1485 MVA. So the total MVA manufactured in an year depends upon the type and size of individual transformer order received and executed during the year. Moreover during the year 2013-14 TELK had an unfortunate problem during the final testing of 1 No. 315MVA transformer. Due to this they have not considered it in their final production. But complete labour input was incurred for this unit as it was complete in all other respects. If that had considered into the quantity manufactured, total MVA for the year would have been 4575 MVA and labour cost per MVA would have been 0.997 lakhs. With this, the rate of increase from 2009-10 would have been 34.7%. Kindly note that the employee cost will go up every year due to increase in the DA to neutralize the inflation which was very high during the last 2 to 3 years (increasing at approx, 10% in each half year due to the high level of inflationary pressures prevailing in the country). Moreover impact of revision due to new long term agreement which was due from Sept. 2011 was also considered in the employee cost tabulated.
7	3.1.9	**Unproductive wages** Generally in the long term agreement entered into between the Company and Trade Unions they put very ambitious targets of productivity norms for improving the productivity, that it is not easily achievable. TELK put this bench mark much higher than that is prevailing so that more effort can always be demanded from the trade unions. Moreover productivity depends upon many other factors like modern facilities provided, making raw materials available in time, timely availability of customer inspector etc. Their shops are more than 50 years old and many of the modern material handling mechanisms like air cushion etc. is not available with them and their old floor is not suitable for such application also. So their dependency on overhead crane is very heavy and many times people have to wait for crane finished materials from other shops etc. Higher productivity was agreed also

318(14)

under the assumption that at least some modern jigs, tools, production techniques also will be introduced. But due to very bad market situation and paucity of funds most of these plans were deferred which resulted only marginal improvement in the productivity.

Regarding productivity norms, they have fixed only a single figure for each shop. In this regard it may be noted that power transformer is a very complex tailor made product and their manufacturing range varies from 10MVA to 315MVA. There are lot of variables that affect productivity of each shop. Some of the variables are listed below for kind information.

General

Size of the unit. The time taken to convert 1000 kg. Copper into winding for a small transformer and big transformer will not be identical.

Voltage class – In case of a 400kV class winding, the time taken to wind an HV winding with 5 Tonne weight will be always higher than that of a 33kV winding with same weight

New Design or old design – Time taken for new design will be always high due to lack of familiarity.

But all these cannot be brought while fixing a productivity norm for each shop. Therefore TELK have fixed based some historic data. But if the combination of unit for the year changes then they may not be able to achieve the same targets.

Some of the variables affecting the productivity norms for each shop is given below:

Core shop

- Thickness of lamination used. TELK use 0.23mm t, 0.27 mm t and 0.3mm t. More time is required if 0.23mm t sheets are used as number of sheets per stack height is more.
- No. of sheets in a packet. They use two sheets packet and 5 sheet packet depending on loss guaranteed, in line with tendering requirements.
- Type of core sheet arrangement – step lap construction or conventional construction.
- Whether transformer is single phase or 3 phase 3 limb or 3 phase 5 limb.
- Number of wooden wedges provided.

- Type of core – D type, circular or rectangular.

For same weight build up, the time required will be different for different combinations.

CI Shop

- Type of transformer – Generator transformer or Auto transformer.
- Voltage class of the transformer.
- Type of cooling – ONAN, ONAF, ODAF.
- Conductor type used – CTC, Epoxy coated or ordinary PICC.
- No. of interleaved joints and transposition. Generally for a 33kV or 66KV winding there will not be any interleaving. But 400 kV transformer winding will have many such joints.

Assembly shop

- Type of transformer – Generator transformer or Auto transformer. For same capacity transformer the lead work will be much higher for Auto transformer compared to a generator transformer.
- Type of core construction.
- Type of clamping – positive clamping type or ordinary wedge type.
- Taping work will be much larger in case of 400kV class compared to a 33kV class transformer.

Considering all these, the actual productivity in each shop will vary. But with good intention they have fixed a higher norm to drive into more results.

At the same time, TELK like to bring to your kind attention that in spite of all these they could achieve some improvements in all major shops as tabulated below during these years.

Year	CI Kg/Mandays	PWS Kg/Mandays	Core Kg/Mandays	Assembly MVA/Mandays
2009-10	25.3	43.2	144.6	0.260
2010-11	27.4	40.8	159.0	0.315
2011-12	24.7	39.4	158.3	0.310
2012-13	19.7	44.23	169.81	0.327
2013-14	28.1	46.64	174.85	0.306

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<table><tr><td>Target</td><td>31.36</td><td>66.80</td><td>170</td><td>0.303</td></tr></table>
From the above table, it may be noted that productivity in CI shop was about 90% of the target during the last financial year and is about 11% higher than 2009-10 year level. For core shop and assembly shop the target has already exceeded.
In assembly shop, they are not off-loading any work and the present levels are about 18% higher than 2009-10 level. It is accepted that regarding PWS even though there is some marginal improvement in shop productivity it is still far from their targets. It is mainly because of lack of automatic machine tools, welding methods etc. Considering this deficiency, they are planning to subcontract more works to outside fabricators and redeploying the operators there to other shops like CI and Assembly.
Based on the above explanation, we request you to reconsider the Audit paragraph under the clause 2.1 and drop the same.
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<u>Abnormal idle time</u>
TELK are making constant efforts through regular communication meetings with Trade Unions for improving the engagement time by further reducing the tea break time and lunch break time.
Transformers are tailor made and almost fully manual work. So the number of hours from unit to unit will vary depending upon several external factors like availability of crane, condition of raw material received, capability of workmen to convert and finish the product etc. Moreover, in some cases, they use to offload the manufacturing of certain items to some sub-contractors if shops do not have the capacity to do it in time. In such cases the man hours internally spent will be less. In the stated case in Annexure II, Tanks of Sl.No.(1), (3) and (4) was off-loaded resulting in lower labour hours internally. In other cases, tank was fabricated in TELK Plate Working Shop resulting in higher labour hours. The labour hours required for a 315MVA transformer tank is about 7000~8000 man hours clearly justifying the more time taken for item (2) comparing to (1) and (3). So this comment may kindly be dropped as the cases compared in the Annexure are not identical.
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<u>Abnormal Absenteeism</u>
Each employee in TELK is eligible for 12 casual leave, 30 earned leave and 35 half pay sick leave. Generally, they have 300 working days in an year. Therefore, if all employees avail all their eligible leaves, the absenteeism can
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		be 25%. Here also they have put an ambitious target of 10% absenteeism and motivating the people to improve their attendance by paying attendance bonus, leave surrender facility etc. But many times, they fail to achieve this 10% target, but still the absenteeism is much less that 25%. Regarding overtime it may be noted that they have reduced the overtime considerably during the recent years in spite of many retirements and higher production turn over. The amount of overtime wages for last 3 years was only Rs.1.41 Crores and not Rs.3.59 Crores as stated in the Draft Audit Paragraph. Most of the time overtime wages are paid to meet some urgent customer requirements, break down maintenance etc, so as to avoid consequential liquidated damages for delayed delivery. They are taking constant efforts to bring down the overtime wages. 2010-11 - 252.68 lakhs 2011-12 - 112.88 lakhs 2012-13 - 8.92 lakhs 2013-14 - 19.11 lakhs It may kindly be noted that during the year 2010-11 their average man power strength was 777 whereas for the year 2013-14 it was only 640.
10	3.1.12	**Non-Compliance of long term labour agreement assurances** As stated earlier, higher ambitious productivity norms were fixed to extract more output from employees. Regarding introduction of 3rd shift it may be noted that company shifts are arranged by concerned departments/shop heads based on the following factors: 1. Production schedule 2. Availability of materials and other ingredients. 3. Flow of production (based on co-ordination) 4. Production flow 5. Prioritization of production activities 6. Orders position 7. Procurement related factors 8. Transportation related matters 9. Availability of man power strength 10. Mix of man power 11. Combination of different categories of man power 12. Ease of production

Third shift was introduced in Assembly shop regularly and in CI shop when situation so warrants, after the last long term agreement. But it was not introduced on a regular basis in all the shops as t do not have enough man power for 3 shift operation now. As furnished below, the industry is now in a recession phase. Demand is stagnant as new projects are not coming. Moreover many new players including multinationals and China based Companies established their production facilities in the market with which the total capacity of all players together is much above 2 lakhs MVA whereas the requirement is less than 1.7 lakhs MVA. Moreover in 245kV to 400kV segment which was TELK's strength area, the All India production has gone down to 58478 MVA from 73807 MVA during the last 3 year period due to lack of demand. Due to this market situation there is a lot of pressure on prices and margins.

Year	Total All India production MVA	245kV to 400kV class segment production in MVA (i.e. TELK's main range)
2011-12	178782	73807
2012-13	165150	70533
2013-14	169031	58478

In this environment they have kept the recruitment of new operators in abeyance till the market improves. TELK may be able to implement third shift once market improves and when they have enough man-power.

A.JAMES RAJ
Joint Secretary
Industries Department
Govt. Secretariat, Thiruvananthapuram

ANNEXURES REFERED TO IN THE AUDIT PARAGRAPHS

ANNEXURE 13

(Referred to in paragraph 3.1.4)

Statement showing lists of suppliers preferred by customer[1] of Transformers and Electricals Kerala Limited

SL No	Item			Customer preferred suppliers	Company sent enquiries with
1	MS Steel		1	Essar steel, Haryana	SAIL
			2	IISCO, Asansol	
			3	Ispat Industries ltd, Dolvi	
			4	Jindal Oron and Steel Co.Ltd, Mumbai	
			5	Jindal Oron and Steel and power ltd, Raigad	
			6	Lloyd Steel industries Ltd,Maharashtra	
			7	RINL, Vishakapattanam	
			8	SAIL, India	
			9	TISCO, Jamshedpur	
2	CRGO	CRGO Steel	1	AK Steel , USA	1. POSCO Korea 2. KRYFS 3. Mahindra Steel
			2	British steel, UK	
			3	JFE, Japan	
			4	Nippon steel, Japan	
			5	POSCO, Korea	
			6	TKES, Germany	
			7	ViStal, Russia	
		CRGO Processors	8	KRYFS, Silvassa	
			9	Mahendra Steel service Centre,Pune	
			10	National laminations industries,Daman	
			11	Precision Transcore,Daman	
			12	Surya laminations,Vadodara	
			13	Vardhaman stamping,Kalol	
3	Copper wire Rod		1	Birla Copper,Bharuch	1. Hindalco industries 2.Sterlite Industries
			2	Hindalco Industries,Dahej	
			3	Hindustan copper Ltd,Raidag	
			4	Kembel wire and Rod,Australia	
			5	Norddeatsche Affinerie, Germany	
			6	Sterlite Industries, Silvassa	
4	CTC		1	Asta Electrodraht GMbh,Austria	1,Chandra Proteco 2. KSH International 3.ASTA India 4. Precision wires
			2	Asta India,Vadodara	
			3	Chandra Proteco,Silvassa	
			4	kSH International,Pune	
			5	Lacroix,Germany	
			6	Precision wires,Silvassa	
			7	Sam Dong,Korea	
			8	Smit Draad,Netherland	

ANNEXURE 14

(Referred to in paragraph 3.1.5)

Statement showing extra expenditure in purchase of Copper in Transformers and Electricals Kerala Limited

Period	LME Rate in USD/ MT	Exchange Rate (₹)	LME Rate/ MT (in ₹lakh)	% of change in LME Rate	Actual purchase Rate/MT (₹ in lakh)	% of change in Actual Purchase Rate	Cost per MT based on LME Rate (₹ in lakh) *	Extra Cost per MT (₹)#	Qty consumed (MT)	Excess Expenditure (₹ in crore)
1	2	3	4 (2x3)	5	6	7	8 (6/7x5)	9 (6-8)	10	11 (9x10)
2009-10	6100.75	47.4037	2.89	100.00	3.17	100.00	0.00	NA	953.83	0
2010-11	8139.51	45.4387	3.70	128.03	4.19	132.18	4.06	13145	1014.08	1.33
2011-12	8485.09	47.8259	4.06	140.48	4.70	148.26	4.45	24678	931.29	2.30
2012-13	7854.90	54.3590	4.27	147.75	4.81	151.74	4.68	12633	666.48	0.84
2013-14	7103.85	60.4517	4.29	148.44	5.10	160.88	4.71	39445	714.00	2.82
Total										7.29
*	*Cost per MT based on LME = Actual Purchase Rate / % change in Actual purchase Rate x % change in LME Rate (2010-11: ₹4.19 Lakh/132.18% x 128.03%)*									
#	*Extra Cost per MT = Actual purchase rate per MT – Cost per MT based on LME*									

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