KERALA NIYAMASABHA PRINTING PRESS.

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE ON PUBLIC UNDERTAKINGS (2019-2021)

HUNDRED AND TWENTY FIFTH REPORT

(Presented on 18th January, 2021)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2021

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE ON PUBLIC UNDERTAKINGS (2019-2021)

HUNDRED AND TWENTY FIFTH REPORT

On

The Action Taken by Government on the Recommendations contained in the Forty Ninth Report of the Committee on Public Undertakings (2014-2016) relating to The Travancore-Cochin Chemicals Limited, based on the Report of the Comptroller and Auditor General of India for the year ended 31st March 2003 (Commercial)

404 /2021.

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS (2019-2021)

COMPOSITION

Chairman:

Shri C. Divakaran

Members:

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri Thiruvanchoor Radhakrishnan

Shri P. T. A. Rahim

Shri S. Rajendran

Shri Raju Abraham

Shri Sunny Joseph

Shri M. Ummer

Shri P. Unni.

Legislature Secretariat:

Shri S. V. Unnikrishnan Nair, Secretary

Shri B. Reji, Joint Secretary

Shri A. Jafarkhan, 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 their behalf, present this Hundred and Twenty Fifth Report on the Action Taken by Government on the Recommendations contained in the Forty Ninth Report of the Committee on Public Undertakings (2014-2016) relating to The Travancore-Cochin Chemicals Limited, based on the Report of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial).

The Statement of Action Taken by the Government included in this Report was considered by the Committee in its meetings held on 31-5-2017 and 15-10-2020.

This report was considered and approved by the Committee at its meeting held on 15-1-2021.

The Committee place on record its appreciation for the assistance rendered to them by the Accountant General (Audit), Kerala and officials of the Industries Department during examination of the Action Taken Statements included in this Report.

C. DIVAKARAN,

Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
15th January, 2021.

REPORT

This Report deals with the Action Taken by Government on the recommendations contained in the Forty Ninth report of the Committee on Public Undertakings (2014-2016) relating to The Travancore-Cochin Chemicals Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial).

The Forty Ninth Report of the Committee on Public Undertakings (2014-2016) was presented to the House on 30th June, 2014. The Report contained 6 recommendations and the Government furnished replies to all the recommendations. The Committee (2016-2019) and (2019-2021) considered the replies received from the Government at its meetings held on 31-5-2017 and 15-10-2020. The Committee accepted all replies to the recommendations without remarks.

Recommendations of the Committee, the replies furnished by the Government upon the recommendations form this report.

REPLIES FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE WITHOUT REMARKS

Sl. No.	Para No	Department Concerned	Conculsions/Recommendations	Action Taken by the Government
1	2	3	4	5
1	15	Industries	The Committee finds that the Company went in for technological upgradation without conducting cost benefit analysis in a realistic manner. The project undertaken in anticipation of public issue of shares and equity participation from Government did not materialise due to the change in Government policy and therefore the entire funds had to be made out of borrowed funds.	The Company always prepares project reports by the competent and external authority and analysis the cost benefit analysis before going for the investment in the major projects. The report is studied by the project department in detail and will be placed in the meeting of the Board of Directors. On getting the approval, the same will be forwarded to the Government for approval. In the case of investment in major equipments, the Company normally study in detail and also prepares the cost benefit analysis in order to arrive at the viability of the investment. It is true that cost of project and the cost benefit analysis at times affected due to change in policy of the Government to borrow funds from financial institution instead of equity issue.

2	16	Industries	The Committee observed that the Company further invested funds in allied plants in order to facilitate maximum production. While highlighting the advantage of energy saving, the Company ignored the auxiliary expenses associated with the membrane. Thus the Committee finds that the company could not generate additional revenue as anticipated in areas of energy, production cost, etc. due to unrealistic project report and estimate made for technological upgradation.	During 1993-1996, TCC had two caustic soda production units through mercury route namely 60 TPD Krebs and 100 TPD UHDE plant. Krebs plant was 27 years old and was struggling hard to maintain production and to contain Mercury contaminated effluent. The plant was due for total revamping which required huge capital investment. There was consistent and harsh reprimand from Kerala State Pollution Control Board for causing severe water pollution by way of discharging large quantity of Mercury bearing effluent into the nearby river from Krebs plant. This was the starting point for conceiving the idea for implementing a mercury free technology for the production of caustic soda. Govt. of India also notified ban for new Mercury cell operated plants and ordered existing mercury cells to change over to mercury free technology within a time frame. Another reason was that the competitors started implementing membrane cell plant and this started eating into market share as both mercury

1	2	3	4	5
				Free and Mercury bearing Caustic soda were available at the same price. The directions of KSPCB and Government of India for time bound phasing out of mercury based caustic soda plant was the main reason for setting up a new membrane based caustic soda plant. Moreover the plant was old and to continue production new manufacturing facility was also required and the choice was to go in either for a polluting, power intensive sunset technology or an environment friendly, latent technology which in more operationally efficient. The company obviously choose the later. The additional cost as pointed out by the audit was to put up membrane based caustic soda manufacturing facility which was to meet the KSPCB guidelines and Government of, India directives. It is also submitted that TCCL is operating in a state which is environmental conscious and this technological upgradation was required for the very survival of the company.

3	17	Industries	The Committee also finds that the overall cost effectiveness of technological upgradation could not be achieved due to increased cost of production, installation of allied plants and maintenance cost of the new plant. The Committee criticises that the company had ventured into capacity enhancement worth ₹ 6.96 crore of the membrane cell plant without analysing the demand for caustic soda which has resulted in an unproductive investment of ₹ 6.96 crore using borrowed funds. The membrane cell plant projected to have technical supremacy manifested several inherent defects and hence it could not provide guaranteed performance. The Committee expresses its dissatisfaction over the failure of	The change over from Mercury based caustic soda production technology to membrane based technology was to meet the environmental norms. The capacity enhancement by 25 TPD using the membrane technology at a cost of ₹ 6.96 crore was planned to phase out UHDE Mercury plant in a phased manner. When the project was being implemented, the major nearby caustic soda consumers like Gwalior Rayons, Travancore Rayons etc. closed down and other main chlorine customer M/s HNL partially changed to hydrogen peroxide technology. As is known, commodity chemicals pass through a business cycle and the demand was at its lowest when the plant got commissioned. This was a temporary phase and company could find a market for their enhanced production by evolving a selling policy as advised by the recommendation of thes committee. Later the Company commissioned two 25 TPD membrane cell plants in 2004-05 and 2005-06.

1	2	3	4	5
			the company in conducting a cost benefit and market analysis before venturing into modernisation measures. The Committee recommends that the company should evolve a selling policy to tackle the market fluctuations.	The plants are fully operational now and plants are being operated at more than 100% capacity.
4	18	Industries	The Committee remarks that the company could reduce neither allied expenditure nor cost of production by technological upgradation. The capacity enhancement also proved to be non-productive due to the reduced market demand for caustic soda and necessitated installation of flaking plant. This indicates that the company failed to conduct cost benefit analysis before taking investment decision.	All major producers manufacture caustic soda, both in lye form and in the form of flakes. Many of the customers like Grassim, Mavoor and Travancore Rayons, Perumbavoor who were using Caustic Soda in lye form got closed down when the project was being implemented. This necessitated developing a selling policy as advised by the audit. Caustic soda is being marketed with 32% & 48% purity in the form lye and with 98% purity as flakes. As lye market had shrunken in Kerala, the company had to look at a new set of customers who were using caustic soda in

				the flakes form. This also resulted in saving of transportation cost as 98% was getting transported instead of 32% & 48% apart from getting a new set of customers.
5	19	Industries	The Committee further learns that there occurred serious lapse on the part of the company in ensuring the performance guarantee benefits of salt upgradation plant and penalising the supplier for not ensuring it and directed that this kind of negligence and irresponsibility should not be repeated in future activities.	While drafting the contract to be signed for any project, the Guarantees shall be clearly outlined and remedies and penalties for shortfall will be well defined. Now it has been made mandatory for all project to carry out the performance evaluation study immediately after the project commissioning and confirmation on the adherence to all guarantees for the succeeding periods are also ensured as guaranteed by the supplier. Any deviation will be brought to the notice of the supplier and the remedies are sought to rectify the deficiency. In all the recent projects undertaken by the company these are strictly adhered to avoid any probable loss to company that may arise owing to poor performance.

1	2	3	4	5
6	20	Industries	The Committee understands that the company is facing a grave problem of lack of investment. The Committee remarks that the failure of the efforts made by the Company in implementing the project with equity participation of the Government led to the financial crisis and hence the Committee recommends to the Government to take necessary steps to allot ₹50 crore as grant so that the company could tide over the present financial stringency.	The Government of Kerala have sanctioned an amount of ₹20 crore (Rupees twenty crore only), ₹10 crore for the year 2014-15 and ₹10 crore for the year 2015-16 as loan at the rate of 11.5% p.a.

C. DIVAKARAN,

Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
15th January, 2021.