FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

FIRST REPORT

(Presented on 27-10-2016)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2016

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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FIRST REPORT

On

Travancore Titanium Products Limited Based on the Reports of the Comptroller and Auditor General of India for the years ended 31 March, 2007 (Commercial), 31 March, 2009 (Commercial) and 31 March, 2011 (Commercial)

1307/2016.

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Smt. P. K. Girija, Additional Secretary

Smt. Manju Varghese, Deputy Secretary

Smt. Deepa. V., Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the Report on their behalf, present this First Report on Travancore Titanium Products Limited based on the Reports (Commercial) of the Comptroller and Auditor General of India for the years ended 31 March, 2007, 31 March, 2009 and 31 March, 2011 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Reports of the Comptroller and Auditor General of India were laid on the Table of the House on 26-2-2008, 25-3-2010 and 23-3-2012 respectively. The Reports, besides other things, brought to light some functional irregularities pertaining to Travancore Titanium Products Limited. The Committee, in connection with the perusal of reports, took notice of the comparability of the audit paragraphs containing such irregularities and decided to examine them altogether. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings constituted for the years 2014-2016.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 17-10-2016.

The Committee place on record their 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 wish to express their thanks to the officials of the Industries department of the Secretariat and Travancore Titanium Products Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Industries and Finance Departments and the officials of the Travancore Titanium Products Limited who appeared for evidence and assisted the Committee by placing their views before the Committee.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
17th October, 2016.

REPORT

ON

TRAVANCORE TITANIUM PRODUCTS LIMITED

AUDIT PARAGRAPH

OPERATIONAL PERFORMANCE OF TRAVANCORE TITANIUM PRODUCTS LIMITED

Introduction

2.1.1 Since inception (1946) the Company is engaged in the manufacture of Titanium Dioxide through sulphate process*. The main raw materials are Ilmenite and Sulphuric Acid. Ilmenite is procured from Indian Rare Earths Limited (a Central public sector undertaking) and Sulphuric Acid is produced in-house. Titanium Dioxide (TiO2) is used in manufacture of paints, plastics, paper, printing and rubber products, etc. The Company was earning profit till 31st March, 2005 but incurred a loss of ₹ 15.53 crore during 2005-06.

The Management of the Company is vested in a Board consisting of seven directors including the Chairman and the Managing Director (MD). The day-to-day affairs of the company are managed by the MD who is assisted by the Executive Director, General Manager, Chief Production Manager, Chief Engineer, Chief Project Manager, Chief Manager (R&D), Chief Manager (Marketing and HR), Finance Controller and Chief Manager (Finance) & Company Secretary.

The working of the Company was last reviewed and the findings were included in the Report of the Comptroller and Auditor General of India for the year 1984-85 (Commercial). The report was treated as discussed by Committee on Public Undertakings.

Scope of Audit

2.1.2 The Performance review conducted during November 2006 to March 2007 covers the operational activities of the company at its lone manufacturing and operational unit at Thiruvananthapuram, for the five years up to 2006-07.

In the Sulphate process, ilmenite is first reacted with Sulphuric acid to obtain titanyl sulphate from which hydrated titania is obtained by injection steam the hydrated titania is filtered, calcined in rotary Kilns and milled to produce titanium dioxide in fine powder form.

Audit objectives

2.1.3 The audit objectives of the performance review were to ascertain whether:

- the resources available were utilised productively to achieve maximum efficiency in operations;
- the top management regularly monitored the performance of the company and intervened/ensured continuous growth and improved financial results;
- efficiency of the marketing system was ensured for quality product at reasonable price to the consumer;
- the company is managed in a professional and scientific manner; and
- the Company complied with the norms for pollution control.

Audit criteria

2.1.4 The following audit criteria were adopted:

- production, materials and sales budgets;
- procurement policy, procedures and consumption norms;
- sales policy, pricing policy, and procedures;
- pollution control norms/laws; and
- man power planning and project management systems.

Audit methodology

2.1.5 The audit adopted following mix of methodologies:

- review of agenda notes and minutes of the meetings of the Board of Directors;
- scrutiny of study reports, project reports and progress reports;
- scrutiny of cost audit reports and annual accounts;
- review of purchase and contract files, production, sales and materials budgets and actuals; and
- interaction with the Management.

Audit findings

2.1.6 Audit findings as a result of performance review were reported (May 2007) to the Management/Government and discussed in the meeting (30 July 2007) of the Audit Review Committee for State Public Sector Enterprises (ARCPSE), which was attended by the Joint Secretary, Industries Department, on behalf of the State Government and MD on behalf of the Company. The views expressed by the Management/Government have been taken into consideration while finalising the review.

Audit findings are discussed in succeeding paragraphs.

Financial position and working results

2.1.7 Company has finalised its accounts for the year 2005-06. The paid up share capital of the Company as on 31st March, 2007 was ₹ 1.77 crore held by the State Government (₹ 1.43 crore), Kerala State Industrial Development Corporation Limited (₹ 0.14 crore) and others (₹ 0.20 crore).

The financial position and working result of the Company during 2002-2007 are summarised in Annexure 9.

It would be seen from Annexure 9 that

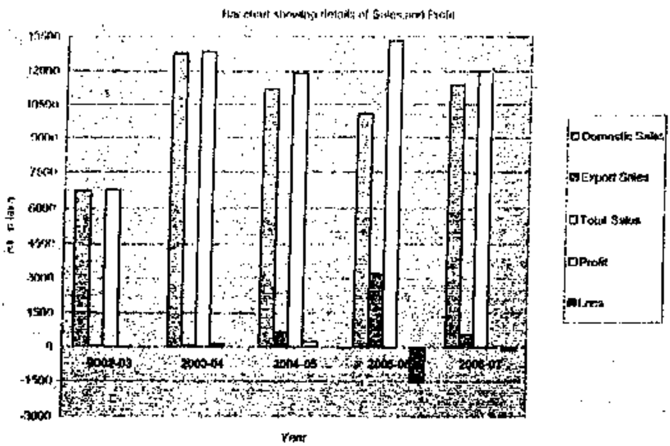
- The company's net worth declined from ₹ 57.18 crore in 2002-03 to ₹ 42.25 crore in 2006-07 mainly due to conversion of profit in 2002-03 into loss since 2005-06 onwards.
- Consumption cost of raw materials per unit of product increased from ₹15,545 in 2002-03 to ₹20,011 in 2006-07 due to increase in prices, uneconomical procurement and increase in consumption as discussed in paragraphs 2.1.10, 2.1.11 and 2.1.24 to 2.1.26 *infra*.
- During 2002-2007, Company has shown aggregate loss of ₹13.35 crore; the loss would have been ₹ 26.41 crore but for nonoperating income.

It was further noticed that:

- In order to surmount the difficulties faced on account of world wide glut in the industry, imports from China, etc., the Government permitted (March 2003) the Company to sell its product through various stockists and directly to customers instead of routing the same through Kerala State Industrial Products Trading Corporation Limited (KSIPTC) and also allowed (March 2003) waiver of service charges and reduction in sales tax. Due to this, tax burden on the product was reduced (March 2003) from 30 to 4 per cent for inter state sales. Government also waived (March 2003 to March 2004) service tax of ₹ 5,000 per MT of TiO2. From 2004-05 onwards Company had not paid or provided for service charges even though no further waiver was allowed by Government. The loss of the Company came down by ₹ 34.87 crore due to waiver/non provision of service tax during 2003-2007.

- The waiver of service charges was intended to effect reduction in the selling price. The Company, however, reduced the price from ₹63,500 to ₹60,000 per MT only once (April 2003), but increased it in subsequent periods (June/August 2003 and March/August 2004) without considering market trends. Further, pay revision was allowed (June 2003) with effect from January 2001 involving additional annual liability of ₹2.50 crore, disregarding working results.

Bar chart showing the details of sales and profit/loss of the Company during 2001-2007 is given below:



It can be seen from the bar chart that though the sales increased from ₹68.02 crore in 2002-03 to ₹133.88 crore in 2005-06 and ₹119.68 crore in 2006-07 but the profit in 2002-03 turned into a loss of ₹ 15.53 crore in 2005-06 and ₹ 1.49 crore in 2006-07.

The Management identified (March 2007) that increase in raw material cost and export sales at reduced rate to wipe out stock, were the reasons for loss. The main reasons for decline in profit as identified by audit were irrational price revision for domestic sales without considering market conditions, nonlifting of minimum assured quantity by stockists, high cost of production due to unscientific production incentive system resulting in exponential incentive payments, absence of appropriate marketing strategy, excessive cost involved for production beyond de-rated capacity, fall in domestic sales due to inappropriate pricing policy, export at reduced prices to liquidate stock, increase in raw material cost, etc., as discussed in succeeding paragraphs.

Planning process

2.1.8 The Finance wing of the Company prepares annual financial budgets based on the projections furnished by the production, materials, marketing and other departments. The annual production target is finalised by the Titanium Management Council headed by MD and comprising heads of all functional departments. The material procurement is managed by the Commercial Advisory Committee and marketing and pricing decision is taken by the Sales Promotion Committee. However, the Company did not have a system of preparing overall corporate plan other than the annual financial budgets. The deficiencies noticed in the financial budgets, production planning, procurement and marketing are discussed in succeeding paragraphs.

Production

Production planning

2.1.9 The installed capacity of the plant was 24500 MT per annum. The Wazir Committee appointed (January 1976) by the Government to study the under utilisation of plant capacity, observed bottlenecks in various stages of production and suggested (August 1976) the economic plant size as 15000 MT. The Company, however, prepared its annual production budget based on past performance. The table below gives the details of budgeted/actual production, sales and closing stock of TiO_2 during 2002-2007.

(*Metric Tonne*)

Year	Budgeted Production	Actual Production	Sales			Closing Stock
			Domestic	Export	Total	
2002-03	18000	11137	9521	70	9591	3402
2003-04	16000	16251	18132	154	18286	1367
2004-05	18000	18359	15225	1299	16524	3202
2005-06	20000	17111	13748	6013	19761	552
2006-07	20000	15767	14307	861	15168	1151

Source : Production budget and Annual accounts of the Company

It would be seen from the table above that

- The company had budgeted its production above the suggested de-rated capacity of 15000 MT during all the five years despite glut in the industry and cheaper imports from China. The Company's efforts to produce above the de-rated capacity resulted in excess fuel consumption, payment of high production incentive/overtime as discussed in paragraph 2.1.11, 2.1.30 and 2.1.33 infra and difficulty in sales.
- The actual production was at variance with the budgeted production except during 2003-04 and 2004-05 indicating that the budgets did not serve the intended purpose.
- Since the actual production was not controlled on the basis of available stock and estimated offtake, there was accumulation in stock.
- Despite increase in production the domestic sales recorded substantial decline on account of ineffective marketing and pricing strategy as discussed in paragraph 2.1.21 *infra*.

For liquidating the excessive production during the year 2004-05 and 2005-06 the company had to export 6013 MT at prices below the cost of production during 2005-06 resulting in loss of ₹6.49 crore.

The Government accepted (June 2007) the audit observation that one of the reasons for loss was production beyond de-rated capacity. It was further stated that the export was resorted to find global market for rutile grade even though excessive stock holding was one of the factors. The reply is not tenable as the export was resorted to liquidate the accumulated stock arising from excessive production without planning.

Excess consumption of raw materials and utilities

2.1.10 The Company had fixed standards for consumption of raw materials (ilmenite, acid, iron scrap) and utilities (electricity) 20 years back. It did not revise the standards periodically with reference to actual consumption.

It is seen from Annexure 10 that the actual consumption of raw materials and utilities per metric tonne of production of TiO_2 was much less than the standard fixed and the standard did not serve the purpose of control over consumption. The actual per MT consumption of raw materials varied from year to year. Considering the optimum level of consumption achieved (2001-02) by the company as norm the excess consumption of raw material and utilities during 2002-2007 worked out to ₹ 10.08 crore.

The Government stated (June 2007) that standard norms for consumption of raw materials was not updated since last twenty years and there was all round improvement in all areas due to learning curve of the employees. The reply shows that the Company though aware of improvement in production capacity vis-à-vis material consumption; did not revise the norms fixed before two decades; thus failed to exercise proper control over consumption of raw materials.

Excess consumption of fuel due to non-optimal operation of calciners

2.1.11 Calcination is the final process in the production of TiO_2 pigment for which the Company had three calciners. The exising calciner II in the old plant had a capacity of 13 Tonnes Per Day (TPD) and calciner III and IV in the new plant had a capacity of 32 TPD each. The Company usually operates calciner III and IV for production of anatase grade TiO_2 whereas calciner II was being run for the production of rutile grade pigment. Superior Kerosene Oil (SKO) is used in the calciners as fuel. Whereas, the calciners in new plant consume 12 kilo litre each of SKO, the calciner in the old plant consumes 6 KL of SKO for 24 hours operation. Based on the available capacity, by optimum operation of one of the calciners in new plant for 30 days, the Company could produce 960 MT of TiO_2 . Considering the monthly production ranging between 543 MT (March 2002) to 1890 MT (October 2005) during the five years up to 2006-07, the Company had to operate one calciner to the full extent and the other partially for the purpose of optimum utilisation with a view to reduce fuel (SKO) consumption. The Company, however, did not ensure optimum use but operated both the calciners simultaneously irrespective of the quantity of feed processed during 2002-2007. Partial use of both the calciners when the operation of one calciner would have sufficed the requirement resulted in excessive consumption of 5766.24 KL of SKO valued at ₹ 12.30 crore.

The Government stated (June 2007) that calciner operation could be optimised only through perfect planning and monitoring as there were many imbalances within the plants like shortage of raw materials, shortage of pulp, etc. The reply is not tenable as these imbalances were pointed out (1976) long ago by Wazir Committee. The Company, however, did not take any action for rectifying these imbalances. Further, excess consumption of SKO is caused by production beyond de-rated capacity without rectifying the imbalances in the plant.

Excess handling/grinding loss

2.1.12 The first stage in the process of manufacture of TiO_2 was digestion of ilmenite in sulphuric acid. For this purpose the Company had eight digesters having capacity of 10.5 MT each in the new plant and six digesters 5.5 MT each in the old plant. Audit analysis of the number of reactions carried out (April 2002 to March 2007) in the digesters with reference to the standard consumption of ilmenite showed that ilmenite was being consumed in excess of norm.

Government stated (June 2007) that loss up to one per cent was normal in handling/grinding. Fact is that the value of loss in excess of the normal loss worked out to ₹ 24.36 lakh and same required investigation since the Company had to compete with other companies and imports from China.

Non-utilisation of surplus capacity of Sulphuric Acid Plant

2.1.13 The requirement of sulphuric acid for the production of TiO_2 was being met from company's Sulphuric Acid Plant (SAP) having installed capacity of 99000 MT per annum. The acid produced in the plant and available after captive consumption used to be sold in the open market. An analysis of production of acid, sales and contribution realised during 2002-2006 is given in Annexure 11.

It will be seen (Annexure 11) that the capacity utilisation of the plant for the four years ranged between 50.33 and 83.59 per cent of the acid plant. The Company sold 5091 metric tonne of sulphuric acid during 2003-2006. It was noticed that even though there was market potential for the product, the Company did not explore the market and even refused to supply when enquiries were made by prospective buyers (February 2004). The loss of potential revenue on this account during 2003-2006 worked out to ₹ 2.75 crore.

The Government stated (June 2007) that there was no market for acid and firm orders for supply would affect availability of acid for TiO_2 production. The reply is not tenable since actual production of TiO_2 plant was always substantially lower than the installed capacity and the SAP was not running to full capacity. With proper planning it was possible for the Company to ensure a fixed volume of acid for sale. Further, Company itself had anticipated (March 2005) market for regenerated acid from the Acid Recovery Plant (ARP) under the expansion scheme.

Loss due to shortfall in generation of steam in Sulphuric Acid Plant

2.1.14 As per the Basic Engineering Package for the acid plant, byproduct steam would be generated at the rate of 1.15 MT per MT of cent per cent concentrate sulphuric acid produced. The steam available for export* would be one MT per MT of acid, 0.15 MT of steam being used for captive consumption.

It was observed that steam availability for export at the rate of one MT per tonne of 100 per cent acid could be achieved only in two months (March 2004 and April 2006) though the plant generated steam at the rate of 1.17 MT/MT of

* transfer of steam from Sulphuric Acid Plant to TiO2 Plant

100 per cent acid. The shortfall in the steam availability for export with reference to the technical specifications of the acid plant had to be made up by generation of steam from boilers. The additional cost on this account during 2002-2007 worked out to ₹3.19 crore reckoning the actual monthly percentage of consumption against export steam in TiO_2 plant in each year.

The Government stated (June 2007) that the steam produced from acid plant was captively used for running the turbine and keeping sulphur in molten condition. Government reply is not tenable since captive use of the steam in the sulphuric acid plant was more than the technical specification of the acid plant.

Avoidable payment of penal charges on electricity and non-availment of incentive.

2.1.15 As per the tariff orders issued by KSEB, where the consumption of Extra High Tension (EHT) consumers during peak hours exceeded 10 per cent of total consumption, the consumer would be liable to pay penalty as 'Time of use charge' at the rate of 80 paise per unit and in case the consumption during off-peak hours exceeded 30 per cent of total consumption, consumer would be eligible for incentive at the rate of 25 paise per unit. During 2002-2007, the Company paid ₹1.09 crore as time of use charge. Due to extra peak hour consumption of 10.66 lakh units the Company incurred an additional expenditure of ₹ 24.72 lakh and loss of off-peak incentive of ₹ 8.46 lakh. Thus, the failure of the Company to control its power consumption during peak hours and avail of the incentive for off peak hours resulted in avoidable expenditure of ₹ 33.18 lakh.

The Government attributed (June 2007) factors such as production of TiO_2, sulphuric acid, absenteeism, etc., for poor power load management. The reply is not tenable since the Company itself had identified surplus manpower in the production department indicating that absenteeism could not be a valid reason being controllable. Further, power intensive machinery like grinding machines could be operated in off-peak period with a view to reducing electricity charges.

Marketing

Marketing and Pricing Policy

2.1.16 Prior to March 2003 the Company's products were marketed by KSIPTC. At the point of first sale Sales Tax at 30 per cent and service charge of ₹ 5000 per MT were being levied. State Government allowed (March 2003) direct marketing by the Company due to which the higher rate of Sales Tax burden and payment of service charges were eliminated providing more flexibility in product pricing. The Company has been selling its products through various stockists and directly to various customers. The selling price of the Company's product was fixed from time to time by a Sales Promotion Committee (SPC); chaired by the Managing Director. It consists of senior executives of marketing and finance departments; constitution of the SPC did not have the approval of the BOD. The Company had not adopted any long term Marketing and Pricing policy. It temporarily adopted (August 2002) the pricing policy of Kerala Minerals and Metals Limited (KMML), another PSU which was producing Rutile Grade TiO_2 for export. Variable cost plus twenty per cent minimum profit and forwarding charges, converted into equivalent US Dollars was fixed as the export price. The Company, however did not have any system of marginal costing for facilitating effective marketing and pricing decisions.

Eventhough the Company was mandatorily required to maintain cost records, the variable cost was not being compiled and used for the purpose of product pricing.

The Government admitted (June 2007) that the Company has not been updating records to compute the variable cost per tonne of the product and requested to accept the actual cost arrived from the records. The reply is not tenable since, in the absence of actual variable cost, the export price of the product as per the formulated policy was arbitrary.

Sales performance

2.1.17 The budgeted sales and actual sales realisation of the company during 2002-2007 were as follows:

(*Rupees in crore*)

Year	Budgeted sales			Actual sales			Total shortfall
	Export	Domestic	Total	Export	Domestic	Total	
2002-03	0 (0)	134.34 (18000)	134.34 (18000)	0.43 (70)	67.17 (9521)	67.60 (9591)	66.74 (8409)
2003-04	2.55 (500)	122.08 (17000)	124.63 (17500)	0.82 (154)	127.68 (18132)	128.50 (18286)	(-)3.87 {(-)78600}
2004-05	2.48 (500)	134.68 (17500)	137.16 (18000)	6.75 (1299)	112.17 (15225)	118.92 (16524)	18.24 (1476)
2005-06	40.48 (7500)	121.83 (15500)	162.31 (23000)	32.03 (6013)	101.16 (13748)	133.19 (19761)	29.12 (3239)
2006-07	17.60 (3000)	135.61 (17000)	153.21 (20000)	5.56 (861)	97.70 (14307)	103.26 (15168)	49.95 (4832)
Total	63.11 (11500)	648.54 (85000)	711.65 (96500)	45.59 (8397)	505.88 (70933)	551.47 (79330)	160.18 (17170)

Source : Annual sales budget and Annual accounts of the Company.

Note : Figures in brackets show quantity in M.T.

The Company could not achieve the budgeted sales targets during 2002-07 except 2003-04. The aggregate short achievement of the budgeted sales target during 2002-07 was 17170 MT valuing ₹160.18 crore. The shortfall in achievement of targets was due to irrational pricing system and short lifting of agreed quantity by stockists as discussed in paragraphs 2.1.20 and 2.1.21 *infra*.

Marketing of products

2.1.18 Since March 2003 the Company had been marketing TiO_2 through stockists. Separate agreements were being entered into with such stockists. The stockists were required to lift an agreed minimum quantity monthly/annually. As of September 2006 the Company had engaged 39 stockists. It was noticed (February 2007) that the Company did not follow a marketing and pricing strategy in the best interest of the Company. The strategy followed was deficient and even the prescribed policies were flouted leading to heavy financial losses as discussed below:

Non-adherence to credit policy

2.1.19 As per the credit policy formulated (January 2004) by SPC and effective from January 2004, the Company relaxed the maximum credit limit of ₹ 50 lakh. The stockists were given credit facility against post dated/ undated cheques in individual cases with prior approval of the MD. The credit period fixed was 45 days. SPC also decided (May 2005) that if the cheques issued by the stockists or the customer of the stockists bounced, any further orders from the same stockists/customer would be entertained only against DD/TT/cash payments/at par current cheques. No action was, however, envisaged against the stockists. Credit limit to stockists was reduced (September 2005) to maximum ₹ 25 lakh after analysing the credit position.

It was observed that in violation of the credit limit (₹ 25 lakh), the Company despatched (May 2006) 25 MTs of material valuing ₹ 21.56 lakh against post dated cheques, when ₹ 21.57 lakh was already outstanding (15 May 2004) from one of the stockists* thereby increasing the total outstanding dues to ₹ 43.13 lakh. The two post dated cheques of ₹ 42.67 lakh furnished by the stockist had bounced (September/November 2006) and an amount of ₹ 42.67 lakh was outstanding (June 2007). The Company had not claimed ₹ 5.76 lakh being penal interest at the rate of 0.25 per cent per week or part thereof for the excess debit balance from 16 May 2006. The stockist was not lifting material since June 2006. Thus non-adherence to the credit policy of the Company resulted in blocking of ₹ 42.67 lakh.

The Government stated (June 2007) that the MD had the authority to take commercial decisions and allow special sanctions on credits in the overall business interests of the Company. The reply is not tenable as the relaxation lacked transparency and was in contravention of the laid-down credit policy and has eventually resulted in blocking up of funds which was not in the best financial interests of the Company.

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* Sita paints private Limited .

Revenue loss due to short lifting of agreed quantity

2.1.20 As per agreement entered into between the Company and the stockists, the stockists were to purchase a minimum quantity of 18 MT of TiO_2 pigment per month and an aggregate minimum 250 MT per annum at the agreed price and on the prescribed terms and conditions during the currency of the agreement. Further, as per the agreement, in the event of the failure of the stockists to purchase the agreed minimum quantity, the agreement had to be terminated.

It was noticed that out of 39 stockists during the period 2004-06, only 9 stockists had lifted the minimum assured quantity whereas the off-take of remaining 30 stockists was either nil or below the assured quantity, their percentage off-take ranging between 0 to 97.4 in 2004-05 and 0 to 78.8 in 2005-06.

As a result of short lifting by the stockists, the stock of TiO_2 started piling up (October 2004 -1897.475 MT) and reached an alarming level of 3202 MT (March 2005). Despite this, the Company did not take any steps to enforce the minimum off-take by stockists in the domestic market. To clear the accumulated stock and liquidate the stock arising from excessive production without planning, the Company had to export 5463.575 MT of Anatase grade* TiO_2 and 549.025 MT Rutile grade # TiO_2 during 2005-06 at prices lower than domestic selling price; out of which 5650.42 MT represented quantity short lifted by the stockists.

Thus, the failure of Management to enforce lifting of minimum assured quantity of TiO_2 by stockists and export of the short lifted quantity at a lower price resulted in loss of ₹ 6.06 crore which could not be recovered from the stockists due to absence of enabling clause in the agreements. The Company, however, neither terminated the agreement with these under-performing stockists nor did appoint fresh stockists.

The Government stated (June 2007) that due to the influx of cheap imports as well as liberal credit facilities offered by Company's domestic competitors, these stockists were facing tough competition in pushing up company's product. It was also stated that termination would affect representation in major consumption centres. The reply is not tenable as domestic sale through stockists was more than 10000 MT in all these years and the nine main stockists had shown

* It is a mineral form of TiO_2 which has low density and used in the manufacture of paper, plastic, interior plant, etc, as pigment.

It is a high quality form of mineral TiO_2 with high density and used mainly in the manufacture of interior and exterior paint.

substantial progress in their off-take. Fixing off-take limits and allowing the stockists to violate the limits is not the best commercial practice. Company should have incorporated enabling clauses other than termination to ensure lifting of agreed quantity.

Price revision and export of Titanium dioxide to Itochu Corporation

2.1.21 The Company instead of reducing its production cost by controlling raw material consumption, input consumption and rationalising production incentive payments to its employees, increased (August 2004) the domestic selling price of anatase grade TiO_2 from ₹ 64,500 to ₹ 66,000 per MT without analysing the market conditions on the ground of increase in raw material and fuel costs. This price revision had, however, a negative impact on domestic sales (August 2004 to March 2005). The average monthly domestic sales dropped from 1584.60 MT to 1012.95 MT during the post revision period (August 2004 to March 2005) leading to accumulation of stock to the tune of 3202 MT by the end of March 2005. At this juncture, the Company had the option either to reduce selling price to the pre-August 2004 level to recapture the lost domestic market or to regulate production at 900 MT per month during 2005-06. The Company, however, resorted to indiscriminate production and committed (February 2005) export sale to Itochu Corporation (USA) for 5000 MT of ISI grade Anatase during March 2005 to December 2005, at the rate of 500 MTs per month, at US$ 1200 FOB Cochin (₹ 52,572). Since the price was firm for the entire period of contract, the revised price (April 2005) for the export sale of anatase at 1300 US$ per MT could not be applied for this sale. There were no reasons on record for the decision to commit huge quantity for export at reduced prices to Itochu Corporation. The mode of selection of Itochu was also non-transparent without inviting competitive bids.

The revenue foregone due to export, considering actual realisation and probable realisation from domestic market at pre-revised price during the year 2005-06 worked out to ₹ 49.73 lakh.

The Government stated (June 2007) that in case the Company had not ventured into export, the loss would have been much higher for the financial year 2005-06. The reply is not tenable since the Company did not have any relevant cost data to substantiate that there was any contribution from exports at reduced prices after reckoning the increase in fuel cost on account of operating the plant above de-rated capacity.

Material management

System lapse in purchase

2.1.22 The Company had not framed any definite policy and formulated procedures for procurement of raw materials and chemicals required in bulk quantities with a view to reduce procurement cost. The Company used to make an assessment of the raw material requirements based on budgeted production for a year. Quotations were being invited from suppliers through advertisements in newspapers and enquiries to approved suppliers as per list maintained by the Commercial Department. Limited tender system was also adopted when source of supply was limited in the case of proprietory items and to meet urgent requirements. Purchase proposals based on offers received were approved by a Commercial Advisory Committee comprising General Manager, Chief Commercial Manager, Chief Production Manager, Chief Engineer, Marketing Manager and Finance Manager after pre-audit by Financial Controller and approval by MD.

Audit scrutiny revealed that the system had deficiencies as discussed below:

- Material management was unscientific and not related to de-rated capacity and budgeted production
- The Company did not enter into long term contracts or annual rate contracts even though raw material requirements could be assessed in advance.
- No formal contracts were entered into with suppliers. When suppliers failed to supply during the contract period, the Company could not enforce supply or initiate legal action.
- Security Deposit (SD) was either not collected or allowed to be adjusted from the first bill at the request of suppliers defeating the purpose of security for performance of contract.
- The Company was not deducting any 'Retention Money' from bills of contractors to ensure supply of quality materials.

The extra expenditure/losses arising from the absence of proper procurement policy and procedures are as discussed in succeeding paragraphs:

Procurement at extra cost

2.1.23 The Company invited quotations (September 2002) for supply of 400 MT iron scrap per month for six months. Based on offers, purchase orders were placed with seven suppliers (September 2002-February 2003) for 1185 MT at the rate of ₹ 8,700 per MT and 300 MT at ₹ 8,250 per MT. Out of these only three suppliers supplied a total quantity of 121.885 MT against the ordered aggregate quantity of 600 MT. The short supply of 478.115 MT was purchased (May 2003) at the rate of ₹ 12,499 per MT involving additional expenditure of ₹ 19.51 lakh.

Extra expenditure in procurement of scrap iron from traders

2.1.24 The Company had been meeting its requirement of scrap iron by purchase from traders and not manufacturers or importers. A test check of the invoices of supplies against four purchase orders placed (July 2005 and November 2005) with two suppliers for a quantity of 572.31 MT revealed that the traders were procuring the material from manufacturers or importers at lower rates involving a price difference ranging between ₹ 2464 and ₹ 3384 per MT. The extra expenditure incurred by the Company on this account worked out to ₹ 17.38 lakh (356.69 MT at ₹ 3384 per MT and 215.62 MT at ₹ 2464 per MT).

Since average annual purchase of iron scrap of the Company was 3658 MT there could be substantial savings in purchase from direct sources. Company, however, did not make any attempt to procure scrap directly from such sources so as to reduce cost.

The Government stated (June 2007) that there was difficulty in direct procurement. The reply is not tenable as Company had not initiated any action for direct procurement with a view to reduce costs.

Loss due to contractual provision beneficial to the supplier

2.1.25 The Company invited quotations (December 2001) for supply of 6000 MT of sulphur with a condition to change the supply quantity by additional 10 per cent at the discretion of the Company. Orders were placed (January 2002) on the lowest tenderer, Mincore Resources (Pvt.) Limited (MRL), at ₹ 2719 per MT plus four per cent CST for 6000 MT of sulphur. In the purchase order the Company, however, changed the condition regarding additional 10 per cent supply from buyer's option to seller's option. Taking advantage of the change in the purchase order, MRL supplied (July 2002) only 5400 MT against the order quantity of 6000 MT.

It was noticed that the subsequent purchase (July 2002) of sulphur was also from the same supplier at a higher rate of ₹ 3781 per MT plus four per cent CST indicating that the quantity short supplied (600 MT) was procured by the company incurring additional expenditure of ₹ 6.63 lakh. In respect of the subsequent order (July 2002) for 6000 MT on the same firm at ₹ 3781 per MT plus four per cent CST as well, the seller restricted the quantity to 5430 MT exercising option under the same clause of the purchase order. The balance quantity (570 MT) was procured (November 2002) at ₹ 4890 plus four per cent CST resulting in extra expenditure of ₹ 6.57 lakh.

Thus, inclusion of a clause for supply of additional 10 per cent quantity at seller's option in deviation from the tender conditions resulted in avoidable extra expenditure of ₹ 13.20 lakh.

The Government accepted (June 2007) the audit observation and stated that corrective action was taken in subsequent purchases.

Failure to procure sulphur available at low rates

2.1.26 Kochi Refineries Limited (KRL) offered (March 2002) to supply sulphur at the rate of 200 MT per month at ex-refinery price of ₹ 2356 per MT. In subsequent months also KRL intimated their price indicating the validity of their offer. Company, however, initiated action on the offer only in November 2002. The order for supply at the rate of 200 MT per month was placed only in May 2003 i.e., after a delay of over 12 months. A comparison of prices offered by KRL and the procurement cost (April 2002 to April 2003) from MRL revealed that the procedural delay in considering the offer of KRL resulted in avoidable extra expenditure of ₹ 38.51 lakh.

The Management admitted (February 2007) that there was delay of about one year in finalising the purchase but no reasons were given. Government did not give any specific reply to the observation.

Loss due to uneconomic mode of transportation

2.1.27 During 2002-06 the Company had been transporting 26010 to 40795 MT of ilmenite per annum from Manavalakurichi. The transportation was being undertaken in trucks and the unloading at site done by award workers engaged by the transportation contractor. As a measure of economy in transportation, BOD authorised (December 2002) MD to switch over to tipper lorry for transportation purposes. Accordingly tenders were invited (March 2004) for transportation of 50000 MT of ilmenite per annum from Manavalakurichi and Chavara for a period of three years and the work for transportation from Manavalakurichi awarded (August 2004) to Sree Sankara Transports, Kottayam (ST) and Karthika Transport, Kallambalam (KT) at ₹ 218.43 per MT for truck and ₹ 144 per MT for tipper respectively for 50 per cent of total quantity each. The contract period was one year extendable at the discretion of the company.

Audit noticed that the transportation by tipper was neither undertaken by the transporters nor insisted by the Company even though there was savings of ₹74.43 per MT. During October 2004 to February 2006 (date of discontinuation of allocation) the Company procured 52514 MT of ilmenite from Manavalakurichi and the savings in expenditure forgone due to failure to deploy tippers worked out to ₹ 39.09 lakh.

The Government stated (June 2007) that sanction was given for absorption of award workers in ilmenite and sulphur unloading section, so as to settle the issue while introducing tipper lorry system for transportation of ilmenite and sulphur and the action was in progress. The decision is not prudent since the absorption of award workers involving recurring expenditure would only result in additional expenditure when compared to the savings in transportation by engaging tipper lorries.

Excess holding of inventory

2.1.28 An analysis of the value of inventory held by the Company in relation to production requirement showed that the closing stock of raw materials ranged from 0.83 to 2.71 months requirement and closing stock of stores and spares ranged from 23 months to 27 months requirement during 2002-06.

The value of non-moving items (598 items) included in stores and spares since 2001-02 was ₹ 65.73 lakh. Value of critical spares included in stores and spares was not available.

The Government stated (June 2007) that stores and stock constituted 18 months' consumption on an average and hence there is no excess holding. The reply is not acceptable. Working out average consumption clubbing together fast and slow moving spares gives a distorted picture of the inventory.

Manpower management

2.1.29 The position of manpower in the Company as of August 2002 was as follows:

Category	Sanctioned strength	Actual strength
Officers	209	190
Staff	306	329
Workmen	1092	819
Total	1607	1338

Pursuant to the Government directives (January 2002), the Company appointed (August 2002) an Internal Committee to ascertain the surplus manpower in various departments. The Committee suggested (September 2002) a reduction of 15 per cent in the sanctioned strength. The Company implemented a Voluntary Retirement Scheme (VRS) (September 2002) under which 106 employees retired (March 2007) from service. Thereafter the Company engaged (June 2003) TG Process and Project Consultants (TG), Thiruvananthapuram to identify the surplus manpower. The report submitted (May 2004) by TG identified the total essential manpower as 870 and the desirable level as 933 against the available man power of 1268. The total surplus manpower was 335 as of May 2004. TG recommended (May 2004) to make use of the vacancies arising out of normal retirement and VRS to redeploy the surplus staff in needy departments. The Company did not take any action and no redeployment was made (March 2007) even though 106 vacancies arose from VRS besides normal retirement vacancies. Salaries and wages paid (June 2004 to March 2007) to the surplus staff identified by TG worked out to ₹ 9.65 crore. No specific reply on the observation was given by Government.

Payment of overtime wages

2.1.30 While the Company was having a total surplus staff of 174 on the rolls during June 2004 to March 2007, no action was taken to redeploy the personnel. Over Time (OT) wages aggregating ₹8.08 crore was paid during 2004-07. Further audit scrutiny of the OT payment revealed that OT wages of ₹6.39 crore was paid in departments like Personnel and Administration (administrative staff), Production (process operators and production staff), Engineering (workmen and staff), where surplus staff ranging between 6 and 259 per cent were identified.

The Government stated (June 2007) that a certain degree of overtime could not be avoided for the continuous working of the plant and machinery and that overtime posting is under strict control at present. The reply is not tenable as payment of overtime in departments having surplus staff indicated ineffective man power planning.

Unwarranted payment of production cum motivation allowance in lieu of bonus

2.1.31 As per Payment of Bonus Act, 1965, employee means any person employed on salary or wage not exceeding ₹ 3500 per mensem. Government ordered (July 2006) that employees drawing salary above `3500 were not eligible for any bonus or ex-gratia or incentive allowance except Special Festival Allowance (SFA). BOD, the Chief Executive and Head of Finance Wing of PSUs would be personally liable for any violations in this regard. In conformity with the above orders, the Company decided (August 2006) not to deviate from the guidelines especially in view of the huge loss sustained for the year 2005-06.

It was noticed that in the meeting (August 2006) convened (at the ministerial level), it was decided to pay Performance Cum Motivation Allowance (PCMA) at the rate of ₹ 6000 to all employees of the Company in addition to applicable Bonus and SFA. The Company accordingly paid ₹ 63.71 lakh as PCMA to the employees for the year 2005-06 in violation of specific Government orders prohibiting such payment. The payment for 2005-06 was ratified (June 2007) by the Government. It was observed that similar payments aggregating ₹ 5.89 crore made during 2001-05 were ratified (February 2004 to June 2007) by the Government, indicating that the Government which issued guidelines prohibiting payment in lieu of bonus encouraged its violation by PSUs. The total payment of PCMA in violation of Government guidelines during 2001-06 worked out to ₹ 6.53 crore.

The Government stated (June 2007) that payment of PCMA had the approval of the BOD and ratification of Government. The fact, however, remained that the unwarranted payment was ratified by Government in violation of its own orders.

Additional expenditure on distribution of gifts

2.1.32 As discussed in paragraph 2.1.9 supra, the Company had budgeted its production at 20000 MT per annum during 2005-06 without considering the fall in domestic market sales and difficulty in marketing the product. During 2005-06 the excessive production was being exported below the domestic prices and the Company incurred a loss of ₹ 15.53 crore. Without considering the poor financial performance and ignoring the fact that production incentive (₹ 3.62 crore) and over time allowance (₹ 3.07 crore) were to be paid for the year 2005-06, the Company on the basis of an announcement made (December 2005) by the then Minister of Industries decided (December 2005) to distribute gifts worth ₹ 2000 each to all regular employees on the rolls of the company as a gesture of goodwill and in appreciation of their contribution in achieving record production, sales, etc. Based on the above decision the Company incurred an expenditure of ₹ 23.30 lakh towards gift for better performance during the year 2005-06 when the loss for the year was ₹ 15.53 crore.

The Government stated (June 2007) that the overall performance during the three years up to 2005-06 was appreciable enough to announce a suitable gift as a gesture of goodwill and appreciation. The reply is not tenable since the working results of the Company recorded a steady declining trend since 2003-04 and resulted in heavy losses at the time of taking the decision to announce the gift to the employees.

Defective production incentive system

2.1.33 Centre for Management Development (CMD), Thiruvananthapuram at the behest of the Company prepared (October 1995) a report for payment of production incentive to employees of the Company. The report recommended payment of incentive beyond production of 900 MT per month at incentive rates varying from ₹ 1.30 to ₹ 4.30 per MT under various slabs of production determined on the basis of 12 month moving average basis.

Based on the above report the Company signed (March 1996) an MOU with trade unions reckoning a recovery efficiency level of 73 per cent of TiO_2. The MOU was effective retrospectively (March 1995) and valid for three years. The MOU which was required to be revised from March 1998 was not revised resulting in excess payments on various counts as discussed below:

- The recommendation of CMD for payment of incentive was based on previous 12 months moving average production giving due weight to production efficiency during these months and the per MT rates were also devised on this basis. Deviating from this the Company had been paying incentive on actual monthly production basis. This has resulted in payment of extra incentive of ₹ 1.50 crore during 2002-07.
- At the time of entering into MOU (March 1996) the base level of production for determining eligibility for incentive was fixed as 900 MT per month for three years. The Company, however, revised (November 2005) the base level production to 1000 MT per month only after nine years. The extra payment of incentive due to delay in revision of base level from 900 to 1000 MT per month for the period from April 2002 to November 2005 worked out to ₹ 69.32 lakh.
- The base level of efficiency for additional incentive to direct group (production wing) was fixed at 73 per cent of the TiO_2 recovery in 1977. Although the overall efficiency increased manifold over the years, Management did not revise efficiency ceiling for additional incentive payment. The average overall efficiency during 2001-02, 2002-03, 2003-04, 2004-05 and 2005-06 was 84.58, 82.39, 83.43, 83.28 and 82.86 per cent respectively; the lowest overall efficiency being

80 per cent recorded in August 2002. Even though the MOU expired (March 1999) the recovery percentage was not reviewed and revised. Considering the normal attainable efficiency level of 80 per cent in August 2002 the additional incentive payment worked out to ₹ 45.88 lakh during 2003-04 to 2006-07 (up to December 2006).

- As per Government Order (April 1992) the incentive in appreciation of good performance should not be related to production alone but also with other aspects like cost reduction, marketing and profitability. It was noticed that during 2005-06 the company had to export 6012.4 MT of TiO_2 at prices lesser than the cost in order to clear the accumulated stock and in that process incurred a loss of ₹ 15.53 crore. This aspect was ignored leading to avoidable payment of ₹ 2.22 crore on production (6012.4 MT) corresponding to the above export.

The Government stated (June 2007) that the moving average system as suggested in the CMD report was not agreed to by the Unions and hence could not be included in the industrial relation point of view and that the agreement was formulated when cost of production was much less and achievable production was lower. It was also stated that export sales at less than cost price was in no way connected with the production incentive scheme. The reply is not tenable as the delay in arriving at an agreement with the employee Unions had resulted in financial loss to the Company. Further, payment of incentive on export made to clear accumulated stock arising from unwarranted production was against the spirit of the Government order of April 1992 linking incentive to profitability.

Implementation of Effluent Treatment Project

2.1.34 The Company manufactures TiO_2 through sulphate process generating acidic waste, which was being discharged in to sea. This became unacceptable with the advent of Water (Prevention and Control of Pollution) Act, 1974 and the establishment of Kerala Pollution Control Board (KPCB) in the same year. Efforts of the Company in establishing pollution control project commenced in 1977 and have not been completed so far (March 2007). The Committee on Public Undertakings (COPU) recommended (22nd Report-2001-04) that pollution control activities should be combined with expansion programme and implemented as one package.

The Hon'ble High Court of Kerala directed (November 2003) the Company to set up an effluent treatment plant (ETP) within a period of 30 months i.e., by April 2006, which was extended (April 2007) to December 2008. The Company engaged (June 2004) MECON Limited (MECON) as project management consultant. The package for pollution control and expansion involving the installation of Copperas Recovery Plant (CRP), Acid Recovery Plant (ARP), Neutralisation Plant (NP) and modernisation was proposed to be implemented in two phases (phase I- ₹ 129.40 crore of which ₹ 115 crore was for pollution control project and Phase II- ₹ 126.70 crore of which ₹ 100.95 crore was for pollution control) involving total projected expenditure of ₹ 256.10 crore. Under phase I the plant capacity was proposed to be increased to 21500 TPA and under phase II to 33000 TPA. The work relating to phase-I involving ₹ 129.40 crore was awarded (February/March 2006) to Chematur Ecoplanning Oy (CEP), Finland at a cost of ₹ 68.65 crore and NP to VA Tech Wabag Ltd at ₹ 32.56 crore apart from civil and structural work yet to be awarded. The works under phase I remained to be completed and phase II has not been taken up. The details of expenditure incurred on the work of Phase I as of March 2007 were as follows:

Name of Plant	Contract amount (Rs. in crore)	Actual expenditure incurred (Rs. in crore)	Latest position	Expected date of completion
Copperas Recovery Plant & Acid Recovery Plant	68.65	22.53	Work at site yet to commence	February 2008
Neutralisation Plant	32.56	6.28	Work commenced	March 2008

2.1.35 In the conceptualisation and implementation of the ETP, the following deficiencies were noticed:

- As per recommendations (May 1998) of an internal committee which considered the project proposal, a neutralisation plant alone with a meagre investment of ₹ 10.81 crore was sufficient to meet requirements of KPCB and Court Orders and ARP/CRP requiring foreign technology and huge investment was to be taken up later.
- The Company was aware of the fact that installation of CRP and ARP was not advisable due to lack of market and higher investments in view of foreign exchange component. Still both the plants were proposed at a huge investment of ₹ 82.44 crore on the ground that Neutralisation Plant alone was suited only to small manufacturers. The Company should have met immediate requirement of pollution control through NP and taken up ARP/CRP later.
- The Company proceeded with ETP without obtaining firm commitment from financial institutions for loans resulting in delay and uncertainty in completion of the Project.
- The installed capacity of the existing TiO2 plant was 24500 MT per annum and a capacity of 20000 MT per annum was attainable with a capital investment of ₹ 1.50 crore as per recommendations (October 2001) of the internal committee of the company. By the time the Company proposed (January 2005) the implementation of the modernisation project, there were severe marketing constraints even at the existing de-rated capacity level of 15000 MT per annum. Since another State PSU, Kerala Minerals and Metals Limited (KMML) manufacturing rutile grade TiO_2 was facing marketing problems the decision to expand the capacity at the projected cost of ₹ 40.15 crore lacked justification.
- The Company did not have the know-how necessary for reuse of the regenerated acid produced by the proposed ARP, in the digesters of the existing TiO_2 plant at the required concentration level, in view of the fact that the contractors (CEP) were exempted from providing the necessary knowhow. Hence in the absence of knowhow for re-use of regenerated acid the project itself would prove to be counter productive.

- The financial viability of the project had been worked out by MECON on the assumption of completing Phase I (21000 MT per annum producing 40 MT per day of Anatase and 25 MT per day of surface coated rutile) within 18 months from zero date (May 2005) and Phase II within another 18 months. The Company did not possess the technology for manufacturing surface coated rutile. The technology was proposed to be acquired from KMML, a competitor in the public sector. Since KMML itself had been facing market constraints for rutile, technology absorption and marketability problems would affect the viability of the proposed expansion project.

- As per the agreement entered into with contractors, the stipulated time of completion of ARP/CRP was 12 months from the effective date of contract (EDC) and that for Neutralisation plant was seven months from the letter of award (31 March 2006). Liquidated damages were applicable from the 12th month only. The execution of these contracts was delayed on the following grounds:

- As per contract with CEP for CRP and ARP, the Company had to open Letter of Credit (LC) for the contract amount for reckoning the effective date for determining scheduled completion date. The Company, however, failed to open LC for the full contract amount and the LC was restricted to 90 per cent. Due to incorrect understanding of the contract terms LC for balance 10 per cent amount was belatedly opened (September 2006). The delay in opening LC as contemplated in the contract entailed postponement of the effective date of commencement of contract by six months and corresponding postponement of scheduled date of completion.

- As per agreement with VA Tech. Wabag for NP, the Company had to establish LC for 80 per cent of the contract price within 15 days of approval of Billing Schedule by the Company. The billing schedule forwarded to the Company (November 2006) was accepted only in January 2007. The Company did not open the LC even before expiry of the contract date (31 March 2007) on the ground of financial constraints.

- Audit noticed that the contract for indigenous package involving civil/structural works of the ARP/CRP had not been finalised so far (June 2007) even though shipping of equipments had commenced. MECON had also revised (June 2007) the project cost to ₹ 414.40 crore. The main reasons attributed to increase in cost estimate based on 2004 prices were escalation of price, rise in interest rates, limited availability of bidders and addition/deletion of equipment. The Company has not yet finalised a financial package to meet increased cost. The Company did not obtain from MECON the revised estimates at the time of entering into contracts for ARP/CRP (February 2006) with a view to ascertain the financial viability of the Project.
- While the new LC was opened (29 September 2006) and effective date of commencement of the contract was 29th September, 2006, the Company made 30 per cent advance payment to the contractor in May and July 2006. By allowing the advance payment before the effective date of commencement of contract the Company had to make avoidable payment of interest of ₹ 8.92 lakh on the bank loan availed for advance payment against LC for the period from 26th July, 2006 to 29th September, 2006 and loss of interest of ₹27.55 lakh on term deposit closed for making the payment.

Implementation of cost reduction projects

Non-availing of benefit of captive power

2.1.36 The Kerala Power Policy, 1998 stipulated allotment of Mini Hydroelectric Projects to private agencies, public sector undertakings and Local Self Governments. As per Government Order (October 2002) tail race projects were not intended for captive consumers. The Company having a connected load of 5 MVA and a maximum demand of 3.5 MVA with an annual consumption of 24 Million Units was eligible to apply for Captive Power Plant (CPP). Implementation of CPP was expected to reduce the cost of production by ₹ 1822.50 per MT. Out of four sites identified by Steel Industrials Kerala Limited, the consultant for the purpose, two (Thuvallar and Palchuram) were eligible for implementation by CPPs as notified by Energy Management Centre. The Company instead selected Upper Kallar and Peechad which were not available for captive power production.

Due to this, the Government did not consider the company's proposal as the project involved controlled waters or tailrace waters which were earmarked for KSEB only. Meanwhile, the Palchuram scheme for which the Company was eligible was allotted by Government to an Independent Power Producer as there were no CPPs.

Thus the failure of the Company to identify a project from the list of CPPs notified by Energy Management Centre for CPP denied the Company an opportunity to avail of the benefit of captive power and reduce cost of production by ₹ 1822.50 per MT and aggregate annual saving of ₹ 2.73 crore at de-rated capacity.

Government stated (June 2007) that KSEB identified projects other than tail race project where water availability would be erratic and unpredictable. Government reply is not tenable since the consultant had identified Thuvallar and Palchuram projects as viable which were not considered by the Company.

Mineral separation plant

2.1.37 Being a mineral based Company and solely dependent on Indian Rare Earths Limited for the requirement of raw material, ilmenite, the COPU had recommended (February 2003) that the Company should plan its own Mineral Separation Plant.

The Company's annual average requirement of ilmenite was 50000 MT and setting up of the plant at a projected cost of ₹ 18 crore would have entailed a savings of ₹ 6.32 crore per annum on account of higher grade ilmenite from Quilon having 58.5 per cent TiO_2 content as against 53 per cent of the Manavalakkurichy grade. Besides savings, other cost benefits were also expected. The Company, though, decided (2002-03) to go ahead with the project and authorised the MD to take further steps in the matter, no action had been taken so far (March 2007). There were no recorded reasons for non-implementation of the project.

Internal Control and Internal Audit

Internal Control

2.1.38 Internal controls are the procedures and safeguards that are put in place by the management of an organization to ensure that its activities are proceeding as planned and objectives are achieved in an economic and orderly manner. Strict observance of these procedures/safeguards is vital in any organisation. The internal control system in the Company had deficiencies as discussed below:

- During 2002-2007 there was wide variation ranging from 14 to 400 per cent in the actuals from budget in respect of production, sales, consumption of raw materials, manufacturing & other expenses and profit/loss. The variations between budget and actuals were not reviewed at Board level for timely corrective action.
- Minutes of the monthly meeting of Titanium Management Council (TMC) and Sales Promotion Committee (SPC) were not being placed before the Board for deliberations. Government stated (June 2007) that the Managing Director was empowered to take all commercial and technical decisions of the Company. The SPC and TMC were only advisory in nature and were not constituted by BOD. The reply is not tenable since the proceedings of the committees which take all the crucial decisions relating to the Company, were not brought to the notice of the full Board of Directors.
- Though required as per the agreement with stockists, the Company had not issued any directions for maintenance of records by stockists nor did the Company conduct any inspection with respect to price, quality of the product, stock held by the stockists, etc.
- Although BOD decided to price export at variable cost plus 20 per cent, the calculation of variable cost and its components lacked authenticity and base data were not available for verification.
- During 2002-2007 the attendance of Board of directors in Board meetings varied between 100 per cent (2002-03) and 57 per cent (2006-07). Two Directors were continuously absent for six to eight meetings. The MD besides being a Government secretary had been holding the post of Chairman/Managing Director in two other companies and was also Director in ten other companies.

Internal Audit

2.1.39 There was no separate internal audit wing in the Company. Internal audit was entrusted to a firm of Chartered Accountants. Half yearly Internal Audit reports were being submitted to the MD. The terms of reference included review of reliability and integrity of information, compliance with policies, plans and procedures, laws and regulations, safeguarding of assets, economic and efficient use of resources, review of operations and programmes, verification of inventory, etc.

Audit noticed that

- the areas referred for internal audit were only general in nature and not specific, the internal audit did not cover vital areas like production planning, consumption of raw materials and chemicals, pricing, etc;
- the half yearly reports received were neither placed before the Board nor any follow up action taken on various deficiencies pointed out therein;
- the internal audit was being taken up after a delay of three to eight months from commencement of the financial year;
- repeated observations like delay in updating transactions, lack of integration in different modules used to record accounting transactions/stores accounting/time office data, deficient store accounting, unreliable software used for accounting of cash transactions, delay in settlement of advances given to employees were appearing in the internal audit reports indicating inadequate action and monitoring.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the Management of the Company at various stages of conducting the performance audit.

conclusion

The company suffered heavy loss mainly due to indiscriminate production without considering the marketability, resultant accumulation of stock and exports at reduced rates. Fixation of higher prices for domestic sales at the inappropriate moment contributed to fall in domestic sales. Company had no dependable costing system. The norms fixed for consumption of materials were high and were counter productive to consumption. Consumption of raw materials was excessive when compared to actual optimum levels achieved earlier. The consumption of fuel was also not optimised through planned production.

Minimum off-take by stockists was not ensured by incorporating enabling provision in the agreement with the stockists. Mineral separation plant for recovery of raw material ilmenite was not taken up as recommended by COPU. The company had been incurring heavy expenditure on wages of surplus staff. Unjustified production incentive system and payment of overtime despite surplus staff contributed to high cost of production. Viability of the Company's proposed expansion project would be affected since another State PSU, from whom technology is to be obtained had been facing market constraints for rutile grade titanium dioxide; technology absorption and marketability constraints.

Recommendations

- The Company has enough manufacturing experience and should commit itself to effective cost cutting on commercial practices.
- The Company should evolve an aggressive marketing strategy to improve its market share both domestic and foreign. Production should be based on market trend and demand.
- The Company should develop an effective costing system which should be reviewed monthly.
- The norms fixed for consumption of material needs to be revised keeping in view the past performance and process changes for controlling production cost.
- Minimum off-take by stockists should be assured by incorporating enabling provisions in agreement with stockists and action taken against non-performers.
- Incentive payment needs to be rationalised taking into account productivity, marketability and profitability. At the same time surplus staff should be deployed else where to reduce cost.
- In order to ensure continuous availability of better quality ilmenite at reduced costs the company should ensure speedy implementation of the mineral separation plant.
- The Company should finalise financing arrangements to ensure timely completion of the effluent treatment project.

[Audit Paragraph 2.1 (2.1.1 -2.1.39) contained in the report of the Comptroller and Auditor General of India for the year ended 31-3-2007 (Commercial)]

The Notes furnished by Government on the Audit Paragraph is given in Appendix II.

Audit Para 2.1.1-2.1.7

1. The Committee on reviewing the statement showing the financial position and working results of Travancore Titanium Products Limited during the period 2002-07 observed that the Company showed a declining trend in its net worth since 2005-06 and enquired the reasons for deterioration of Company's financial status over the years. The witness explained that though the marketing volume of TiO_2 sometimes shows a cyclic trend it mostly is unpredictable. The witness further explained that if full capacity is utilised on the assumption that sales would be better in future, sometimes it actually resulted in loss.

2. On the enquiry of the Committee regarding the appointment of stockists, the witness replied that stockists with prescribed prequalification conditions are invited for selection through advertisement and appointed by giving priority to the best among the applicants.

3. When the Committee enquired whether there was any agreement with the stockists regarding the volume of stock the witness replied that eventhough there was agreement, it could not be strictly complied at all times due to fluctuation in production. To the queries regarding the failure of marketing, the Managing Director replied that the lack of proper planning was the main issue. The Committee finds that the Company had failed in updating its methods of marketing. Eventhough TTPL secured unique position in marketing of Titanium Dioxide in the said period, they didn't insist on the compliance of the conditions in the agreement properly with stockists. The Committee after carefully evaluating all these points that lead to the financial loss of the Company opined that responsibility of the loss falls flatly on the management itself.

4. When enquired about the present position of the Company, the witness responded that the Company is going down to loss day by day and further explained that the Company was forced to reduce the price of product from ₹ 1,30,000 to ₹ 1,16,000 since the same product is imported from China at a lower rate of ₹ 90,000.

5. The Committee opined that the cost of production is high owing to outdated technology. The Managing Director informed that, not only the usage of outdated technology, but also the entire products have to be changed. The production of Titanium Dioxide has two-types Rutile and Anatyse. The Rutile is better than the

Anatyse and so the world has changed to Rutile. But TTPL produced Anatyse grade TiO_2 which is cheaper than Rutile grade. In the world market the product from China and other imported rutile grade were available at same rate as that of TTPL. The Committee enquired the methods to overcome that situation and whether anatyse grade prepared by TTPL can be converted to rutile grade. The witness informed that rutile grade is normally prepared under chloride process and when the Company prepared the rutile grade through sulphate route, it was of low quality than that of original rutile grade. The witness also informed about the scope of a new plant having its own ilmenite source to earn profit and 2.5 tonne ilmenite is needed to manufacture one tonne of TiO_2. The witness also informed that the Company has an estimate of ₹150 crore for implementing the project.

6. The Committee remarked that from the resource point of view, it is better to start a unit than going for expansion and advised to submit a proposal including all relevant suggestions.

7. The Committee criticized the management for not controlling the excess staff and viewed that, the Company had failed in the allocation of manpower. The witness explained that while there is no sufficient staff in productive area, clerical staff is more than 125. So, there is restriction in the appointment of daily wage employees. A similar Company in Thoothukkudy has a manpower strength of 375 to produce the same quality product while in TTPL it is 950 which clearly points out the excess staff strength.

8. When enquired about the remedial measures, Finance Department replied that the main reason for the overcrowding is the perspective of the Company to give employment to the workforce. The consistent view of Finance Department is to change the industries into capital oriented.

2.1.8

9. The Committee observed that the Company did not have a corporate plan other than the annual financial budgets and the main reason for the declining trend in the networth of the Company is the lack of the corporate plan. The Committee wanted to be furnished with the corporate plan of the Company within a week.

2.1.9- Production planning

10. The Committee observed that lack of planning in production affected the operations of the Company adversely. The Committee enquired why the Company budgeted its production above the derated capacity of 15000 MT as suggested by the Wazir Committee. The Committee observed that over production without planning resulted in the accumulation of stock, excess fuel consumption, payment of high production incentive/overtime etc. and was aggrieved to note that it resulted in a loss of ₹6.49 crore.

11. The witness admitted the objection raised by the Audit and explained that it was not only a mistake on the part of the Company but it might have been done deliberately by the then officers of the Company for getting incentive by over production. The Committee observed it as a serious irregularity on the part of the officials and suggested an enquiry to this effect.

2.1.10 -Excess consumption of raw materials and utilities

12. The Committee was surprised to note the audit observation that the Company did not revise the standard norms for consumption of raw materials and utilities since last 20 years, which resulted in an accumulated loss of ₹ 10.08 crore during the period 2002-07. The witness replied that it was only a theoretical observation of the audit and it was calculated when ilmenite was brought from Chavara alone in which the content of TiO_2 was more when compared with the ilmenite from other sources and as such a global standard cannot be fixed since it is site specific. The witness further explained that the standard norms of ilmenite depends on various factors and may change in accordance with the change of source.

2.1.11-Excess consumption of fuel due to non-optimal operation of calciners

13. The Committee enquired why the Company operated two calciners of 32 MTS simultaneously instead of operating one calciner to the full extent and other partially whereas the digesters capacity was only 60 MTS. Then the witness explained that a particular feed rate cannot be given at all times and fuel consumption varies at the time of restart after power failure. The witness again pointed out lack of proper planning as the main cause of loss in this regard. The Committee was aggrieved to note that the Company had no proper mechanism to reduce fuel consumption.

14. The Committee remarked that if the Company had run the machineries according to the suggestions of Wazir Committee Report 1976, crores of rupees would have not been lost by the Company. Therefore, the Committee suggested that the Company should follow the suggestions of Wazir Committee Report and scarcity of machineries should be rectified immediately and steps should be taken to stop production beyond de-rated capacity.

2.1.12-Excess handling / grinding loss

15. The Committee observed that due to the excess consumption of ilmenite, loss had occurred to the tune of ₹24.36 lakh. To the queries of the Committee as to why ilmenite was being consumed in excess of norms and whether the Company took any steps to reduce the loss, the witness explained that loss while handling, grinding and storing was normal and comes below 1% only and loss could be measured only according to the output method. So, if the Company could extract atleast 86%, it might be considered as normal hence target of the Company is 84% recovery from total ilmenite.

16. To the query of the Committee whether the Company assessed these matters with that of other Companies, the witness replied that in this regard the Company visited only KMML and printed information were brought from other Companies.

2.1.13-Non Utilisation of surplus capacity of sulphuric acid plant

17. The Committee enquired why the Company did not utilise the sulphuric acid plant of the Company properly and why it did not explore the market of acid produced in the plant which resulted in a loss of ₹2.75 crore during 2003-06. The witness explained that eventhough the Company produced better quality sulphuric acid than that of Sterlite Company, the market needs only low quality sulphuric acid and hence there is no scope for marketing sulphuric acid. The Committee suggested that the Company should devise alternative methods to boostup the marketability of sulphuric acid.

2.1.14-Loss due to shortfall in generation of steam in sulphuric acid plant

18. The Committee observed that due to shortfall in generation of steam in sulphuric acid plant company incurred a loss of ₹ 3.19 crore. When the Committee enquired whether any action had been taken by the Company to minimise the use

of boilers by maximising steam availability from Acid plant, the witness explained that eventhough it is difficult to extract the products from raw materials, the Company now extracts the products by using optimum steam from Sulphuric Acid plant. The witness further explained that measures were also taken to recover the loss.

2.1.15-Avoidable payment of penal charges on electricity and non-availment of incentive

19. The Committee also observes that the Company failed to control its power consumption during peak hours resulting in an additional expenditure of ₹ 24.72 lakh and also forfeited the off peak hours incentive of ₹ 8.46 lakh. The Committee opined that if the Company had adopted proper power saving techniques, a tariff of ₹ 33.18 lakh could have been saved. The witness informed that since the machineries were old ones, energy consumption was high and due to high production all machineries could not be operated during off peak hours only.

2.1.16 -Marketing and Pricing policy

20. The Committee was dismayed to note the audit objection that Sales Promotion Committee, which was constituted with a view to fix the selling price of the product of the Company, did not have the approval of Board of Directors. The Committee enquired why the Company did not adopt any long term marketing and pricing policy and why marginal costing was not considered for taking pricing decisions eventhough it was the primary technique. The witness replied that now there is a fast fluctuating trend in the product price and to avoid accumulation of stock, the Company is forced to sell the product even if there is loss. The Committee observed that the Company did not consider the variable cost for the purpose of product pricing. The Committee suggested that, the Company should take extreme caution in selling the product.

2.1.17 - Sales Performance ,

2.1.18 - Marketing of Products &

2.1.20 - Revenue loss due to short lifting of agreed quantity

21. When the Committee enquired about the performance of marketing wing, the witness replied that selling is more important than marketing and when there is tough competition, importance is given to the quality of the product to make the product acceptable. The Committee enquired why the Company could not achieve the budgeted sales target eventhough importance was given to the quality of the product.

22. The witness replied that tough competition in the market affected the overall sales of the stockists. Eventhough there was an agreement with the stockists to purchase a minimum quantity of 18MT of TiO_2 pigment at the agreed price, tough competition in the market affected the off-takes of the stockists which resulted in the accumulation of stock. The Committee was aggrieved to note that the failure of the Company to enforce the minimum off-take by stockists and export of the accumulated product at lower price than the domestic selling price resulted in a loss of ₹ 6.06 crore.

23. The Committee was dissatisfied to note that the absence of enabling clause in the agreement with the stockists prevented the Company to recover the loss due to non-compliance of terms of agreement. The witness informed that eventhough there was agreement, it could not be strictly enforced by the Company due to tough competition. If the stockist were terminated, they would be appointed in other institutions where they get more incentive and hence it was the responsibility of the Company to retain stockists at any cost. The witness also admitted that though the Company could have enforced the agreement during 2002-05 at the time when there was no local competition, the Company failed to do so.

2.1.19-Non-adherence to credit policy

24. When the Committee enquired the credit policy of the Company, the witness replied that, for the proper running of the firm, Company was compelled to sell product on receipt of post dated cheque from buyers. But now, the Company sold products only by advance payments.

2.1.21-Price revision and export of Titanium dioxide to Itochu Corporation

25. The Committee observed that the Company increased domestic selling price of anatase grade TiO_2 instead of reducing its production cost without analysing the market conditions. The Committee was aggrieved to note that the Company decided to export large quantity of the product at reduced prices to Itochu Corporation. The Committee observed that the mode of selection of Itochu was without inviting tenders. When the Committee enquired why the Company didn't make the selection in a transparent manner, the witness replied that it was done in accordance with the business situation at that time.

2.1.22 - Material Management system lapse in purchase

2.1.23 - Procurement at Extra Cost &

2.1.24 - Extra Expenditure in procurement of scrap iron from traders

26. When the Committee enquired the mode of purchase the witness replied that the Business Advisory Committee controlled all purchases for the Company. The Committee wanted further clarifications with respect to the following audit objections such as unscientific material management, absence of long term contract, security deposit, retention money etc.

27. The Committee remarked that the Company did nothing to reduce procurement cost. The Committee was astounded to learn that the Company did not enter into long term contracts for procurement of raw materials eventhough raw material requirements could be assessed in advance. The Committee remarked that if formal contracts were made, the Company could have enforced legal action against those suppliers who failed to supply during contract period. When enquired about the existing method of purchase, the witness replied that purchase is being done as per the norms laid down in the Stores Purchase Manual.

28. The Committee observed the audit finding that suppliers defaulted to supply the iron scrap already ordered because of which the Company was forced to purchase iron scrap at a higher rate than that of the rate specified in the tender which resulted in an additional expenditure of ₹ 19.51 lakh. The Committee enquired whether any action was initiated against the defaulted suppliers and why the Company purchased iron scrap from traders instead of procuring materials from manufacturers or importers at lower rates. The witness replied that usually the Company purchased scrap iron only by competitive tenderers, but in this case the loss occured due to purchase done through traders.

2.1.25 -Loss due to Contractual provision beneficial to suppliers &

2.1.26 -Failure to produce sulphur available at low rates

29. The Committee expressed its suspicion in the change of the conditions in the purchase order by the Company. The Committee enquired why the Company changed the condition of additional 10% supply from buyer's option to seller's

option, violating the conditions prescribed in the tender already invited. The Committee was astounded to note that there was a delay of one year for finalising the purchase from Kochi Refineries Ltd. The Committee remarked that procedural delay resulted in an avoidable extra expenditure of ₹ 38.51 lakh. The Committee enquired whether any action was initiated against the officers in charge to recover the extra expenditure of ₹ 38.51 lakh. The witness informed that there will not be any such lapses in future.

2.1.27 - Loss due to uneconomic mode of transportation

30. To the query of the Committee, the witness replied that, the Company needs 100 tonnes of ilmenite per day and which necessitates the use of 12 tippers. Eventhough the Company invited fresh tenders both for tipper and truck, the Board of Directors decided to switch over to the services of Tipper lorries.

2.1.28 - Excess holding of inventory

31. The Committee remarking that since the incident was an old one and the officers responsible for that might have retired from service suggested to drop the audit para.

2.1.29 - Manpower Management

32. To a query of the Committee, the witness informed that one of the major problems faced by the Company is that there is not sufficient employees in the production unit. The Committee pointed out that eventhough there was excess staff in clerical category, the Company did not take any measures to re-deploy the personnel. The Committee suggested that excess staff from other units should be re-deployed and no further appointments should be made.

2.1.30-Payment of overtime wages

2.1.31-Unwarranted payment of production cum motivation allowance in lieu of bonus

2.1.32-Additional expenditure on distribution of gifts &

2.1.33-Defective production incentive system

33. To a query regarding the audit paras, the witness replied that the Company gave incentives for workmen only. Others were given incentive allowance. The Committee enquired why the Company decided to pay PCMA by violating specific Government Orders prohibiting payments. The Committee enquired how the Company could state that the overall performance during three years upto 2005-06 was appreciable enough to announce a suitable gift as a gesture of goodwill and appreciation.

34. The Committee enquired why the MoU was not revised from March 1998 and hence the criteria for determining incentive resulted in excess payment of various counts. The Committee failed to comprehend how the Company could give incentive despite incurring substantial losses. The Committee suggested that the Government should not encourage such unwarranted payments by ratifying the action subsequently. The Committee suggested that the Company should see that no further incentives are given to employees other than workers.

2.1.34 & 2.1.35 - Implementation of Effluent Treatment Project

35. The Committee enquired about the mismanagement of the Company regarding the conceptualisation and implementation of Effluent Treatment Project. The Committee pointed out that the Company accumulated its loss due to abandonment of the Acid Recovery Plant, the exigency of the Copperas Recovery Plant and the decommission of Nutralization Plant. The witness replied that the project was started as per the decision of Director Board. The Company decommissioned it because the actual expenses would have been doubled if the project had been implemented. The Committee wanted the details of above purchases and the name of responsible persons and the reports of action taken against the concerned personnel. The Committee pointed out that the actual drawback was the lack of proper planning. The Company had failed in calculating their cost estimates and it affected the entire process. The reports of internal committee showed that the establishment of nutralisation plant was enough to solve the pollution problems of the Company, but this was not done. The Board of Directors had already taken decisions against the recommendations of Company's internal committee. The witness further informed that vigilance case has been filed

against that project and the committee wanted further reports regarding the case number and copy of judgement details of appeal if any and all the details regarding the case within a month.

2.1.37, 2.1.38 & 2.1.39 - Mineral Separation Plant

36. The Committee enquired the details regarding the above audit paras and witness replied that, if the Company should earn ₹ 6 lakh as profit, it should have its own mining land. The reply drew severe criticism from the Committee and the Committee suggested to present a satisfactory reply in respect of the audit para.

Conclusions / Recommendations

37. **The Committee is of the opinion that a corporate plan is a prerequisite for the growth of a Company. It observes that the Company lacks a corporate plan, a crucial lapse, which resulted in the declining trend in the networth of the Company. Therefore, the Committee directs the Company authorities to prepare a comprehensive corporate plan within a week.**

38. For getting incentive by over production, the then officers of the Company budgeted its production above the de-rated capacity without planning. The Committee criticises the Company for ignoring the suggestions of Wazir Committee. The Committee remarks that if the Company had restricted its production according to the suggestions of Wazir Committee, an amount of ₹ 6.49 crore could have been saved by the Company. Therefore, the Committee directs that an Enquiry should be conducted and stringent action needs to be taken against those officials who were responsible for such serious lapse. The Committee also suggests to take appropriate steps to stop production beyond the de-rated capacity.

39. The Company did not revise the standard norms fixed before two decades and thus failed to excercise proper control over consumption of raw materials which resulted in a loss of ₹ 10.08

crore during the period 2002-07. Excess consumption of ilmenite resulted in loss to the tune of ₹24.36 lakh. The Committee criticises the Company for not taking any step to reduce the loss due to the excess consumption of ilmenite by merely stating the lame excuse that handling, grinding and storing might have resulted in loss. The Committee suggests that in order to compete successfully in the market, the Company should study the cost reduction methods adopted by similar Companies.

40. The Committee is aggrieved to note that the Company did nothing to reduce procurement cost. Unscientific material management, absence of long term formal contracts, non-collection of security deposits, non deduction of retention money etc. are the deficiencies prevalent in the purchase procedures. Moreover the Company was forced to purchase materials at higher rates due to short supply of materials which resulted in an additional expenditure of ₹ 19.51 lakh. Eventhough the Company could have purchased iron scrap directly from traders, the Company did nothing to that effect adding an additional expenditure of ₹17.38 lakh. Furthermore the Company incurred an extra expenditure of ₹13.20 lakh by incorporating purchase order provision beneficial to the supplier rather the Company. The Committee expresses its strong suspicion that the inclusion of purchase order provision at seller's option against the tender conditions was deliberately done inorder to favour the supplier, that in no way seemed to benefit the organization. The Committee insisted to avoid similar instances in future.

41. The Company placed the order to Kochi Refineries Ltd. for the supply of Sulphur after a delay of over 12 months. The Committee opines that if the Company had finalised the purchase order without delay an amount of 38.51 lakh could have been saved by the Company. Therefore the Committee recommends that,going forward, this kind of instances are not acceptable and proactive measures should be taken to avoid such delay.

42. The Committee is amazed to note that the Company did nothing when the transporters refused to undertake transportation by tipper eventhough the Board of Directors directed the MD to switch over

to tipper lorry for transportation purposes as a measure of economy in transportation. The Committee remarks that ₹39.09 lakh was lost in this regard and there is no reason on record to substantiate the above decision. Hence the Committee urges the Government to furnish a detailed report regarding the same.

43. The Committee is also concerned to note that the Company could not explore the marketability of Sulphuric acid which resulted in a loss of ₹2.75 crore during the period 2003-06 and short fall in generation of steam in Sulphuric Acid Plant resulted in a loss of ₹ 3.19 crore. Therefore, the Committee suggests that the Company should adopt alternative methods to boostup the marketability of sulphuric acid.

44. The failure of the Company to adopt proper power savings techniques resulted in a loss of ₹ 33.18 lakh. Power intensive machinery like grinding machines are not operated in off-peak period with a view to reduce power consumption.The Company could not avail the off peak hour incentive due to the usage of old machineries. The Committee learns that for the efficient functioning of the machinery it is high time to implement new technology. Hence the Committee insisted the management for the replacement of out-dated machinery with new ones there by reducing power consumption.

45. The Sales Promotion Committee which was constituted for fixing the selling price of the products did not have the approval of Board of Directors. The Committee criticises the Company for not taking marginal cost and variable cost for the purpose of product pricing. The Committee recommends that the Sales Promotion Committee of the Company should be formalized and it should consider the primary elements while fixing the selling price of the product. The Committee is aggrieved to note that the Company did not follow the marketing and pricing policy according to the best interest of the Company. Hence the Committee insisted the management to follow a reliable and an effective pricing strategy that would benefit the organization.

46. Non-lifting of TiO_2 by the stockists and uncontrolled production without planning resulted in the accumulation of TiO_2 which forced the Company to sell the accumulated stock at lower prices resulting in a loss of ₹ 6.06 crore. The Committee is aggrieved to note that absence of enabling clause in the agreement prevented the Company from recovering the loss from the underperforming stockists. Therefore, the Committee recommends that the Company should incorporate enabling clauses in the agreement with the stockists in order to ensure the lifting off of agreed quantity.

47. The Committee also observes that non-adherence to credit policy resulted in blocking of funds amounting to ₹42.67 lakh. Violating the credit limit, the Company despatched 25 MTS of materials valuing ₹21.56 lakh against post dated cheques when ₹21.57 lakh was already outstanding from one of the stockists. The Committee remarks that reduction of the credit limit of the stockists from ₹50 lakh to ₹25 lakh in a non transparent manner and in contravention of the laid down credit policy lead to blocking up of funds which affected the financial interest of the Company. The Committee instructs that the management is obliged to follow a credit policy to the best interest of the Company under all circumstances.

48. The Company exported large quantity of TiO_2 at reduced prices to Itochu Corporation which resulted in a revenue loss of ₹ 49.73 lakh. The Committee remarks that if the Company took measures to reduce its production by controlling raw material consumption, input consumption, rationalising production investment and payments to its employees, an amount of ₹49.73 lakh could have been saved by the Company. Since Itochu Corporation was selected without inviting tenders, the Committee reaches the suspicion that whether there was any nexus between the Company and Itochu Corporation. The Committee insists that the company should avoid such instances in future.

49. To redeploy the surplus man power the Company did nothing, according to the recommendations of TG Process and Project

Consultants which was appointed by the Company. The Committee is aggrieved to note that ₹9.65 crore was spent towards the payment of salaries and wages and ₹ 8.08 crore was spent towards overtime wages to the surplus staff. Therefore the Committee suggests that excess staff from other units should be redeployed and no further appointments should be made. The Company gave PCMA @ ₹6,000 to all its employees in addition to applicable Bonus and SFA by violating specific Government Orders. The Committee is surprised to note that how the State Government proceeded to ratify payments of PCMA of ₹6.53 crore eventhough the Company made the payment in violation of the directives of the State Government. Moreover the Company spent ₹ 23.30 lakh towards the distribution of gifts by stating lame excuses that gifts were distributed for better performance during 2005-06 even though the Company was running at a loss of ₹15.53 crore that year. The Committee is at pains to note that the Company distributed the gifts while facing such grave financial problems. Non revision of MoU in time resulted in financial loss to the Company. The Committee expressed its displeasure over the delay and remarked that if the Company adopted 12 months moving average and revised the base level production in time for calculating incentive, an amount of ₹4.87 crore could have been saved by the Company. The Committee desires that such instances should not be entertained and recommends to perform proper analysis before committing incentives to employees when the company's financial situation is not stable.

50. The Company proposed Copperas Recovery plant and Acid Recovery plant at a huge investment of ₹82.44 crore despite knowing the fact that Neutralisation Plant was sufficient enough to meet the requirements of Pollution Control Board and Court Orders. The Committee is surprised to note that the Company decided to expand the capacity of the TiO_2 Plant at a projected cost of ₹40.15 crore to acquire the technology of manufacturing surface coated rutile from KMML even when KMML the manufacturer of rutile grade TiO_2 was facing marketing problems. Further, by

exempting the contractors of ARP from providing the necessary know-how, the Company defeated the very purpose of the project.

51. The delay occured on the part of the Company in opening LC as stipulated in the contract which resulted in delayed execution of contracts for CRP, ARP and NP. Inaddition to that advance payment against LC resulted in a loss of ₹36.47 lakh to the Company. The Committee is aggrieved to note that the Company did nothing to finalise the financial packages to meet increased cost due to escalation in price, rise in interest rates, limited availability of bidders and alternation of equipments. The Committee opines that failure of the Company to obtain revised estimates from MECON at the time of entering into contracts for ARP/CRP for ascertaining financial viability of the project reveals that the officials were irresponsible in safeguarding the financial interest of the Company. By wrong selection of project the Company lost the opportunity to implement a cost effective captive power project. Therefore, the Committee recommends that the Company should finalise financial arrangements to ensure timely completion of the Effluent Treatment Project. Going forward, the Company has to go through proper analysis before heading to a new project.

52. The Committee also expresses its dissatisfaction over the negative attitude of the Company in implementing Mineral Separation Plant to produce basic raw material. The Committee observed the reluctance of the Company to go ahead with the project despite the recommendations of COPU (22nd report) in February 2003. The Committee reiterates its earlier recommendation that pollution control activities should be combined with expansion programme and implemented as one package.

AUDIT PARAGRAPH

4.12 Delay in intiating action to obtain EPCG licence resulted in payment of avoidable demurrage charges amounting to ₹ 37.62 lakh.

The Company is engaged in the manufacture and sale (both domestic and export) of Anatase grade titanium dioxide pigment. Government of Kerala accorded (May 2005) sanction for the Company's project to implement pollution control measures in two phases along with Company's expansion and modernization plans. The project cost of Phase I was pegged at ₹ 225.80 crore and MECON (a GoI Company) was engaged as the project management consultant.

Chematur Ecoplanning Oy, Finland and their associates, AVI Europe Limited, UK (AVI) were contracted (February 2006) for the supply of technical know-how and import of proprietary equipments for Phase I of the project. As per the Export Promotion Capital Goods (EPCG) scheme envisaged in the Foreign Trade Policy 2004-2009, Company was eligible for concessional import duty rate of 5 per cent on these imported items as against the normal import duty of 34.47 per cent. To avail this concessional rate of duty, an application in self declaration form had to be submitted to the Regional Licensing Authority (RLA) along with specified documents and the RLA shall issue the licence within 3 days.

AVI despatched (2nd April, 2007) first consignment of the order which reached Cochin Port on 13 May, 2007. The Company, however, did not take delivery of the equipments within the free delivery period i.e., by 23 May, 2007 since it had applied (1 June, 2007) for EPCG licence only after arrival of goods. The consignment was finally cleared (2 July, 2007) after obtaining (27th June, 2007) EPCG licence. Owing to delay in clearing the consignment, the Company had to pay (July 2007) demurrage charges of ₹ 37.62 lakh imposed by the Cochin Port Trust.

Audit observed that the Company had initiated (June 2007) action for obtaining EPCG licence only after the receipt of equipments at Cochin Port (13 May, 2007) even though AVI had notified the despatch of equipments in April 2007 itself.

Thus, defective planning and monitoring and delay in initiating action to obtain EPCG licence resulted in payment of avoidable demurrage charges of ₹ 37.62 lakh. Management reply (July 2009) as endorsed by Government stated that at the time of import the Company was in deep financial trouble because of the rise in cost of titanium dioxide due to increase in price of major inputs, sulphur and fuel. By 2007 export price was matching with the domestic price and availing EPCG Scheme was beneficial to the Company. But the fact remained that Management was well aware of the difficult financial position of the Company and action was not taken in time to obtain the EPCG licence, so that demurrage charges could have avoided.

[Audit Paragraph 4.12 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2009 (Commercial)]

The note furnished by Government on the Audit Paragraph is given in Appendix II.

53. The Committee notes that the Company did not take any timely action to obtain the EPCG licence. The Committee remarked that if the Company had proper planning and monitoring, payment of demurrage charges of ₹ 37.62 lakh could have been avoided. The Committee suggested that, the company should take timely steps to avoid delay in securing the licences in future.

Conclusions/Recommendations

54. **The Committees notes with displeasure that the Company failed to obtain EPCG licence in time due to defective planning and monitoring. The Committee is of the opinion that had the Company obtained EPCG licence in time, an amount of ₹ 37.62 lakh paid towards demurrage charges could have been avoided. Therefore, the Committee suggests that inorder to safeguard the financial interest of the Company, the Company should take necessary steps in time to secure licences in future.**

AUDIT PARAGRAPH

4.12 As per Employees Provident Fund and Miscalleneous Provision Act, 1952 (Act) and Employees Provident Fund Scheme of 1952, for establishments engaging 20 or more persons and engaged in notified industries, employers "contribution to Provident Fund was 12 per cent of salary (basic pay, DA, cash value of food concession and retaining allowance if any), limited to ₹ 6,500 of salary per month. For any sick industrial company" , the rate of contribution was 10 per cent.

A test check (2009-2011) of the employer's contribution to the Provident Fund in case of thirteen " companies revealed that these companies instead of restricting their share of contribution to monthly salary of ₹ 6,500 had been contributing on the basis of full salary in respect of employees drawing salary more than ₹ 6,500 per month.

Managements stated that the ceiling ₹ 6500 under the Act was fixed years back and it remained without change whereas the wages and other benefits had increased considerably over the years. Accordingly even the lowest unskilled employees would draw in excess of ₹ 6,500 per month. They also contended that it would not be possible to recruit and retain work force if employee benefits were reduced.

The point stays that all EPF contributions should have been in consonance with existing statutory provisions.

The matter was reported to Government (July 2011), their reply was awaited (November 2011).

[Audit Paragraph 4.12 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2011 (Commercial)]

The Notes furnished by Government on the Audit Paragraph is given in Appendix II.

55. The Committee examined the details regarding the audit para and accepted the reply furnished by the Government.

Conclusions/Recommendations

56. **The Committee observes that the excess contributions made to the Provident Fund account resulted in an unbalanced payment of ₹ 3.3 crore and the reason for such a huge gap was the inefficient administration of the responsible officers. Therefore, the Committee suggests that all EPF contributions should only be made in consonance with the existing statutory rules and orders.**

Thiruvananthapuram,
17th October, 2016.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
1	2	3	4
1	37	Industries	The Committee is of the opinion that a corporate plan is a prerequisite for the growth of a Company. It observes that the Company lacks a corporate plan, a crucial lapse, which resulted in the declining trend in the networth of the Company. Therefore, the Committee directs the Company authorities to prepare a comprehensive corporate plan within a week.
2	38	"	For getting incentive by over production, the then officers of the Company budgeted its production above the de-rated capacity without planning. The Committee criticises the Company for ignoring the suggestions of Wazir Committee. The Committee remarks that if the Company had restricted its production according to the suggestions of Wazir Committee, an amount of ₹ 6.49 crore could have been saved by the Company. Therefore, the Committee directs that an Enquiry should be conducted and stringent action needs to be taken against those officials who were responsible for such serious lapse. The Committee also suggests to take appropriate steps to stop production beyond the de-rated capacity.
3	39	"	The Company did not revise the standard norms fixed before two decades and thus failed to excercise proper control over consumption of raw materials which resulted in a loss of ₹ 10.08 crore during the period 2002-2007. Excess consumption of ilmenite resulted in loss to the tune of 24.36 lakh.

1	2	3	4
			The Committee criticises the Company for not taking any step to reduce the loss due to the excess consumption of ilmenite by merely stating the lame excuse that handling, grinding and storing might have resulted in loss. The Committee suggests that in order to compete successfully in the market, the Company should study the cost reduction methods adopted by similar Companies.
4	40	Industries	The Committee is aggrieved to note that the Company did nothing to reduce procurement cost. Unscientific material management, absence of long-term formal contracts, non-collection of security deposits, non deduction of retention money etc. are the deficiencies prevalent in the purchase procedures. Moreover the Company was forced to purchase materials at higher rates due to short supply of materials which resulted in an additional expenditure of 19.51 lakh. Eventhough the Company could have purchased iron scrap directly from traders, the Company did nothing to that effect adding an additional expenditure of ₹17.38 lakh. Further more the Company incurred an extra expenditure of ₹13.20 lakh by incorporating purchase order provision beneficial to the supplier rather the Company. The Committee expresses its strong suspicion that the inclusion of purchase order provision at seller's option against the tender conditions was deliberately done inorder to favour the supplier, that in no way seemed to benefit the organization. The Committee insisted to avoid similar instances in future.

1	2	3	4
5	41	Industries	The Company placed the order to Kochi Refineries Ltd. for the supply of Sulphur after a delay of over 12 months. The Committee opines that if the Company had finalised the purchase order without delay an amount of ₹ 38.51 lakh could have been saved by the Company. Therefore the Committee recommends that, going forward, this kind of instances are not acceptable and proactive measures should be taken to avoid such delay.
6	42	,,	The Committee is amazed to note that the Company did nothing when the transporters refused to undertake transportation by tipper even though the Board of Directors directed the MD to switch over to tipper lorry for transportation purposes as a measure of economy in transportation. The Committee remarks that ₹ 39.09 lakh was lost in this regard and there is no reason on record to substantiate the above decision. Hence the Committee urges the Government to furnish a detailed report regarding the same.
7	43	"	The Committee is also concerned to note that the Company could not explore the marketability of Sulphuric acid which resulted in a loss of ₹ 2.75 crore during the period 2003-2006 and shortfall in generation of steam in Sulphuric Acid Plant resulted in a loss of ₹ 3.19 crore. Therefore, the Committee suggests that the Company should adopt alternative methods to boostup the marketability of sulphuric acid.

1	2	3	4
8	44	Industries	The failure of the Company to adopt proper power savings techniques resulted in a loss of ₹ 33.18 lakh. Power intensive machinery like grinding machines are not operated in offpeak period with a view to reduce power consumption.The Company could not avail the offpeak hour incentive due to the usage of old machineries.The Committee learns that for the efficient functioning of the machinery it is high time to implement new technology. Hence the Committee insisted the management for the replacement of outdated machinery with new ones there by reducing power consumption.
9	45	"	The Sales Promotion Committee which was constituted for fixing the selling price of the products did not have the approval of Board of Directors. The Committee criticises the Company for not taking marginal cost and variable cost for the purpose of product pricing. The Committee recommends that the Sales Promotion Committee of the Company should be formalized and it should consider the primary elements while fixing the selling price of the product. The Committee is aggrieved to note that the Company did not follow the marketing and pricing policy according to the best interest of the Company. Hence the Committee insisted the management to follow a reliable and an effective pricing strategy that would benefit the organization.
10	46	"	Non-lifting of TiO_2 by the stockists and uncontrolled production without planning resulted in the accumulation of TiO_2 which forced the Company to sell the accumulated stock at lower prices resulting in a loss of ₹6.06 crore. The Committee is aggrieved to note that absence of enabling clause in the agreement prevented the Company from recovering the loss from the underperforming stockists. Therefore, the Committee recommends that the Company should incorporate enabling clauses in the agreement with the stockists in order to ensure the lifting off of agreed quantity.

1	2	3	4
11	47	Industries	The Committee also observes that non-adherence to credit policy resulted in blocking of funds amounting to ₹ 42.67 lakh. Violating the credit limit, the Company despatched 25 MTS of materials valuing ₹21.56 lakh against post dated cheques when ₹21.57 lakh was already outstanding from one of the stockists. The Committee remarks that reduction of the credit limit of the stockists from ₹ 50 lakh to ₹ 25 lakh in a non transparent manner and in contravention of the laid down credit policy lead to blocking up of funds which affected the financial interest of the Company.The Committee instructs that the management is obliged to follow a credit policy to the best interest of the Company under all circumstances.
12	48	"	The Company exported large quantity of TiO_2 at reduced prices to Itochu Corporation which resulted in a revenue loss of ₹ 49.73 lakh. The Committee remarks that if the Company took measures to reduce its production by controlling raw material consumption, input consumption, rationalising production investment and payments to its employees, an amount of 49.73 lakh could have been saved by the Company. Since Itochu Corporation was selected without inviting tenders,the Committee reaches the suspicion that whether there was any nexus between the Company and Itochu Corporation.The Committee insists that the company should avoid such instances in future.
13	49	"	To redeploy the surplus man power the Company did nothing, according to the recommendations of TG Process and Project Consultants which was

1	2	3	4
			appointed by the Company. The Committee is aggrieved to note that ₹ 9.65 crore was spent towards the payment of salaries and wages and ₹ 8.08 crore was spent towards overtime wages to the surplus staff. Therefore the Committee suggests that excess staff from other units should be redeployed and no further appointments should be made. The Company gave PCMA @ ₹6000 to all its employees in addition to applicable Bonus and SFA by violating specific Government Orders. The Committee is surprised to note that how the State Government proceeded to ratify payments of PCMA of ₹ 6.53 crore eventhough the Company made the payment in violation of the directives of the State Government. Moreover the Company spent 23.30 lakh towards the distribution of gifts by stating lame excuses that gifts were distributed for better performance during 2005-06 even though the Company was running at a loss of ₹ 15.53 crore that year. The Committee is at pains to note that the Company distributed the gifts while facing such grave financial problems. Non revision of MoU in time resulted in financial loss to the Company. The Committee expressed its displeasure over the delay and remarked that if the Company adopted 12 months moving average and revised the base level production in time for calculating incentive, an amount of ₹4.87 crore could have been saved by the Company.The Committee desires that such instances should not be entertained and recommends to perform proper analysis before committing incentives to employees when the company's financial situation is not stable.

1	2	3	4
14	50	Industries	The Company proposed Copperas Recovery Plant and Acid Recovery Plant at a huge investment of ₹ 82.44 crore despite knowing the fact that Neutralisation Plant was sufficient enough to meet the requirements of Pollution Control Board and Court Orders. The Committee is surprised to note that the Company decided to expand the capacity of the TiO_2 Plant at a projected cost of ₹ 40.15 crore to acquire the technology of manufacturing surface coated rutile from KMML even when KMML the manufacturer of rutile grade TiO_2 was facing marketing problems. Further, by exempting the contractors of ARP from providing the necessary know-how, the Company defeated the very purpose of the project.
15	51	"	The delay occured on the part of the Company in opening LC as stipulated in the contract which resulted in delayed execution of contracts for CRP, ARP and NP. Inaddition to that advance payment against LC resulted in a loss of ₹ 36.47 lakh to the Company. The Committee is aggrieved to note that the Company did nothing to finalise the financial packages to meet increased cost due to escalation in price, rise in interest rates, limited availability of bidders and alternation of equipments. The Committee opines that failure of the Company to obtain revised estimates from MECON at the time of entering into contracts for ARP/CRP for ascertaining financial viability of the project reveals that the officials were irresponsible in safeguarding the financial interest of the Company. By wrong selection of project the Company lost the opportunity to implement a cost effective captive power project. .Therefore, the Committee recommends that the Company should finalise financial arrangements to ensure timely completion of the Effluent Treatment Project. Going forward, the Company has to go through proper analysis before heading to a new project.

1	2	3	4
16	52	Industries	The Committee also expresses its dissatisfaction over the negative attitude of the Company in implementing Mineral Separation Plant to produce basic raw material. The Committee observed the reluctance of the Company to go ahead with the project despite the recommendations of COPU (22nd report) in February 2003. The Committee reiterates its earlier recommendation that pollution control activities should be combined with expansion programme and implemented as one package.
17	54	”	The Committees notes with displeasure that the Company failed to obtain EPCG licence in time due to defective planning and monitoring. The Committee is of the opinion that had the Company obtained EPCG licence in time, an amount of ₹ 37.62 lakh paid towards demurrage charges could have been avoided. Therefore, the Committee suggests that inorder to safeguard the financial interest of the Company, the Company should take necessary steps in time to secure licences in future.
18	56	”	The Committee observes that the excess contributions made to the Provident Fund account resulted in an unbalanced payment of ₹ 3.3 crore and the reason for such a huge gap was the inefficient administration of the responsible officers. Therefore, the Committee suggests that all EPF contributions should only be made in consonance with the existing statutory rules and orders.

APPENDIX II

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31ST MARCH 2007 PERTAINING TO M/S TRAVANCORE TITANIUM PRODUCTS LIMITED, THIRUVANANTHAPURAM ACTION TAKEN STATEMENT ON PARA (2.1.1 TO 2.1.38)

SL NO	PARA NO		ACTION TAKEN
1	2.1.1 to 2.1.7		The increase in raw material prices and sales at reduced rates to liquidate stock is the reason for the fall in profits. The price fixing is being done in the Company by computing the variable and fixed cost and allocating margin over the cost. M/s.Kilburn Chemicals a competitor of the company's price is also studied and price of imported Tio2 available in the market is also considered before fixing the price for TiO2 produced by TTPL. When the market demand is less stockists fail to lift the assured quantity and this will lead to accumulation. During previous period under audit, when the stock had piled up, in order to mobilize working capital and to liquidate stock, prices have been slashed for effecting sales. In addition to this, the fall in price of TiO2 in the international market also contributed to the fall in profits.

	2.1.8 to 2.1.10		The rated capacity is 24500 Mt. per annum. The Wazir Committee Report cited in the Audit Report may not be relevant today since many modifications in plant and machinery has been carried out since then. The increase in the cost of various raw materials also contributed to the rise in cost. During the period 2002-03 to 2006-07 actual production is higher than the rated capacity of 15,000 Mts. for 2004-05 and 17,111 Mts. for 2005-06. The accumulation of stock and fall in profits arose on account of higher price of products compared to the prevailing international prices and not due to defective production planning. Hence the company had to dispose of the increased stock by slashing prices. The standard norms for consumption of major raw material ilmenite depends on various factors. The content of TiO_2 in ilmenite from Chavara is more when compared with Ilmenite from other places. This content of TiO_2 in ilmenite varies from 50-60% approximately. On account of this variation, the input of raw materials also vary thus reflecting higher cost. The shortage of ilmenite is a well known fact and this is a trend which is peculiar to this industry and hence general norms will not show the correct position and more deeper analysis on a case by case is required to ascertain the cause.

2.1.11		The Company has 2 Calciners of capacity 30 MTs. and one Calciner with 13 Mts. capacity totaling to 73 Mts. of production. But the Digester capacity is only from 55 MTs. to 60 Mts. when the calciners are working at maximum capacity there is maximum fuel efficiency. However, the shortage of input (feed shortage) puts restriction on this usage of calciner and the same cannot be worked at maximum efficiency. During the period covered under audit all three calciners were working and as a result of which fuel consumption had increased.
2.1.12		Loading and unloading and conveyance contribute a portion of the handling/grinding loss. Also the bulk density of the material supplied also decides the extent of this loss.
2.1.13		The Company's policy then was to produce sulphuric acid for captive consumption and not for sale. Now this policy has been changed and we are proposing to treat this sulphuric acid plant as a separate profit centre and inhouse market study is undertaken to identify buyers. The company has expected to start selling from August 2011 onwards.
2.1.14		As observed in the Audit, working of Sulphuric Acid Plant and TiO2 Plant can never be synchronized. Both are independent plants but the benefit of operating sulphuric acid plant is derived from the on line steam generated from it. If the company regulate acid plant in tune with TiO2 production

			it will seriously affect the life of the Sulphuric Acid Plant. Alternatively the TiO2 plant needs steam uninterruptedly for digesters, concentration tanks, precipitation tank etc. If there is any maintenance work carried out in any of these tank or the steam line, the steam produced from the acid plant cannot be used effectively and it will normally vent out steam by condensing the same and using the condensate as boiler feed water. The steam produced from Acid Plant is captively used in the plant itself for running the turbine and keeping sulphur in molten condition. The captive use of steam is a valuable saving to the Company as the boiler use comes down leading to saving in fuel cost.
	2.1.15 to 2.1.18		The incoming supply of TTP was 11KV at the time of commencement of the factory and Contract Demand (CD) at the time was 6500KVA. In the year 1983, it was decided to reduce the CD to 5000KVA and requested KSEB for the same. It took nearly four years to materialize this decision and in the year 1987 the CD was reduced to 5000KVA. The issue of Water Pollution was raised long years back and so many studies were conducted by the TTP for a Neutralization Plant. In view of this circumstance, the company was compelled to maintain the CD at the present value of 5000KVA. Presently the work of Neutralization Plant is going on and the Project Department is processing to enhance the CD to 8000KVA.

Even though it has a tendency of increasing RMD along with increasing the production in some cases there will be some variations in the RMD due to so many reasons such as achieving the targets by continuously working the machines irrespective of periods compensating the down times etc. The table given below shows this variation.

Sl. No.	Month	Production	RMD
1	March 2004	1783	4260
2	August 2005	1727	4140
3	July 2006	1562	4000
4	October 2007	1890	3990

Maximum Demand also depends on the Power Factor (PF) of the system. When the system Power Factor improves the Maximum Demand (RMD) will have tendency to reduce. For the last few years PF of the system has been improved considerably providing adequate number of Capacitors in the HT and LT substations. The details are given below:

Sl. No.	Year	Production	PF
1	2000-01	14624	0.88
2	2001-02	1331	0.87
3	2002-03	11117	0.90

4	2003-04	16249	0.88
5	2004-05	18359	0.90
6	2005-06	17111	0.94
7	2006-07	15767	0.98

Once the company reduce the CD from 5000KVA to 4000KVA it will not be quite easier to reinstall to the original position of 5000KVA and the company would have to pay penal charges for the quantity over and above 4000KVA as per contract. That is why the Company has maintained the CD as 5000KVA.

Also it may please be noted that the machinery in TTP is very old and outdated and hence power consumption will be relatively more. Eventhough there is surplus staff, they will be relating to different departments and hence the factor of absenteeism also cannot be ruled out as a reason for poor power load management.

2.1.16

The Company draws up the actual cost of variable and fixed portion by suitably modifying the actual total cost. Hence the cost taken for pricing is very accurate and correct.

The cost records only give the previous year's prices and compared to that the system followed by the Company for fixing the price is more accurate.

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2.1.17			The reason for not achieving the budgeted sales target was due to the fall in demand on account of lower international prices and lower pricing by our competitor M/s. Kilburn Chemicals. Also the steep reduction in import duties resulted in cheap imports from China and TTPL had to compete with multinational Companies in the market front. At the time of takeover of sales from M/s. KSIPTC Ltd., during March 2003, TTPL had a sales net work of 34 Stockists on the roll, who had executed agreement with M/s. KSIPTC Ltd., our former sole selling Agents. TTPL sells a major portion of its products through Stockists in different regions. The market is highly competitive due to import of high quality Coated Rutile from Multinational companies, availability of Coated Rutile products of M/s. KMML and cheap imports of Anatase and, Rutile grade, Titanium Dioxide pigment, from China. The wide price difference of the company's Anatase grade product and the Chinese product and the products of M/s Kilburn Chemicals also made the market conditions so competitive. Such a competitive market situation has affected the overall sales of the Stockists and the nil off-take of certain Stockists. Though the company has issued warning letters and showcause notices and discussed the issue in the Annual Stockists' Meetings they put forth their difficulties to compete with the prices of the company's competitors.

Further they have specifically stated that the quality of the products of the company's competitors have been enhanced with better Lab values and brightness. In the circumstances, the off-take of majority of the Stockists was rather low and of certain Stockists nil. This issue was periodically discussed in the Titanium Management Council (TMC) and position reviewed in the Sales Promotion Committees.

On reviewing the performance of the 34 Stockists earlier, it was noticed that only seven Stockists were able to lift the material as stipulated in the agreement, other Stockists had lesser off-takes, whereas 8 Stockists had not lifted any material during the period from April 2002 to March 2003. Accordingly the company had issued letters during May 2003 to all the stockists directing them to improve their off-take performance before renewal of their agreement directly with TTPL. Subsequently the company had terminated the following stockists in June 2003 since they did not show any improvement in their performance.

1. M/s. Bharat Sales Corporation, New Delhi
2. M/s. Indian Chemical Corporation, Mumbai

In this connection, it may be noted that most of the company's Stockists had been promoting products for the past several decades and therefore they have a vast experience in company's business field and in the distribution of company's products. However, due to the influx of cheap imports as well as liberal credit facilities offered by the company's domestic competitors, these Stockists were facing tough competition in pushing up company's sales. In case, the company terminate their agreement forthwith, citing poor performance, the company will be unrepresented in major consumption centres with Stockists having established business background, which will in turn affect the company's business in the long run. Further, we have to refund their Security Deposits which the company use as the company's working capital now.

It may be further noted that as per Clause (2) of the Minutes of the meeting of the TMC dated 03/11/2003, the company had released advertisement in regional newspapers covering 13 States calling for applications for appointment as Stockists in unrepresented areas/States in January 2004. Pursuant to the said proceedings, the company had appointed the following firms also as the company's Stockists.

M/s Arihant Traders, Raipur (CG)

" Sita Paints (P) Ltd., Goa

" Harsh Rutile (P) Ltd., Indore (MP)

" Vyas Rasayan (P) Ltd., New Delhi

" Micropoly Industrial Products (P) Ltd., Salem (TN)

" Chowdhry Rubber & Chemical Co., New Delhi

" Ashoka Enterprises, Bangalore

" Prem Colour Chem (P) Ltd., New Delhi

" Solvo Industries, Pune

Though the company has added the above new Stockists to our sales net work, we find that their off-take is rather very nominal or nil right from the beginning as they cannot compete in the market and build up business. The performance of the above new Stockists has been rather poor due to their lack of experience too in the trading of Titanium Dioxide.

However, the Sales Promotion Committee vide Minutes dated 27/07/2006 have decided to issue legal termination notice to the following Stockists due to their poor performance (zero off-take) in the marketing our products during the last 1½ years.

		1. M/s Aakruti Chemicals, Mumbai 2. " Amol Chemical Industries, Ahmedabad 3. " Chemitex Enterprises, Mumbai 4. " Kanam Rubber Co. , New Delhi 5. " Pioneer Industrial Enterprises, Surat 6. " Saraf Trading Company, Kolkata From the above it can be seen that the Company has taken all measures for maintaining an effective marketing and pricing strategy. In view of the explanations the company requests that the audit query may be dropped.
2.1.19		The highly competitive business background in the Globalised economy and the threats and crisis faced by the TTPL, with the piling up of huge volume of accumulated stock have been explained in the earlier paragraphs. It may be noted that the company's competitors were offering liberal credit facility ie., free of interest, at a much lower selling price as well and in this context, Managing Director had issued revised credit Policy vide MD's Order dated 12/03/2004, by which the stipulation of maximum credit limit of Rs.50 Lakhs

was withdrawn and stockists were allowed credit against post dated cheques/undated cheques, as per previous practice, based on decision in individual cases with the approval. The liberal credit systems prevailing in the market both in the domestic as well as international business were pointed out by the stockists in the Annual Stockists Meetings held in the year 2003-04, 2004-05 & 2005-06 and the reports of the Stockists Meet were also placed and position apprised before the Board of Directors. Against this business background, TTP L was forced to allow credit facility to stockists in accordance with the sales policy announced by the Managing Director vide MD's Order dated 12/01/2004. The said MD's order further stipulates that credits will normally be 45 days with a deduction of ½ % in trade discount and further that an interest @ ¼ % will be charged for every week or part thereof for the credit period over and above thirty days and limits the interest rate to a maximum of 1 % per month in accordance with the current policy. Accordingly, TTPL is realising interests for the credits at the rate of 12 % per annum from the Stockists.

The company is taking all possible steps to bring down the credit limits of the Stockists and the company was able to succeed in this process as evidenced from the figures that the outstanding debit balance of the Stockists of around

10 Crores during 2004-05 was brought down to around 1 Crore by 31st December 2006, in spite of the constraints in the highly competitive business, against a business turnover of around Rs.130 Crores in 2005-06.

As per MD's Order dated 12/01/2004 regarding credit policy, the stipulation of maximum credit limit imposed vide MD's Order dated 31/12/2004 in respect of Stockists who have executed Bank Guarantee ie., Bank Guarantee amount plus 50% of the Bank Guarantee amount and the stipulation of maximum credit limit of Rs.50 Lakhs had been withdrawn in the interest of business promotion. Accordingly, the Stockists were allowed credit against Post dated/undated cheques as per the previous practice, based on the decision in individual cases with the approval. In the case of Stockists, who avail credit against Post Dated/undated cheques without Bank Guarantee also, the stipulation of maximum permissible credit limit of Rs.30 Lakhs was withdrawn and credit be given based on decision on individual cases with approval as per the said order. Subsequently, the Sales Promotion Committee, decided that the credit limit may be regulated to 25 Lakhs vide minutes dated 09/09/2005.

While so, M/s. Sita Paints Pvt. Ltd., our Stockist, who had been lifting material from the company placed an order for 54 MTs on credit against security cheques. It may be noted that out of 39 Stockists as on April 2006 only 19 stockists were lifting material then and others were dormant for quite long period without offering any business to the company due to the constraints in the market. The company had also apprehensions that the company might miss the bulk export order from M/s Itochu Corporation USA, to whom the company had exported 4709 MTs during 2005-06, as in the course of negotiations held at that time they had given the hint that the company's prices are not competitive to continue business with the company. In fact they could procure material at a price of US$1,230/- per MT from the company's domestic competitors whereas the company's offered price was US$ 1,300/- per MT for 6 months and the company missed their export order altogether on account of higher price. Hence it was inevitable that the company strengthen their domestic market on any account. In this context, there was no other option for the company but to encourage Stockists who had shown business interest with TTPL. Against this background, Managing Director ordered to allow them credit as the sales was rather low in the market conditions prevailing then. In this connection, it may be noted that M/s. Sita Paints Pvt. Ltd. had a credit balance of Rs.45,103/- with TTPL as on the date of placing orders for 54 MTs ie., as on 12/05/2006. Accordingly, as directed by MD, credit was allowed to M/s. Sita Paints Pvt. Ltd., for an off-take of 54 MTs. It may be noted that this credit

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was allowed, against security cheques, in accordance with the credit policy announced by the company vide MD's Administrative Order dated 12/01/2004, though subsequently it was decided that the credit may be regulated, wherever feasible, to 25 Lakhs in the Sales Promotion Committee vide minutes dated 09/09/2005. Managing Director has the authority to take commercial decisions and allow special sanctions on credits in the overall business interests of the organisation. In this case, the decision was in line with the MD's order dated 12/01/2004.

On bouncing of the cheque issued by M/s Sita Paints Pvt. Ltd., the Company has filed Criminal Case No. ST 1909/06 and ST 1930/06 against the said company and the amount has been collected from the party.

Further there was no other option when the company's competitors are offering liberal credits and this being an accepted commercial condition in all business, in the current business scenario.

It may be noted that as mentioned in the opening Para of the audit query, the company has taken required Security deposits/Bank guarantee, as envisaged in the agreement clause, from all the Stockists at the time of appointment.

In view of the explanations the company request that the audit query may be dropped.

	2.1.20		During 2003-04 all the 33 stockists lifted material. In fact, at that time, TTPL was successful in imposing provisional Antidumping duty vide notification dated 6th June 2003, which helped the Industry to curtail imports and increase the market share of products in the domestic market. Subsequently, while issuing final orders of Antidumping by authorities vide notification dated 9th April 2004 the duty was restructured and accordingly there was hardly any impact of Anti dumping duty being implemented. TTPL had entered into agreements with majority of our Stockists for more than thirty years and at that point of time the company had enjoyed a monopoly in the market. From the initial stage itself, TTPL specified in the agreement that the Stockists shall lift a minimum quantity, as in the case of any other business agreement so as to maintain business and the Stockists were able to lift the minimum required quantity at that time as there was heavy demand for the company's product in the domestic market. In the wake of the Globalisation and liberalisation of economy the import duty was reduced

periodically from 136 % to the present level of 12.5% which resulted in cheap imports and TTPL had to compete with the multinational companies in the market front. The prevailing market conditions during the years 2004-05 & 2005-06 due to large scale imports of Anatase grade from various countries, especially cheap imports from China at much wider price difference, change over to high quality coated Rutile grade either imported or using the product of M/s KMML by Major Paint Companies, so as to maintain world class standards for their products, domestic competition from M/s Kilburn Chemicals & M/s. Colmac Chemicals at much lower price difference was the basic factors prevailing in the market. The import landed price of Chinese Anatase grade pigment are ranging from US$ 980/- per MT to US$ 1,060/- per MT during 2004-05 and US$1,058/- to US$ 1,143/- per MT during 2005-06. However, TTPL had been persuading the Stockists to lift maximum of quantity of material but the Stockists in turn expressed their difficulty in competing in the market and sell our products at a higher price difference. In this business background, the company were not able to enforce the minimum off-take condition and compel them to lift the required quantity specified in the agreement, as the company's cost of production was comparatively high and consequently their prices were not competitive in the market. While so, TTPL had issued caution, warning letters etc. to the Stockists to put their best efforts to improve sales. The other option would be to terminate their Stockistship whereby the company will lose the representation of experienced Stockists in many business centres. The company's attempt to strengthen the Stockist's representation in unrepresented areas and addition of more stockists in potential areas as per the decision of the Board of Directors vide minutes dated 05/12/2001 also did not yield much of result as most of the newly appointed Stockists could not bring about any substantial increase in business and their off-take was negligible as they were not able to compete in the market with our domestic competitor's price and the cheap imports from China. So also, against the above background, it would not have been a feasible proportion to invest heavily in direct selling by developing infrastructure like Godown facility in different States, appointing Regional Sales Managers, and offices, which might add only over head expenses when the company was not in a position to maintain a competitive prices in the market and especially when outsourcing is accepted as an inevitable business strategy in the current business scenario so as to be cost effective.

However, some of the major stockists could maintain the business as they had the potential to invest money and could avail discount at higher slab and share the higher discount with the customers so as to keep the price lower to the possible extent.

As part of business development activities, the company used to participate in the IPA Conferences, Indian Small Scale Paint Industries Conferences which are represented by majority of their Customers, prospective customers including Overseas Customers, and utilised all possible avenues for making technical presentations of our products and its varied range of applications etc. The company also participated in major exhibitions of National level. The company's customer support systems were made effective and always made available and their technical officers were deputed to various industries to sort out their issues and maintain customer satisfaction to the utmost level. The company's marketing officials also were deputed to meet important and all major customers, hold discussions with them to ascertain the feasibility of long term business contracts. The company had also organised Customer meets at various regions so as to get their direct feed back and promote business and further monitor business. The wide gap in the selling price and the liberal credit terms of the company's competitors, in fact, affected market share of the company.

In the above circumstances, TTPL had an accumulated stock of 3189 MTs in March 2005 eventhough the total sales for the year 2004-05 was 16,524 MTs. Since TTPL was not in a position to increase the domestic market share in spite of all efforts due to cheap imports and price difference in the market the Board of Directors vide minutes dated 02/05/2002 & 05/08/2002 decided to explore the possibility of exports. The Board of Directors also vide minutes No.312/6/2002-03 dated 18/12/2002 decided to attempt export in a more aggressive way as an effort to reduce the losses on account of under utilisation of production capacity. The Board of Directors further fixed export targets for 2005-06 at 7500 MTs. It may be noted that TTPL had not missed any domestic order in the business but only the surplus quantity available was exported in the international market; that too on a much higher price difference than the prevailing international prices. The Board of Directors also fixed the export

			pricing policy vide minutes dated 05/08/2002 which was confirmed vide minutes dated 11/03/2005. It may be noted that the company has not incurred any additional loss on exports but could launch the company's products in the international market at a better price especially in the wake of the capacity enhancement Projects, as a long term business strategy. Therefore, the company is of the opinion that the losses reckoned in the audit query are notional and hypothetical as the company had not missed any domestic order due to non-availability of material and made all attempts to boost domestic sales in spite of the high price difference between the competitors. In view of the explanations the company request that the audit query may kindly be dropped.
	2.1.21		The business background under which TTPL had to venture into the Export Market is explained as follows:- (1) Government vide GO (Rt) No. 230/2003/ID dated 07/03/2003, allowed TTPL to market their products directly without routing the same through M/s. KSIPTC Ltd., until further orders. Accordingly, a Marketing Department was formed in TTPL and direct sales started right from 07/03/2003. After the switch over to direct marketing and the formation of

a Sales Promotion Committee headed by the Managing Director as Chairman, Executive Director (Board Member), Finance Controller, Finance Manager & Company Secretary, Finance Manager (Costing), Chief Manager (Mktg. & HR) as members and Dy. Manager (Mktg.) as Convenor, TTPL was able to assess market conditions periodically and review the pricing and sales policies from time to time, taking into account the costing aspects, and the profitability of the Company. The status of the business of the Company was periodically apprised to the Board of Directors as evidenced by various MD's reports presented before the Board.

(2) On account of the impacts of globalization and competitiveness in the market the profitability of the Company during 2001-02, 2002-03, and 2003-04 was reduced to Rupees 592 Lakhs, 528 Lakhs and 118 Lakhs respectively which indicates a steep fall from year to year. During the first quarter of 2003-04, TTPL was compelled to initially reduce the basic price from Rs.63,500/-per MT to the level of Rs. 60,000/- per MT in view of the accumulation of stock to the tune of around 3,000 MTs, which added further erosion in the profitability and there was hardly any profit margin for the company. Moreover, in the budget approved for the year 2004-05, it was specifically envisaged that the basic price of Anatase would be Rs.66,000/- per MT for the whole year. While so, our competitor M/s. Kilburn Chemicals had increased the price of their product and the

price of imported Chinese pigment was also increased by $40/- per MT (approx.). In this context, the company had taken a conscious commercial decision to increase the selling price in August 2004 by Rs.1,500/- per MT for better realization, taking into account the input costs, profitability etc. It may be noted that after takeover of direct marketing, the company was able to pick up sales considerably during the period from April 2004 to July 2004. M/s. KMML had also increased their price during the corresponding period ie., from July 2004 onwards and subsequently from April 2005 onwards. In case, the company had not taken such a prudent decision to increase the selling price and had the company maintained the price at Rs. 64,500/- per MT, the profit for the year would have been seriously affected and entailed in losses to the tune of Rs.132 lacs (approx.) in the year 2004-05 itself. It may please be noted that the export for the year 2003-04 & 2004-05 were only nominal ie., 153 MTs & 1299 MTs respectively whereas the company could achieve a total sales of 18289 MTs & 16524 MTs during 2003-04 & 2004-05 respectively ie., the major portion of the sales was in the domestic market itself, ie., 92.14% in the year 2004-05. It may be noted that attaining 15225 MTs of domestic sales in 2004-05 was an achievement in the competitive business scenario as our domestic sales were only 14,041 MTs, 14,681 MTs, 12,505 MTs, 9,591 MTs during the years 1999-2000, 2000-01, 2001-02, 2002-03 respectively which shows a steep declining trend. Moreover, the Board of

Directors have taken several decisions vide Minutes dated 02/05/2002, 05/08/2002, 17/08/2002, 18/12/2002, 17/03/2003, to venture into export market to establish our brand name in the International market and export target was also fixed every year, so as to tap the potential in the global market, as a long term business strategy, especially in the wake of launching of the proposed expansion programme clubbed with pollution abatement projects. It may be noted that the total domestic requirement/ consumption of Titanium Dioxide in our country including Coated Rutile is estimated to be 2.17% only out of a total global demand of 4.6 million MT (approx.) and therefore no industry with long term business strategy can ignore the potential of the international market for its product. It may be also be noted that the drop in domestic sales was not specifically due to the increase in price, as our competitor M/s. Kilburn Chemicals had also increased their price on account of increase in input costs, though there was wide gap between our price and their price on account of their advantages of lesser cost of production including manpower cost. The company has already mentioned the price increase effected by China in the foregoing Para. It may further be noted that while increasing Rs. 1,500/- per MT in August 2004, the company is offering a monthly trade discount upto 4% in addition to the quarterly discount ranging from 0.5% to 1.5% as per quantity discount scheme. (The Board of Directors had authorized the MD to evolve appropriate discount policies.)

(3) Another major factor for lesser demand for the company's product was that the final orders on anti dumping duty imposed by the Authorities vide order dated 15/03/2004 did not have much of impact as the importers did not have to pay the antidumping duty or need pay only negligible duty as the basic price of US$ 1,227/- per MT fixed including customs duty was too low a base to attract the anti dumping duty. So also, certain importers could circumvent the duty by over invoicing the price and adjusting the price with the suppliers from China. In fact, the input costs and costs of production were increasing substantially viz., Ilmenite, Kerosene, Sulphur etc., as evidenced from the manufacturing costs, for the corresponding period in the financial year 2004-05 as discussed in the SPC, TMC (dated 04/05/2004, 02/07/2004 & 03/08/2004) etc. and accordingly TTPL was forced to increase the price under this circumstance.

(4) The Board of Directors of the company vide Minutes No.314 dated 26/06/2003 had authorized the Managing Director to effect appropriate price increase in a phased manner to regain company's lost margins. The revision in price and the sales aspects were reported to the Board from time to time and discussed in the Board in detail as evidenced from the MD's reports placed before the Board.

(5) In spite of the company's best efforts and even after boosting the sales and setting second all time record sales in the year 2004-05, the

company had an accumulated stock of around [illegible]47 MTs during March 2005 due to achieving high rate of production for operational efficiency. In this context, the company had to venture into export market as directed by the Board of Directors.

(6) While so, the company received an order from M/s Itochu Corporation, USA, which is a Multinational company indicating a requirement of 30,000 MTs per annum. Subsequently, after detailed deliberations, in the Titanium Management Council, the company had decided to offer them 5000 MTs for the period from February 2005 to December 2005. Though the prevalent export price for Anatase grade at that time in TTPL was US$ 1,100/- per MT F.O.B, with commission ranging from 2% to 3%, the Sales Promotion Committee after due deliberations vide minutes dated 01/02/2005 had decided to quote US$ 1,200/- per MT F.O.B with 90 days credit without any commission for the supply of 5000 MTs of Anatase grade from March 2005 to December 2005. There was no intermediary Agent or Trader and the deed was directly with the said company. This was discussed in detail in the TMC vide minutes dated 4th February 2005 and it was decided to proceed further with necessary infrastructure. This pricing was done as per the approved pricing policy evolved by the Board of Directors in respect of exports. Moreover, the Managing Director had a discussion with the Chairman and the Finance Member of the Board of Directors on

02/02/2005 on this specific issue of export to M/s Itochu Corporation as confirmed by Managing Director before sending the offer to M/s Itochu Corporation vide letter No. MD/Mktg./TiO_2/Itochu/361/05 dated 02/02/2005. Apart from the above price realization, without any commission, the company was entitled to DEPB claims @ 6 % to 7% of the F.O.B value from the Directorate of Foreign Trade for the exports undertaken during the period from 2005-06. It may be noted that the Board of Directors have fixed an export target of 7500 MTs (6000 MTs Anatase and 1500 MTs. Rutile) for the financial year 2005-06 in the budget for the respective year and our total export for the period was 6012 MTs. This export includes export made to other countries also apart from the export to M/s Itochu Corporation.

(7) The Managing Director had further reported to the Board vide Agenda Item No. 6, on the 325th Board Meeting held on 11/03/2005, that the Company had received an order from M/s. Itochu Chemicals America Inc., USA for 5,000 MTs of Anatase grade pigment @ USD 1,185/- per MT F.O.B Cochin/Tuticorin to be supplied from March 2005 to December 2005, on an average of 500 MTs per month. The Board was also informed that the Company has been following the guidelines issued by the Board (310th Board Meeting held on 25/08/2002 with regard to fixation of export price. (ie., variable cost of production plus 20% minimum profit margin plus carrying and forwarding charges,

converted into Equivalent US Dollars for minimum F.O.B price). The variable cost of production as assessed at that time was around Rs.40,000/- per MT as reported by the finance department. It is worth mentioning that the prevalent international price of China at that time ie., the average imported landed price in India for the year 2005-06 was reported to be US$ 1,090/- per MT.(CIF rate). Our price was much higher than the rates prevalent in the international market.

(8) M/s. Itochu Corporation, U.S.A., had again called for our quotation for the supply of Anatase Grade pigment for a quantity of 9000 MTs for the year 2006-07, against which we had quoted US$.1,400/- per MT F.O.B. Cochin with LC credit for 30 days from the Bill of Lading date. M/s. Itochu Corporation informed that they had never experienced such a high percentage increase in the past and it was very high even compared with the offers received for 2006 from other suppliers. They also proposed initially US$ 1,275/- per MT F.O.B. Cochin for the period from January to March 2006 and US$ 1,290/- per MT F.O.B. Cochin for the period from April to June 2006 or US$ 1,285/- per MT F.O.B. Cochin for the whole period from January to June 2006. We had offered 5000 MTs of Anatase ISI Grade @ US$ 1,350/- per MT F.O. B. at 90 days credit as decided by the Sales Promotion Committee. Against this, M/s. Itochu Corporation informed that in order to keep the long term relationship they were willing to take only 4000 MTs in 2006 at US$

1,300/- per MT with 90 days credit. In spite of all the company's best efforts, the company lost this valuable customer and the company's competitor from the Private Sector M/s. Kilburn Chemicals, had offered them a much lower price of US$ 1,230/- per MT which was US$ 70/- lesser than the company's final quoted price for 2006-07.

(9) In this connection, it may be noted that the company has not missed any domestic order so far satisfying the specification requirements of the company's customer and the company had put in all our efforts to push maximum sales in the domestic market. The decision to undertake the above export was taken in the above business back ground and in the wake of the company's launching of expansion programmes whereby the production capacity will be increased to 33,000 MTs per Annum and to retain a potential and reputed Multi National Corporation sourcing material from almost 20 countries across the Globe and who has the capacity to absorb about 40,000 MTs of Titanium Dioxide per annum.

It may be further noted that in case the company had not ventured into export the loss would have been much higher for the financial year 2005-06, as evidenced by the cost audit report of the company. It may also please be noted that the company has a method for ascertaining the variable and fixed cost and that the same is computed and pricing decisions are taken on this basis.

ANNEXURE [illegible] AUDIT QUERY NO. 26

EXTRACT OF THE MINUTES OF THE BOARD MEETINGS WITH REGARD TO VENTURING INTO EXPORTS

(a) The Board of Directors in their meeting held on 02/05/2002 itself decided to explore the possibility for exports as is done by M/s. KMML wherein the Chairman suggested that in order to dispose of the huge stock of finished pigment, export could be immediately attempted.

(b) Again, the Board of Directors vide Minute No. 310/9/2002-03 dated 05/08/2002 resolved to follow the export pricing strategy of M/s. KMML viz., variable cost of production plus 20% minimum profit margin plus carrying and forwarding charges, converted into equivalent US dollars for minimum FOB price for export sales.

(c) The Board of Directors in their meeting held on 18/12/2002 discussed the details of export and the export strategy was reviewed vide Minute No. 312/6/2002-03 dated 18/12/2002 and the Chairman stated that in view of the large stock piling of finished goods, export could be attempted in a more aggressive way as an effort to reduce losses on account of under utilization of production capacity.

(d) In the meeting of the Board of Directors held on 17/03/2003, it was apprised by the Managing Director that the company is continuing with its efforts to enter in to export market in a more significant way like M/s. KMML. It was suggested that intensified efforts should be continued so as to achieve at least the budgeted quantity of 500 MTs of export during the fiscal year and that a differential pricing policy could be

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			followed in respect of export sales.
	2.1.22		The system followed in TTPL for purchase is as hereunder:- Formal Contract is entered in to with suppliers by asking the suppliers to sign the duplicate copy of agreement as token of their acceptance of order. Sometimes suppliers are asked to restrict supplies, whenever TTP lowers production. Security Deposit is accepted while finalizing a Contract Order. Some suppliers request TTP to adjust Security Deposit from their first bill. This is allowed to ensure smooth supply. It is to get a uniform price that TTP is asking the suppliers to quote their rate per tonne for delivery at TTP site. This will also help TTP to make a comparative study of prices offered by different suppliers.
	2.1.23 & 2.1.24		The procurement of scrap iron at extra cost was resorted to avoid production loss due to non availability of scrap iron. By and large, the suppliers of scrap iron source their procurement from different parties at varying prices. It will be difficult to procure scrap iron directly from such sources as is being done by scrap traders as some more conversion/cleaning work is to be done on the scrap available from different suppliers.

2.1.25 & 2.1.26		The clause giving benefit to the supplier was changed and corrective action has been taken for the tenders invited from 2002 onwards. In respect of transportation of sulphur from Kochi Refineries Ltd. the company expected to receive nearly 3000MTs Sulphur from KRL in a month and tender was called accordingly by fixing a higher amount of Security Deposit. But the company did not get expected quantity of sulphur from KRL forcing the company to reduce Security Deposit . As the supplies from KRL become uncertain, transporters were not willing for the contract and hence the procurement was delayed. In view of the explanations the company requests that the audit query may be dropped.
2.1.27 to 2.1.30		In TTP's case, being a social issue on account of pollution related problems of the Company and vide Govt. directions by GO.(Ms)No:6/2007/ID dated 15-1-2007 award workers were regularized and they are presently unloading sulphur. As such considering the above aspects introduction of tippers was not resorted to.

The scarcity for major raw materials like ilmenite and sulphur necessitates holding higher inventory level so as to ensure uninterrupted production. TTPL having very old machinery is finding it very difficult to source spares from market as the suppliers are very limited. In order to ensure smooth functioning the company was forced to hold sufficient inventory.

The Company has taken every steps to reduce manpower considerably and retirement vacancies are not filled up from outside except the functional requirements on a need based basis. It may be noted that employees identified as surplus can be redeployed only based on their qualifications and suitability for the post and cannot be randomly posted anywhere. The Board of directors in the 354th meeting held on 27-12-2007 resolved to filled the strength ranging from 750 to 800. A manpower study was conducted by TG Process and Project consultants in 2006 and another by the HoDs of the Company. Based on the findings of these two studies the revised strength was arrived at 757 from the original strength of 1474. Excess manpower identified was redeployed to various positions other than those require technical expertise or skill or professional qualifications. Also the retirement age of Officers was fixed at 58 years as in the case of workmen.

		Overtime is resorted to only in unavoidable circumstances and is strictly monitored. A certain degree of overtime cannot be avoided to ensure continuous working of the plant.
2.1.31		The Company had been paying PCMA to the employees (not covered under the Bonus Act) every year in consideration of the performance in production, profits etc as approved by the Board and subject to ratification of the Government. The payment of Bonus/PCMA for the year 2005-06 was approved by the Board and retified by the Government.
2.1.32		Gift cheque of Rs.2000/- each to all regular employees as on 31/12/2005 were distributed as per the resolution of the Board vide minute No.334/26/2005-06 dated 31/12/2005. This was done as a gesture of goodwill and in appreciation of the record production etc. during the year citing the precedents in this regard. There was no report of financial loss to the Company at that time. It may be noted that production and sales during the period 2004-05 was 18359

		Ts and 16524Ts respectively and the profit thereon for the financial year was Rs.239.16 lakhs. The overall performance of the Company during the past three years upto 2004-05 was very much appreciable enough to announce a suitable gift by the Hon. Minister for Industries to the employees of TTP as a gesture of goodwill and appreciation. As announced by the Hon. Minister during his visit in the Factory on 21/12/2005 the Board of Directors of the Company resolved a resolution to accord sanction for distribution of gift worth Rs.2000/- each to all regular employees on the roll of the Company as on 31st December 2005. In view of the explanations, we request that the audit enquiry may be dropped.
2.1.33		The production incentive system has since been discontinued and at present no such system exists in the Company.

2.1.34 & 2.1.35			1. Techno commercial evaluation was carried out by M/s MECON. All available original files were submitted to the Auditors. 2. Detailed Project Report of FEDO was submitted and the same was returned by Auditors after perusal. Pre-qualification document prepared by M/s MECON was also submitted for Audit and the same was returned. 3. The Government of Kerala in the G.O dated 20/1/2006 referred both Effluent Treatment Project without expansion and Effluent Treatment with explanation. But the Government sanctioned the amount only for Effluent Treatment Project without Expansion and hence the expansion part was not considered at that time. 4. VA Tech Wabag (formerly known as C.T. Enviornment), Switzerland and Chematur Ecoplanning (formerly known as Raumo Ecoplanning), Finland were pre-qualified in 1995 after visiting their installations by the then General Manager and of TTPL. Hence both were qualified by TTPL. VA Tech Wabag further known as Messo AG. 5. Since the L1 for ARP/CRP did not have the proven technology for ARP, the Board decided to float a fresh tender for integrated ETP along with expansion to 20,000 TPD. 6. The report of the committee appointed by <u>State Government</u> was furnished to Auditors by the company and a copy of the same was handed over to them.

7. The Board decision dated 4[illegible]/2002 clearly specified that the Board had noted that the work so far carried out through FEDO with regard to the Project would be very useful for proceeding further with that project and decided that the techno commercial evaluation and finalisation of the tender would be carried out internally by the Project Wing of the Company.

Copy of Relevant Board Decisions dated 4th November 2003 attached as Annexure I.

8. The payment of Rs.10.29 lakhs was made to FEDO against the work they carried out.

9. Out of Rs.256.1 Crores, Rs.40.15 Crores is for debottlenecking.

10. As per the information from M/s. MECON the technology is available. At laboratory scale, we can do the study for suitable mix between 85% acid and the 98% acid. Copies of the agreement with CEP and VA Tech were already furnished to Auditors.

11. The payment to M/s MECON, CEP, AVI Europe and VA Tech Wabag are confirmed. 30% of the contract price was paid as per the contract. The agreement was already handed over to auditors for their perusal.

12. The capacity expansion is envisages in Phase I and Pase II. The Phase I includes 25Ts of coated rutile and 40Ts of Anatase. The Management has decided to obtain the process know-how either from M/s KMML or

			indigenously. 13. The Hon: High Court of Kerala granted extension of time limit for completion of ETP up to December 2008. 14. The company tried their level best to enhance the capacity utilization by debottlenecking operations. The maximum production the company could achieved was 18359 Ts during 2004-05. Technology absorption for production of rutile grade is also in consideration but cannot be successfully implemented in plant scale. 15. FEDOs proposed cost for ETP of Rs.108 crores was for the existing capacity whereas M/s MECONs Effluent Treatment Project includes ETP for expanded capacity of 33,000 TPA production. In view of the explanation the company requests that the audit enquiry may please be dropped.
	2.1.36		TTPL has identified two Mini Hydel Projects (1) Kallar and (2) Peechad. These are recommended by M/s. SILK, which is another PSU under Government of Kerala. TTPL has selected this because there is assured water availability for power generation because it is tail end water. But these type projects were reserved for KSEB. At the same time KSEB has identified other projects where

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	2.1.37 & 2.1.38 & 2.1.39		water availability will be erratic and unpredictable which will become a dead investment for TTPL without any assured water availability. In view of the explanation we request that the audit enquiry may be dropped. As the Investment required for the plant was substantial the Company did not proceed with the same on account of financial constraints. 2.1.38 & 2.1.39 **Internal Control & Internal Audit** The observations of the audit regarding internal control and internal audit are noted for future guidance.

Annexure 9

(Referred to in Paragraph 2.1.7)

Statement showing financial position and Working results of Travancore Titanium Products Limited during 2002-07

(Rupees in crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07 (Provisional)
FINANCIAL POSITION					
Liabilities					
Paid-up capital	1.77	1.77	1.77	1.77	1.77
Reserves & surplus	55.41	57.25	57.32	41.96	40.48
Secured loan	0	0	0	0.39	13.03
Trade dues and current liabilities	55.06	63.75	51.99	49.64	50.51
Deferred tax liability	1.13	0.79	1.53	0.52	0.52
Total	**113.37**	**123.56**	**112.61**	**94.28**	**106.31**
Assets					
Gross block (including other assets)	54.34	54.58	55.17	55.77	56.51
Less depreciation	39.48	41.25	42.93	44.31	45.78
Net fixed assets	14.86	13.33	12.24	11.46	10.73
Capital work in progress	1.44	1.43	5.16	6.50	36.96
Investments	2.43	2.43	2.43	2.43	2.43
Current assets, loans and advances	94.64	103.93	90.28	71.18	53.96
Deferred revenue expenditure	0	2.44	2.50	2.71	2.29
Total	**113.37**	**123.56**	**112.61**	**94.28**	**106.31**
Capital employed	**55.88**	**54.94**	**55.69**	**32.50**	**51.08**
Net worth	**57.18**	**59.02**	**59.00**	**43.73**	**42.25**
WORKING RESULTS					
Income					
Sales (including excise duty)	69.02	128.96	114.91	133.88	119.68
Other income	5.43	3.29	2.02	5.16	2.42
Total		**132.25**	**116.93**	**139.04**	**122.1**
Expenditure					
Consumption of raw materials	17.31	28.03	36.29	36.25	31.55
Consumption of consumable stores	0.90	1.18	1.53	1.79	1.28
Adjustment of stock	(-)12.29	14.79	(-)16.82	18.93	(-) 4.82
Manufacturing and other expenses	65.15	85.08	96.26	96.04	94.10
Depreciation	2.30	1.98	1.78	1.56	1.48
Total	**73.37**	**131.06**	**119.04**	**154.57**	**123.59**
Profit/(loss) for the year[*]	**0.09**	**1.18**	**2.39**	**(15.53)**	**(1.49)**
Less: Non-operating income[#]	4.81	2.34	1.59	3.11	1.21
Operating profit/(loss)[@]	**(4.73)**	**(1.16)**	**0.80**	**(18.63)**	**(2.70)**
Production (MT)	[illegible]	16251	18359	17111	15767
Raw material consumption per MT of TiO2(Rs.)	[illegible]	17251	19768	[illegible]	20011

Notes: Capital employed represents net fixed assets including capital work in progress plus working capital. Net worth represents paid-up capital plus reserves and surplus less intangible assets (excluding deferred revenue expenditure)

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[*] Aggregate loss during 2002-07 (Rs.crore) : 0.09+1.18+2.39-15.53-1.49 = (-) **13.36**

[#] Aggregate non-operating income during 2002-07 (Rs.crore) : **4.81+2.34**+1.59+3.11+1.21 = **13.35**

[@] Aggregate operating loss during 2002-07 (Rs.crore) : -4.72-1.16+**0.80**-18.63-2.70 = (-) **26.41**

Annexure 10

(Referred to in Paragraph 2.1.10)

Statement showing consumption of raw materials and utilities in Travancore Titanium Products Limited for the five years ended 2006-07

Sl No	Year	Prodn. (MT)	Raw material/ Utilities	Standard consumption/MT		Actual consumption/MT	Excess consumption/MT (7-6)	Rate/MT * (Rs)	Value (Rs) (8x9)
				Std.1 +	Std 2 @				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	2002-03	11137	Ilmenite	2.58	2.1090	2.2235	0.1145	3162.18	4032369
			Acid	4.60	4.0400	4.1394	0.0994	3950.91	4373727
			Iron	0.24	0.2131	0.2177	0.0046	8742.85	447897
			Electricity	1547.90	1231.2900	1439.8500	208.5600	3.69	8570883
2	2003-04	16251	Ilmenite	2.58	2.1090	2.1438	0.0348	3179.84	1798310
			Acid	4.60	4.0400	4.1355	0.0955	3792.21	5885398
			Iron	0.24	0.2131	0.2258	0.0127	12623.69	2605271
			Electricity	1547.90	1231.2900	1231.2900	0.0000	3.47	0
3	2004-05	18359	Ilmenite	2.58	2.1090	2.1720	0.0630	3152.94	3646744
			Acid	4.60	4.0400	4.3209	0.2809	3516.04	18132369
			Iron	0.24	0.2131	0.2384	0.0253	17787.43	8261953
			Electricity	1547.90	1231.2900	1231.4300	0.1400	3.71	9535
4	2005-06	17111	Ilmenite	2.58	2.1090	2.1289	0.0199	3488.53	1187875
			Acid	4.60	4.0400	4.2584	0.2184	3985.84	14895253
			Iron	0.24	0.2131	0.2431	0.0300	19324.00	9919588
			Electricity	1547.90	1231.2900	1318.3600	87.0700	3.65	5437970
5	2006-07	15767	Ilmenite	2.58	2.1090	2.0248	0.0000	4060.52	0
			Acid	4.60	4.0400	3.5723	0.0000	3985.84	0
			Iron	0.24	0.2131	0.2408	0.0277	17079.78	7457584
			Electricity	1547.90	1231.2900	1302.5306	71.2406	3.65	4099865
								GRAND TOTAL	**100762590**

* In respect of electricity rate is per Unit.

\+ Fixed by the Company more than twenty years back.

@ Standard achieved in respect of raw materials(2001-02) and electricity(2003-04).

Annexure 11
(Referred to in paragraph 2.1.13)

Statement showing contribution of Sulphuric Acid by Travancore Titanium Products Limited during 2002-06

Sl. No	Particulars	2002-03	2003-04	2004-05	2005-06
1	Installed capacity (MT)	99000	99000	99000	99000
2	Production (MT)	49831	64726	82758	76625
3	Percentage of capacity utilization	50.33	65.38	83.59	77.40
4	Fixed cost (Rs. in crore)	8.21	9.09	9.94	10.34
5	Variable cost (Rs. in crore)	11.48	15.45	19.16	20.27
6	Total (Rs. in crore)	19.69	24.54	29.10	30.61
7	Internal Consumption (MT)	46101	67207	79328	72866
8	Sales (MT)	3494	1675	1508	1908
9	Selling price per MT (Rs.)	812.80	1502.37	1850	2044
10	Installed capacity of TiO2 plant (MT)	24500	24500	24500	24500
11	Actual production of TiO2 (MT)	11137	16251	18359	17111
12	Ratio of production of TiO2 to installed capacity (11÷10)	0.4546	0.6633	0.7493	0.6984
13	Variable cost/MT (Rs)*	2303.79	2386.99	2315.18	2645. 35
14	Credit taken for per MT of steam (Rs.)	1370.24	1485.64	1501.28	1714.69
15	Credit to be reckoned for steam as per sl. no. 12 (Rs.)	622.91	985.43	1124.91	1197.54
16	Net variable cost (Rs.) (11-13)	1680.88	1401.56	1190.27	1447.81
17	Contribution/MT (Rs.) (10-14)	(868.08)	100. 81	659.73	596. 19
18	Surplus capacity (MT) (2-1)	49169	34724	16242	22375
19	Revenue loss (Rs. in crore) (17x18)	-	0.35	1.07	1.33

Note : Figures for 2006-07 were not available

* As per cost records