



**FOURTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2016-2019)**

**SEVENTEENTH REPORT**  
(Presented on 9th March, 2017)

**SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2017**

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**SEVENTEENTH REPORT**

**On**

**Kerala Feeds Limited  
(Based on the Reports of the Comptroller  
and Auditor General of India for the  
years ended 31 March, 2008 and 2011)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

COMPOSITION OF THE COMMITTEE

*Chairman:*

Shri C. Divakaran.

*Members:*

Shri T. A. Ahammed Kabeer

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri S. Rajendran

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Shri P. T. A. Rahim

Shri Raju Abraham

Shri Sunny Joseph

Shri C. F. Thomas

Shri P. Unni.

*Legislature Secretariat:*

Shri V. K. Babu Prakash, Secretary

Smt. P. K. Girija, Additional Secretary

Shri P. B. Suresh Kumar, 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 its behalf, present this Seventeenth Report on Kerala Feeds Limited, based on the Reports of the Comptroller and Auditor General of India for the years ended 31 March, 2008 and 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 23-6-2009 and 23-3-2012 respectively. The reports, besides other things in their findings, brought to light some functional irregularities relating to Kerala Feeds Limited. The Committee, in connection with the perusal of the reports, took notice of the comparability of the audit paragraphs pertaining to 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 2-3-2017.

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

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

Thiruvananthapuram,  
9th March, 2017.

C. DIVAKARAN,  
*Chairman,*  
*Committee on Public Undertakings.*

**REPORT**  
On  
**KERALA FEEDS LIMITED**

**AUDIT PARAGRAPH**

*Financial Management in four selected areas*

We selected twenty Companies from six sectors based on risk analysis for assessing the effectiveness of performance in the following areas pertaining to the period 1 April 2006 to 31 March 2011:

- Deployment of surplus funds
- Disbursement of loans
- Borrowing of funds and
- Payment of taxes and duties

We noticed deficiencies and were of the opinion that they required urgent attention of the Managements of respective Public Sector Undertakings (PSUs).

**Deployment of Funds**

Incorrect selection of financial institutions for deployment of funds, inappropriate duration of term deposits and avoidable deployment of funds in Current Accounts resulted in loss of interest of ₹ 6.57 crore, as discussed further.

**Time Deposits**

*Selection of institution*

Incorrect selection of the institution for deployment of surplus funds in time deposits by the PSU ignoring the rates offered by State Treasury which were better

than what they carried resulted in foregoing of possible revenue of ₹ 8.21 lakh in 23 cases as tabulated below:

| Company | No. of Fixed Deposits (FDs) Instances | Period involved       | Range of FDs (in lakh) | Range of Period of FDs (Days) | Rate of interest (ROI) received (%) | Alternative ROI available at State Treasury (%) | Interest foregone (₹ in Lakh) |
|---------|---------------------------------------|-----------------------|------------------------|-------------------------------|-------------------------------------|---|-------------------------------|
| KFL     | 23                                    | May 2009 to Feb. 2011 | 55.00 to 99.00         | 180                           | 5.50 to 7.00                        | 6.75 to 8.50                                    | 8.21                          |

KFL replied (August 2011) that the Company could not estimate short-term requirement of funds correctly and there were chances of premature closure. The Audit point that these Companies did not beneficially deploy their surplus funds stays, as the Treasury did not discourage premature withdrawals.

### **Current Account Deposits**

#### *Avoidable deployment of funds in Current Accounts*

Heavy accumulation of balance in Current Accounts for long durations was noticed in Kerala Feeds Limited. Companies with unpredictable cash flows can resort to Flexi Fixed Deposits (FFDs) so as to avoid idling of fund in Current accounts and also to earn interest for periods ranging from seven days onwards. FFDs offer the twin advantage of liquidity as well as operational flexibility of Current Accounts coupled with interest returns of Fixed Deposits. All the banking facilities attached to a Current Account like fund transfer methods viz. Real time Gross settlement (RTGS)/National Electronic Funds Transfer (NEFT) and Internet banking features are also available to the FFD account holders without involving any extra charge.

The total amount blocked up in Current Accounts of the Company for various periods ranging from 7 to 1361 days was equivalent to the idling of ₹ 6.74 crore for

one year (*Annexure 18*). This resulted in foregoing of interest income. In the light of the advantages of FFD account, there was a need for these companies to consider availing of this facility.

KFL (August 2011) appreciated (June 2011) the benefits of opening FFD Account and information relating to the progress thereon was awaited (November 2011).

(Audit paragraph 4.9 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2011)

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

1. The Committee enquired about the revenue loss occurred due to the short term deposit of surplus funds in other financial institutions irrespective of the high interest rates offered by Government Treasury and the reason for the delay in opting FFD facilities already offered by banks. The witness replied that the amount intended to be used as working capital was deposited as FFD in SBT and Canara Bank instead of Treasury in view of liquidity and operational facility of current account coupled with Interest of Fixed deposits. He added that there was approval from the Government as per Government order dated 1-4-2003, which stipulated that Fixed Deposit for a period less than 180 days should not be entertained in State Treasury.

2. When enquired about the present position of the Company, the witness replied that the Company got a profit of ₹ 2.5 crore in 2014-2015 and expecting a profit of ₹ 10 crore during 2015-2016 by the installation of new high-tech cattle feed unit in Kozhikode.

### **Conclusions/Recommendations**

3. The Committee went through the reply furnished by the Government with regard to deposit of surplus funds by the Company in financial institution other than the treasury and observed that the Company showed due diligence in handling the funds available. The committee also expresses satisfaction at the present financial position of the Company.



**AUDIT PARAGRAPH****Avoidable revenue loss**

**Failure of the company to revise the prices in consonance with its pricing policy so as to achieve the break even levels resulted in a loss of ₹ 3.68 crore.**

The Company, engaged in the manufacture and sale of compounded cattle feed, follows cost plus pricing policy taking into account the prevailing market price. The Managing Director of the Company had the discretion to effect price adjustments up to five *per cent* of the maximum retail price based on variation in the formulation cost of raw materials.

The average raw material cost during the year 2005-06 was ₹ 5,280 per MT and the price charged by the Company during that period was ₹ 7,600 per MT which was covering both direct cost and overheads. From June 2006 onwards the cost of raw materials showed an increasing trend which reached ₹ 5,911 per MT in August 2006. Up to August 2006 the Company, however, did not initiate any action to revise the price while its competitors increased (August 2006) the price by ₹ 360 per MT. Even though the Company subsequently made (November 2006) a marginal increase in price by ₹ 200 per MT, it continued to incur losses. Until August 2007 the Company effected a total increase in price of ₹ 1,000 per MT when the raw material cost itself showed an increase of ₹ 1,178 per MT. The total price revision made by the competitors during the same period was ₹ 1,260 per MT. The total cash loss incurred by the Company on 1,54,616 MT feed sold from September 2006 to July 2007 was ₹ 3.68 crore as a result of its failure to revise the prices in consonance with its pricing policy so as to achieve the break-even levels.

The Government stated (June 2008) that the Company had to fulfill the social responsibility and consequent to the Government policy of controlling the price of cattle feed, the company could not increase the selling price in tune with the

increase in the raw material cost. The fact remains that neither the action of the Company was in conformity with its pricing policy nor the Government made good the loss.

(Audit paragraph 4.2 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2008)

4. The Committee accepted the reply furnished by Government in this regard.

#### **Conclusions/Recommendations**

5. **The Committee has arrived at the conclusion that the Company's stand was in compliance with the Government policy of controlling the price of Cattle Feed and therefore accepts the reply furnished by the Government in this regard and decides to drop the matter.**

Thiruvananthapuram,  
9th March, 2017.

C. DIVAKARAN,  
Chairman,  
Committee on Public Undertakings.

## APPENDIX - I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

| Sl. No | Para. No. | Department Concerned   | CONCLUSIONS/<br>RECOMMENDATIONS  |
|--------|-----------|------------------------|--|
| (1)    | (2)       | (3)                    | (4)  |
| 1      | 3         | Agriculture Department | The Committee went through the reply furnished by the Government with regard to deposit of surplus funds by the Company in financial institution other than the treasury and observed that the Company showed due diligence in handling the funds available. The committee also expresses satisfaction at the present financial position of the Company. |
| 2      | 5         | Agriculture Department | The Committee has arrived at the conclusion that the Company's stand was in compliance with the Government policy of controlling the price of Cattle Feed and therefore accepts the reply furnished by the Government in this regard and decides to drop the matter.   |

## APPENDIX - II

## NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

| Sl. No. | Audit Paragraph  | Reply Furnished by Government  |
|---------|------------------|--|
| 1       | 4.9<br>(2010-11) | <p>Since December 2011, Company started to utilise the FFD facilities from its bankers SBT, Chalakkudy and Canara Bank, Kallettukara. Due to selection of this facility, the Company got the dual benefit of Liquidity and interest of FD and operational flexibility for its current assets. Utilisation of this facility has increased its interest income. Besides it helps the Company to make use of RTGS/ National Electronic Transfer/Internet Banking available with current Accounts without extra cost.</p> <p>Surplus fund is deposited in institutions which offer higher interest rate by comparing interest on FD offered by Treasury and Banks. Since 1.04.2013 FDs for period less than 180 days were not encouraged in Treasury Saving Banks (G.O. No. 190/03 dt: 31-03-2003). As such Short term surplus funds which are required to be brought back to business within 6 months for working capital requirements are deposited in Banks after ensuring maximum interest by negotiating with the Banks. Company deposits surplus funds for more than 180 days in State treasuries if it offers more interest rates for same duration than banks after ensuring that no penalty is levied in for closure of FDs after 15 days in a Permanent deposit scheme called SBT Flexi max.</p> |

## Annexure 18

Statement showing company-wise details of investible surplus in Current Accounts  
(Referred to in paragraph 4.9)

(₹ in lakhs)

| Sl. No. | Company      | Amount accumulated | Period of accumulation (days) | Equivalent annual accumulation |
|---------|--------------|--------------------|-------------------------------|--------------------------------|
| 1       | KFI          | 0.01 to 826.80     | 7 to 1361                     | 674.25                         |
| 2       | ITI K        | 0.04 to 1229.25    | 7 to 761                      | 641.07                         |
| 3       | KAMCO        | 0.05 to 1093.99    | 7 to 1729                     | 1452.51                        |
| 4       | KEPIP        | 0.01 to 313.07     | 7 to 1729                     | 555.61                         |
| 5       | TRKL         | 0.01 to 228.52     | 7 to 1823                     | 165.51                         |
| 6       | KSIE         | 0.05 to 122.49     | 7 to 1752                     | 425.71                         |
| 7       | KMMI         | 0.04 to 2195.84    | 7 to 923                      | 951.67                         |
| 8       | KSIDC        | 0.01 to 826.80     | 7 to 1727                     | 490.83                         |
| 9       | KLDB         | 0.01 to 87.45      | 7 to 1823                     | 85.56                          |
|         | <b>Total</b> |                    |                               | <b>5442.52</b>                 |

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