FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

TWENTY EIGHTH REPORT

(Presented on 9th March, 2017)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2017

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

TWENTY EIGHTH REPORT

On

Kerala Small Industries Development Corporation Limited

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2012)

373/2017.

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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

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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 Twenty Eighth Report on Kerala Small Industries Development Corporation Limited, based on the report of the Comptroller and Auditor General of India for the year ended 31 March, 2012 relating to the Public Sector Undertakings of the State of Kerala.

The report of the Comptroller and Auditor General of India for the year ended on 31st March, 2012 was laid on the Table of the House on 18-2-2013. 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 places 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 Industries Department of the Government Secretariat and the Kerala Small Industries Development Corporation Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government, Industries and Finance Departments and the officials of the Kerala Small Industries Development Corporation Limited who appeared for evidence and assisted the Committee by placing their views before it.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
9th March, 2017.

REPORT

ON

KERALA SMALL INDUSTRIES DEVELOPMENT CORPORATION LTD. (SIDCO)

AUDIT PARAGRAPH **4.4. (2011-12)**

Role of Kerala SIDCO as a facilitator of Small Scale Industries in Kerala

Kerala Small Industries Development Corporation Limited (Company) was incorporated (November 1975)[18] with the objectives of protecting and promoting the interest of Small Scale Industries (SSIs) in the State. The major restricting factors[19] of Micro/Small Enterprises (MSEs) in Kerala were lack of demand for their products/deficient marketing and shortage of working capital. The activities pertaining to facilitation of MSEs were carried out by Industrial Estate/Park Division, Raw Material Division and Marketing Division of the Company. These three Divisions together contributed approximately 89 per cent of total turnover. We analysed the performance of these Divisions to asses the role of the Company as a facilitator of MSEs in the State. The major findings are discussed in the succeeding paragraphs.

Infrastructure support to Small Scale Industries

Industrial Estate (IE) Industrial Park (IP) Division of the Company is responsible for providing infrastructure support to MSEs. The support is provided in two forms, Industrial Estates with all infrastructure facilities and Industrial parks where only plots are allotted. Total area of Estates and Parks was 322.348 acres of which 258.32 acres (220.43 acres in IEs and 37.89 acres in IPs) were allotted to 1374 units till March 2012.

Industrial Estate Division

The Government of Kerala transferred (March 1975) seventeen IEs and 36 mini IEs to the Company. Sheds/land in IEs were allotted to prospective entrepreneurs on lease[20] /hire purchase basis. In accordance with the amendment (1971) to the Rules for allotment by Government to encourage the small scale industrialists and enable them to become the owners of factory sheds occupied by them in industrial estates, the Company gradually shifted (February 1996) from allotment of shed/land on lease basis to Outright Sale basis (ORS). During the period up to

18 Company was originally incorporated as Kerala State Small Industries Development and Employment Corporation Ltd. to which the erstwhile Kerala State Small Industries Corporation Ltd. Was amalgamated (March 1977).

19 As per MSME Census (2007) of Ministry of Micro, Small and Medium Enterprises, GOI.

20 Leas rent fixed based on cost of land and development expenses. Amount is payable monthly.

March 2012, out of the allotted 220.43 acres of land, the Company sold off 215.35 acres of land under ORS scheme to 1158 units. Currently, the Company's role is limited to management of the remaining 5.08 acres of land on lease under the possession of lessees for which it incurs an annual establishment expenditure of ₹ 1.01 crore (March 2012). The Company should take measures to reduce this unproductive expenditure.

Issues in transfer of ownership

Outright sale of sheds/land

Consequent to enhancement of land value by Government (April 1994), the Company fixed (February 1996) the price for land on hire purchase/ORS. The Government, based on the recommendations of One Man Commission (November 2001) decided (January 2003) to fix ORS value of land/shed considering the cost of land as on 1 April 1975 plus value addition @ six per cent per annum from April 1975 to the date of assignment less 75 per cent of lease rent paid.

Subsequently, the Government decided (May 2005) to give remission of 75 per cent of rent paid before adding six per cent for value addition. But a final decision to accept this formula was taken only in January 2011. Adoption of this formula was against Rule 8 of Rules of Assignment of Government land for industrial purpose for fixing land value[21]. We noticed that in case of 91 allotments (2005-2009), 38 lessees got the lease hold property at nil value and 53 lessees at nominal value consequent to which the company suffered loss to the extent of ₹ 1.69 crore.

In line with enhancement of land value by Government in 1994, the Company revised the lease rent of sheds/land from April 1996. However, the Monitoring Committee appointed (May 2005) by the Government decided to realise lease rent at the rate applicable at the time of application for ORS (i.e. 31 January 1996) and accordingly the Company waived (March 2007) rent arrears amounting to ₹ 1.83 crore. As the lease rent was revised based on the enhancement in value of land, realisation of rent at pre-revised rates lacked justification and resulted in loss of ₹ 1.83 crore to the Company.

21 Land value to include interest @ six per cent per annum upto date of assignment.

Outright sale based on fair value

The Company started (February 1996) allowing ORS based on fair value fixed by revenue authorities. We noticed that the Company did not get the fair value[22] refixed periodically. In two out of 17 estates test checked, there was delay upto 12 years in revising fair value and allotments were made at the last available rates which were far below the prevalent fair value. However, as the fair value as on the date of allotment was not available, total loss on this account could not be quantified. In one instance where fair value was revised after one month of allotment, the loss worked out to ₹ 16.01 lakh.

Transfer policy promoting sale of industrial land

Consequent on change in policy from allotment of sheds/land on lease basis to ORS, the Company sold (1996 to 2012) 95.86 per cent of the allotable area in the Estates. Unprecedented appreciation in land value encouraged many of the ORS allottees to make profit from sale of land instead of using it for industrial activity. Outright Purchase Rules 1996, provided [Rule 16(b)] for transfer of shed/land after remitting the difference between the current fair value and value already remitted to the Company. The Company relaxed (November 2009) the rule by allowing transfer without remitting the differential amount. We observed that this relaxation paved way for large scale transfer of land/shed as was evident from the transfer of 137 units during the period from January 2010 to April 2012 as against 17 units from January 2007 to December 2009. In respect of 49 units test checked, the difference between fair value (which was far below the market value) as at the date of transfer and the ORS value realised was ₹ 5.90 crore which could have been earned by the Company, had the transfer allotment policy not been liberalised.

One of the beneficiaries of the liberalised transfer allotment policy was a Director of the Board to whom the company allotted (May 2010) a unit at Karunagappally estate. This unit was subsequently transfer allotted (October 2010) based on his request (July 2010). The land included in the transaction was

22 Value fixed Revenue Authorities

worth ₹ 31.68 lakh against the original ORS value (April 2003) of ₹ 2.54 lakh. The Director did not bring this to the notice of the Board of Directors as required under section 299(1) of the Companies Act, 1956 for which he was liable to vacate the Office of the Director under section 283 (1)(i) of the Act. The transfer allotment was hence voidable at the option of the Company under section 297 (5) of the said Act.

The Company stated (August 2012) that the liberalisation in respect of the amount to be collected from the transfer allottees was based on the complaints received from the industrialists. The reply was not correct as the Company had no mechanism to ensure that the concession was passed on to the transferee with the objective to protect and promote the interests of MSEs. The concession was passed on to the transferor besides the loss to the Company.

Failure to ensure compliance of conditions of allotment

As per Rules 5(e) and 6(a) of Rules of Allotment of the Company, shed/land allotted should not be transferred without prior permission and the Company had the power to resume the property if the unit became defunct/utilised for other purposes/transferred unauthorisedly.

We observed :

- The Company allowed transfer allotment[23] of 14 defunct units and six unauthorisedly transferred units instead of resuming those units. Based on fair value, the Company sustained a loss of ₹ 1.66 crore.
- In three estates visited, three allottees had not started business (for periods upto 32 years), 16 units remained idle for more than one year and six units were utilised for non-industrial purposes. The Company, however, did not initiate action to resume possession in case of 24 units (March 2012)
- The Company deleted (June 2009) the condition in the sale deed that the Rules of allotment of the Company will form its part. This enabled the purchaser to transfer the shed/land without permission of the Company and utilise it even for non-industrial purpose.

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23 Transfer by the original allottee to another person.

The Company stated that transfer allotment was allowed to units which became sick due to unforeseen reasons and it could revive considerable number of idling units. The reply of the Company is not acceptable as the action of the Company was contrary to the Rules of Allotment. The Company should have resumed these units and allotted afresh to eligible entrepreneurs and prevented the transferor making undue advantage.

Diversion of sales proceeds

During the period 2007-2012, the Company realised an amount of ₹ 6.48 crore from outright sale of industrial sheds/land. We observed that the Company utilised the sales proceeds for working capital requirements consisting of pay and allowance and other revenue expenses instead of acquiring and developing new estates for further promotion of industrialisation. In the absence of any new projects, the Company has abysmal role in the field of development of infrastructure for MSEs.

Industrial Park

In Industrial Parks, vacant plots are allotted to prospective entrepreneurs on 90 years lease basis realising lease premium[24]. Lease premium was fixed based on auction. The Company had seven Industrial Parks covering an area of 45.82 acres of which 37.89 acres had been allotted to 152 units since 2003-04 leaving 0.37 acre.

As per Rule 9 (h) of Rules for Allotment of land in industrial parks, production was to commence within a period of two years from the date of agreement. Further, Rule 10 (a) provided for termination of agreement and resumption of land if positive action was not taken to start the industry within two years of allotment.

We observed :

- In four parks[25], 82 plots covering an area of 8.49 acres were idling and production was not commenced for periods ranging from two to six years.

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24 Sixty per cent of lease premium is collected upfront and balance 40 per cent in two yearly installments. Token yearly rent of Re.1/-cent is also collected.

25 Angamaly, Shornur, Moodadi and Chelakkara

In six parks[26], with regard to 49 plots covering an area of 5.10 acres, only construction works were in progress/not completed even after one to eight years of allotment. Inaction on the part of the Company in resuming the idle plots as per Rules led to poor development of industrial parks. The Company assured (August 2012) to resume the idle plots immediately.

- Transfer allotment was not allowed within a period of 10 years. But, this period was reduced to 5 years (May 2010), 2 years (November 2010) and finally to one year (January 2011) thus enabling allottees to transfer the plots immediately after acquisition and make profit there from instead of setting up industrial units.
- Spot visit at IP Angamaly revealed that there was lack of infrastructure like boundary wall and common water supply. Two candle marketing units were allotted 59.24 cents of which one was used as shuttle court and parking area and the sheds were kept idle for long periods. It was also noticed that auction had not been conducted since August 2009 and land was being allotted at the rate fixed in 2009.

Transfer allotment policy adopted by the Company encouraged ingenuine entrepreneurs to make profit from sale of land rather than promoting industrial activity. Non-resumption of idle sheds/land and allotment to new entrepreneurs defeated the purpose of allotment. The Company did not have any policy regarding development of new estates. Non-utilisation of sale proceeds from outright sale for acquisition and development of new industrial estates led to non-achievement of objective of facilitating industrialisation in rural and backward areas.

Raw material Support

Raw material division was formed for procurement and distribution of raw materials required for Small Scale units when there was scarcity of materials. The proportion of turnover of the Division to total turnover of the Company declined from 95 per cent in 1994-95 to 55.38 per cent in 2008-09. The Division incurred net loss during the period 2007-2011.

The sales mix of the Division during the period 2007-2011 comprised mainly wax (47.26 per cent), bitumen (25.95 per cent) and iron & steel (24.66 per cent). Wax and iron & steel were the only items that were in demand from the Small

26 Angamlay, Shornur, Moodadi, chelakkara, Thiruvarpu and Athani.

Industries Sector. About 38 per cent of the turnover of the Division was from sale to non-MSE Sector. We observed that the Division supplied raw materials to only 1.24 per cent of the total MSEs in Kerala and served only two industries viz. candle and iron & steel out of a total of about 747 types of small industries operating in the State. Despite incurring establishment – expenditure of ₹ 1.50 crore (approximate) per annum, service rendered by the Division was minimal on the sector of the State.

A detailed analysis of the items dealt with by the Division revealed the following.

Wax

Paraffin wax is the major raw material required for the candle industry and the main source of wax is Chennai Petroleum Corporation Ltd. (CPCL). After removal of quota restrictions, consumers directly procured wax from CPCL which was affordable only for larger units and based on the request of the Company, CPCL agreed (September 2008) to supply a minimum quantity of 300 MT per month based on the availability of wax to the Company for equitable distribution to units in Kerala. It was observed that of the 6000 units in Kerala, the Company could cater to the requirements of only 450 units. We further noticed that about 57 per cent of sale of wax by Ernakulam Depot during October 2008 to March 2012 was to three units of a single owner, a major consumer/importer/distributor of wax. The average monthly purchase by these units was 61700 kg as against 50 to 3000kg by any single MSE.

The Company also supplied wax to these units at concessional rate excluding employee cost and other indirect expenses. This resulted in passing on undue benefit of ₹ 28.90 lakh during 2008-2012.

The Company stated that the supply of wax to these units was to avoid parallel trading by them to other small units. The reply was not acceptable as the supply of wax to trading units was detrimental to the smaller units as the Company curtailed the supply to them to cater to the requirements of the trading units in full. The Company further justified the concession given to the units stating that they were also MSEs and were remitting the price in advance. The reply was not correct as the advance payment was compensated by granting special discount of ₹ 600/MT.

Iron & Steel

Small Scale Industry Co-ordination and Review Committee allocates iron & steel items to Small Scale Industries Corporations for supply to MSEs as per demand raised by them and allows a rebate (for meeting handling charges) of ₹ 500 MT for quantity lifted so that raw materials would be delivered at the site of MSEs. In addition to this, the Company procures iron & steel items from local traders mainly to cater to the needs of State PSUs.

During 2007-2012, the Company procured only 8336.80 MT (21.33 per cent) out of 39092 MT offered by the manufacturers. In this connection we observed the following:

- The Company could cater to the needs of only 36 units (3.29 per cent) during 2009-2012 due to low demand though there was 1093 registered iron & steel units in the State.
- Trading of iron & steel items sourced from private traders increased from 629.07 MT in 2008-09 to 1101.64 MT in 2011-12 whereas sale to MSEs decreased from 3075.77 MT to 1240.33 MT (81.75 per cent to 48 per cent of total turnover) during the corresponding period. The company thus acted merely as a trading agent of local suppliers and not as a facilitator of Small Scale Industry.
- Sale to MSEs located in Ernakulam (of which 71.64 per cent of sales were to two MSEs) and Thrissur districts alone contributed to 83.59 per cent of the turnover during the period 2008-2011. The Company did not serve any of the units in other eight districts where they had raw material depots.
- The Company received ₹ 41.16 lakh during 2007-2012 towards nominal handling charges for supply of steel materials at the doorsteps of MSEs. The Company, however, neither passed on the same nor delivered the material at their site.

The Company stated that with decontrol there was free availability of raw material in the market and that it was not able to stock in bulk and sell it at competitive prices due to fund constraints. It was further stated that it was giving discount of ₹ 200/MT from the rebate received. We observed that this discount was passed on only from February 2012.

Bitumen

Though bitumen was not required by MSEs, sale of bitumen constituted 25.55 per cent of the turnover of the Division during the period 2007-2011. During the said period, the Company traded in 12827.57 MT of bitumen valued at ₹ 42.21 crore. The Company procured bitumen from petroleum companies[27] and supplied to Local Self Government Departments (LSGDs). The margin of the Company was the discount ranging from ₹ 172 to ₹ 1000/MT (net of loading charges) allowed by Petroleum Companies.

The Company did not take advantage of the higher discount offered by MRPL as compared to BPCL/HPCL for purchases meant for four northern districts[28] leading to loss of ₹ 18.40 lakh (up to January 2012).

The Company stated (August 2012) that there were restrictions to purchase from MRPL because of the preference for BPCL bitumen among customers and non-availability of trucks at Kasargod. The reply was not factually correct as the purchase from MRPL registered an increase of 816 per cent during 2011-12 compared to 2010-11 and contractor was engaged for transportation of bitumen all over Kerala.

The Division served only 1.24 per cent of the total MSEs in Kerala despite incurring huge establishment expenditure. In the post liberalisation period, availability of raw material was not a constraint for MSE Sector and hence a dedicated Division for extending raw material support to MSEs has lost relevance.

Marketing Support

Marketing support to MSEs is extended through the Marketing Division of the Company. The performance of the Division during the period 2007-2011 showed that the Division was making gross profit in the range of 8.67 per cent to 9.96 per cent and net profit in the range of 1.22 per cent to 2.57 per cent.

Product-wise analysis of turnover showed that 72 per cent of turnover was from supply of furniture to Government departments / PSUs based on preferential Government orders. We observed the following:

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27 Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum corporation Limited (HPCL) and Mangalore Refinery and Petrochemicals Limited (MRPL).

28 Malappuram, Kozhikode, Kannur and Wayanad.

Process of Selection

The Company, as and when requested by the suppliers empanelled them. Hence transparency and equity could not be ensured in the selection and listing of prospective suppliers. As a result, only three to five major large scale suppliers were benefited in each emporium of the Company.

The Company assured (August 2012) to take necessary steps to make a comprehensive vendor list.

Assistance to MSEs

The Company's marketing support was limited to furniture industry. Major purchases were made only from 178 units (7.80 per cent) out of 2283 furniture units registered in Kerala during 2011-12. Fifty per cent of the purchases of each emporium were made from three to four units showing that the Company could support only a meagre number of units. The company is also giving marketing support to various traders to market non-MSE products deviating from its objectives.

The Company replied that steps were being taken to serve maximum MSEs.

Delay in revision of rates and payments to MSEs

The Government did not revise the rates of furniture supplied by the Company to Government Departments annually commensurate with increase in cost of raw material and labour. This resulted in the MSEs compromising the quality of items supplied. During the year 2010-11, the average payment period to MSEs was 285 days against the maximum credit period of 45 days as stipulated by MSMED Act 2006.

The Company stated that revision of rates was under consideration of the State Government and that Government had been approached for allotting revolving fund to the Company so as to provide funds to MSEs.

The Division, however failed to extend intended support so as to ensure marketing of MSE products at reasonable price and timely payment to the units.

Conclusion

The Company, with the objective of facilitating and supporting Small Scale Industries by providing infrastructure facilities and resources so as to ensure industrial growth in the State, did not fulfill its objectives. Instead, it has diversified its activities into areas which are not related with the prime objective to serve MSEs. The matter was reported to Government in July 2012; their reply was awaited (November 2012).

[Audit Paragraph 4.4 Contained in the report of the Comptroller & Auditor General of India for the year ended March 2012].

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

1. The Committee enquired about the role of the company in providing infrastructure support to small scale industries and nature of business conducted by the company. The Managing Director explained that, SIDCO has 10 Industrial Parks with 17 major and 36 minor industrial estates. The supply of raw materials to SSI units are the main business of the company and the company bought raw materials from CPCL, BPCL and Cochin Refineries and the company had supplied raw materials for an amount of ₹ 190 crore in the last financial year.

2. To the query of the Committee regarding the utilization of land and allotment of units in industrial parks and estates, the witness replied that SIDCO allotted lands for promoting industries and if any of the holders fail to operate their units within a period of six months from the date of allotment, the land would be allotted to new ones by the company and it was mentioned in the Sale Deed itself.

3. The Committee observed that though the Company had the power to resume the defunct units, the company allotted them to new entrepreneurs in order to favour the transferors so that concession was passed on to them without utilizing the plots for industrial activities. The Committee remarked that the Company had no mechanism to ensure that the concession was passed on to the transferee inorder to protect and promote the interest of MSEs. Therefore the Committee suggested that the Company should resume these units and allot them to eligible new entrepreneurs to prevent the transferor making undue benefits.

4. The Committee also observed that the Company had not taken any action to resume idle plots in Industrial Parks which resulted in the non development of the parks. The Committee expressed suspicion in the hasty decision of the Company in reducing the period allowed for transfer allotment drastically from ten years to one year during the period from May 2010 to January 2011 when time limit prescribed for transfer allotment was existing at that time.

5. The Committee noticed that of the two candle marketing units allotted at Angamaly, one was used as shuttle court and other as parking area. The Committee opined that transfer allotment policy adopted by the Company only encouraged ingenuine entrepreneurs to make profit from sale of land rather than promoting industrial activity. The committee remarked that this action of the company nullified the very purpose of allotment. The Committee pointed out that the Company did not have any policy regarding development of new estates.

6. The Committee found that realisation of rent at pre-revised rates instead of realizing at the revised rates according to the enhancement of fair value of land resulted in a formidable loss of ₹ 1.83 crore to the Company.

7. The Committee pointed out that by not revising the fair value periodically the Company failed to protect the interest of the Government in the outright sale. The Committee observed that the Company suffered much loss in the outright sale since the allotments were made at the lowest available rates which were far below the prevalent fair value.

8. The Committee was astounded to note that the Company had relaxed the rule by allowing transfer of shed/land without remitting the differential value which resulted in a loss of ₹ 5.90 crore that could have been avoided by the Company. The Committee was of the suspicion that the Company liberalised the rule for unduly favouring the allottees.

9. The Committee observed that the amount realised on outright sale was utilised by the Company for working capital requirements instead of utilising it for the development of infrastructure for MESs. The Committee was of the view that the utilisation of prize money for administrative purpose was not fair for a firm and the Company must have implemented new projects for industrial progress of the

state. The Committee stressed the need to introduce new projects and ideas for promoting industries. The Committee commented that the Company deviated from its declared objectives by transferring the land possessed by the Company since inception to private parties without any control.

10. The Committee observed that the Company restricted raw material support to wax and engineering industry only and marketing support to furniture industry only and out of the 2283 registered units in Kerala the Company was supporting only 178 units. The Committee pointed out that there is neither a meeting of the Board of Directors nor an order from the Government to undertake works for the Company. Since the activities conducted by the Company has no legal sanctity its activities may be redefined and the Company shall be restructured so as to widen its area of operation.

11. The Principal Secretary, Industries Department informed that direction was there from Government that the industrial area of the Company shall not be utilised for any other purpose other than industries. The Principal Secretary also opined that, if the company utilized the defunct units for common facilities like godowns, water supply, cold storage, pollution control measures, etc. rather permitting transfer allotments, it would be helpful for the industry and the Company to generate revenue.

Conclusions / Recommendations

12. **The Committee is of the opinion that the overall functioning of the Company serves to defeat the very purpose of its existence. The Committee, on noticing the shift in the policy from the allotment of shed/land on lease basis to outright sale, suspects whether the policy of outright sale (ORS) is the consequence of unhealthy compulsions from the entrepreneurs to make pecuniary benefits out of the sale of land. It is highly condemnable that the company didn't take due diligence in resuming the defunct/purpose deviated/unauthorisedly transferred plots in time. The Committee is forced to view suspiciously the real motive behind the Company's decision to reduce the period allowed for transfer allotment from ten years to one year. It is triggering concern that in defiance of the well defined Rules of Allotment, the company has showed undue favouritism in resuming the defunct units of**

property and allotting them to new entrepreneurs afresh. All these have provoked the Committee to recommend that the allotment of sheds/land should be made strictly in accordance with the rules, and violations if any, shall be viewed seriously. It is also recommended that punitive action should be taken against the person who commits such violations.

13. The Committee observes that the raw material support rendered by the Company does not attract appreciation. It is seen that the company preferred to supply wax, one of the main sale components, mainly to trading units paving the way for them to make undue benefits. Besides, there is a huge dearth in the sale of iron and steel when compared to private vendors because of the lackadaisical attitude of the company to compete with local traders. The Committee, in this situation vents its opinion that the procurement and supply of raw materials should be made assiduously and in a transparent way enabling the company to earn maximum benefits.

14. It is noted with dismay that a fair amount of confusion is prevailing over in the area of marketing support rendered by the Company. It is vividly seen that the marketing support of the Company is minimal and mainly focussed/limited on furniture industry and to some non MSE products. The Committee also notes that the proceeds from sales has been routed to meet revenue expenses instead of using it to acquire and develop new estates for industrial growth. The Committee, therefore, recommends that the company should focus on the established objectives, redefine its activities, and diversify its area of operation by implementing new projects for industrial progress.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
9th March, 2017.

APPENDIX I

SUMMARY OF MAIN CONCLUSION/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	12	Industries Department	The Committee is of the opinion that the overall functioning of the Company serves to defeat the very purpose of its existence. The Committee, on noticing the shift in the policy from the allotment of shed/land on lease basis to outright sale, suspects whether the policy of outright sale (ORS) is the consequence of unhealthy compulsions from the entrepreneurs to make pecuniary benefits out of the sale of land. It is highly condemnable that the company didn't take due diligence in resuming the defunct/purpose deviated/ unauthorisedly transferred plots in time. The Committee is forced to view suspiciously the real motive behind the Company's decision to reduce the period allowed for transfer allotment from ten years to one year. It is triggering concern that in defiance of the well defined Rules of Allotment, the company has showed undue favouritism in resuming the defunct units of property and allotting them to new entrepreneurs afresh. All these have provoked the Committee to recommend that the allotment of sheds/land should be made strictly in accordance with the rules, and violations if any, shall be viewed seriously. It is also recommended that punitive action should be taken against the person who commits such violations.

2	13	Industries Department	The Committee observes that the raw material support rendered by the Company does not attract appreciation. It is seen that the company preferred to supply wax, one of the main sale components, mainly to trading units paving the way for them to make undue benefits. Besides, there is a huge dearth in the sale of iron and steel when compared to private vendors because of the lackadaisical attitude of the company to compete with local traders. The Committee, in this situation vents its opinion that the procurement and supply of raw materials should be made assiduously and in a transparent way enabling the company to earn maximum benefits.
3	14	Industries Department	It is noted with dismay that a fair amount of confusion is prevailing over in the area of marketing support rendered by the Company. It is vividly seen that the marketing support of the Company is minimal and mainly focussed/ limited on furniture industry and to some non MSE products. The Committee also notes that the proceeds from sales has been routed to meet revenue expenses instead of using it to acquire and develop new estates for industrial growth. The Committee, therefore, recommends that the company should focus on the established objectives, redefine its activities, and diversify its area of operation by implementing new projects for industrial progress.

373/2017.

APPENDIX II

NOTES FURNISHED BY THE GOVERNMENT ON THE AUDIT PARAGRAPHS

Serial Number	Para No.		~~Action Taken Report~~ Reply furnished by Government
1	4.4		**Industrial Estate Division :** **Kerala SIDCO** has already taken action to reduce the unproductive expenditure for the management of Industrial Estates/Mini Industrial estates.

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			Outright sale of the sheds/land : Even though the Kerala Small Industries Development Corporation had decided to offer sheds/land on ORS basis, due to the strong objection and grievance of the industrialists Government appointed Bhavani Commission to sort out the issues. On the basis of the Report of One Man Commission appointed to study the allotment of land/shed in industrial estates of Kerala SIDCO, G.O(MS)14/2003/ID dated 27/01/2003 was issued. As some of the points in the Government Order referred above were vague and to be cleared off, Government had issued G.O(MS) 41/2005/ID dated 02/05/2005 after making necessary modification and amendments. For effective implementation of the Government Order, Monitory Committee was formed with the Principal Secretary Industries as the Chairman. As per the Government Order dated 02/05/2005 cost of the sheds were calculated and most of the unit owners remitted the amount. Later by making certain amendments in the mode of calculation of ORS value, G.O(MS)No.48/2007/ID dated 19/04/2007 was issued. But on the basis of the representation submitted by Small Industrialists Federation, a meeting was convened on 08/06/2007 by Government where in it was decided to submit proposals to Government regarding the amendments needed in the Government Order. In the light of the decision, proposals were submitted to Government. Subsequently GO(MS)71/2009/ID dated 10/06/2009 was issued. But due to the some reasons the operation of the above Government

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		Order was stayed vide G.O(MS)79/2009/Ind dated 27/06/2009 which was again revised vide G.O No.25/2011/Ind dated 24/01/2011. It may be noted that ever since the issuance of various Government Orders based on One Man Commission Report, SIDCO had been informed the loss that may likely to sustain consequent on implementation of Government Orders. But Government have issued final orders on hearing both sides which SIDCO bound to implement. The loss sustained by the SIDCO due to the revised valuations ordered by Government were reported to Government.
		Outright sale based on fair value : In most of the cases SIDCO couldn't get current land value for allotment. In some of the estates latest Land Value Certificate has been received. Due to difficulty faced to obtain land value fixed by Revenue authorities in time, to avoid revenue loss to the Corporation vide Board Resolution 15/243 (S-8) dated 14/02/2011 decided to make 10% enhancement yearly on the available revenue value of the land, if the current value is not available. The allotment is being made on the basis of the above decision.
		Transfer policy promoting sale of Industrial land : From the very beginning of the establishment of industrial Estates under the Department of Industries during 1950's there existed provision for transferring an industrial

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			unit if the allottee faces any difficulty to run the industry successfully in the allotted property to another enterprising industrialist or to re-constitute the unit if the proposed industrialist is not capable to run the industry subject to the rules for allotment of land as amended from time to time.. Even after the transfer of ownership to SIDCO the same practice was being followed as per rules without collecting transfer fees. This practice continued for over 35 years of the inception. In the year 1996 the Board of Directors of SIDCO had decided to collect difference in cost ie. difference between the present cost and original allotted cost, to allow transfer of units. Since there involved exorbitant amounts most of the units who had undergone constitution change/transfer did not come forward to regularize the transactions. Industrialists were continuously demanding to regularize the transfers effected. Later, while finalising the recommendation of the One Man Commission vide G.O(MS) No 70/2009/IND dated 10/06/2009, Government had also issued orders permitting industrialists for the transfer allotment among industrialists and to get it regularized from SIDCO. On the basis of this, transfer alllotments are being made in favour of new industrialists and they are running their units successfully. Formerly there was no time limit prescribed for transfer allotments in Industrial Estates. At present 6 month time limit is prescribed for effecting such transfer allotment and transfer fee are raised considerably as per Board Resolution No. 32/250(S-10) dated 11/10/2012.

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			After the implementation of revised policy for transfer allotment several transfer allotments were made those who faced difficulty to run the industry and as a result SIDCO could reduce the number of defunct units in the industrial Estates and most of the units are functioning well. As per proceedings dated 28/02/1995 (No.IE(1)/KGY/4817/95) shed No. A1 and its surrounding land measuring an area of 879.94 m2 (21.74 cents) allotted to Sri. M. Salahu, Malayil House, vadakkumthala P.O., Karunagappally for running an SSI unit in the name of M/s. Oriental Engineering Works on Hire Purchase basis for the manufacture of steel furniture. As per the request of Sri. Salahu, the unit with Shed No. A1 and 879.94 M2 (21.74 cents) of surrounding land was transfer allotted to Sri. T.U. Johnson, Unnathumkal house, Puthupariyaran, Palakkad, after collecting the required documents for transfer allotment and remitting the required transfer fee as per rules. Accordingly transfer allotment order was issued on 31/09/2010 in favour of Sri T.U Johnson, for running an SSI unit in the name M/s Weld Tech Engineering as per entrepreneurs Memorandum Registration certificate for manufacturing mild steel fabrication subject to the rules for allotment of land/sheds in industrial estates of Kerala SIDCO. Since there was no time limit prescribed for transfer alllotments in Industrial estate at that time, again as per request of Sri. T.U Johnson the shed and land was transfer allotted to Sri, Abdul Nissam to run the unit in the name M/s. National Engineering Works.

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			Failure to ensure compliance of conditions of allotment : As per Rule 16(b) of the SIDCO Rules for allotment of land/shed in Industrial Estates, Corporation may permit the transfer of ownership or reconstitution of the firm in deserving cases as per rules in force from time to time. In most of the cases industrial units became defunct due to various reasons such as scarcity of raw material, skilled labours difficulties experienced to introduce new product line in the place of obsolete item, failure to compete with similar products recently launched in the market which leads to financial stringency or due to ill health for running the industry or the death of the original allottee etc. In such deserving cases, on the basis of the request of the units transfer allotments are allowed. In some cases of the defunct units though SIDCO had initiated eviction proceedings they moved to the Court against eviction proceedings and most of the cases are pending disposal and as a result SIDCO could not proceed further to resume possession of such units. But certain defunct units were resumed/evicted due to idling and re-allotted to eligible entrepreneurs. Though the Board had approved subject to refer the matter to Government for the proposal to delete two clauses in the sale deed, Government vide letter No.23659/F2/2011/Ind dated 25/02/2012 had rejected the proposal. Hence the proposal for deletion of two clauses in the sale deed was dropped.

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			Diversion of Sales proceeds :- SIDCO has 17 major conventional industrial estates and 36 mini industrial estates apart from 7 industrial parks. For the purpose of effective administration of industrial units housed in IEs, MIEs and IPs a considerable man power resources are required to monitor and to care the complaints being lodged by the entrepreneurs apart from maintenance of Accounts. A lion share of the amount being derived from the industrial estates, mini industrial estates and industrial parks are being utilized to remunerate the employees associated with the industrial estates and parks. Moreover for the proper maintenance and upkeep of industrial estates apart from land developments SIDCO required a large sum which is being utilized from the income generated from industrial estates and parks. In this context it is worthy to emphasize that for providing infrastructure facilities, amenities, security measures, digging of bore wells, construction of compound wall providing power supply and street lights huge amounts are being expended and no amount on account of either subsidy or assistance are getting from Government.
			<u>Industrial Park</u> : In the audit observation it has been stated that total 82 plots in 4 Industrial Parks ie, Angamaly, Shornur, Moodadi and

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			Chelakkara are kept on idle occupation. In this regard SIDCO has issued notices to the allottees of idle plots, with direction to utilize the land for the purpose for which it was allotted. The action taken report in this regard as on date is enclosed seperately. The curtailment of period of transfer from 10 years to 1 year was solely with the intention to safe guard, protect, uplift and promote the entrepreneurs and industry as a whole from the degenerated system and this policy has been adopted by the Corporation with an aim of motivating the entrepreneurs who have been suffering from unhealthy circumstance, non viability of existing activity, death of entrepreneur and financial stringency etc, according to the merit of the cases. However, SIDCO is not encouraging the transfer of the plots without any developments/improvements. Consequent to the implementation of new system most of the idle units become start functioning. In the case of plots allotted and which are lying idle for more than two years in industrial parks, SIDCO is resuming such plots after issuing show cause notices. The resumed plots were notified by the Corporation for reallotting to new industrial entrepreneurs for setting up of industrial units. As a result of the above transfers, the growth rate of functioning of industrial units in Industrial parks has been increased tremendously, and the policy of Government for industrialisation in Public Sector has been safe guarded/protected, SIDCO has not considered the construction of

373/2017.

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		compound wall in industrial parks. The water supply facility at industrial park, Angamaly has been provided by SIDCO. Regarding the status of land allotted to 2 candle making units, the units were started functioning earlier ad now working seasonally. Hence show cause notices were issued to the allottees of Candle making units: Further steps are being taken for effective functioning of the unit.
		Raw Material Division : **Wax :** Prior to 2008 the main customers as mentioned were controlling the supply of paraffin wax in Kerala from Chennai Petroleum Corporation and Indian Oil Corporation and through imports. After entering in to agreement in 2008 by SIDCO with Chennai petroleum Corporation Kerala SIDCO has ensured time bound supply of paraffin wax to MSME units. The list of the customer base catered by CPCL were also given to SIDCO by CPCL to ensure proper distribution, further SIDCO has expanded the customer base and now in all the districts except Kasargod

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			time bound supply is ensured. SIDCO supply wax to all the MSME units to approach them through their district level depots. Even though SIDCO supply wax to the big units in Ernakulam, the requirement of other units are not suffered at any cost. There was no complaint among the units due to time bound equitable distribution of wax. At all time SIDCO see that all their regular customers and small / tiny entrepreneurs are getting paraffin wax as per requirement subject to availability from CPCL. Regarding the major units, they are major importers of wax with sound financial background. They obtain wax from various sources with established supply net work. At their capacity, if they do not get material at competitive rate they will arrange material from other sources and their parallel business with different grades of wax will very adversely affect SIDCO. Since the market requirement is around 600 MT per month, SIDCO is supplying 360MT average per month, the balance demand is met by imported and low quality indegeneous wax. These major private parties provide paraffin wax to tiny units on buy back scheme on credit basis and ultimately they will control the market. SIDCO is supplying wax to MSME units and tiny *Kudumbasree* units or small entrepreneurs doing the business on cottage scale. In the case of supply of wax to the three big units, these units comes under the MSME sector and they are the previous direct customer of CPCL those who wee getting wax directly without SIDCO's

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			margin. Since the main aim of SIDCO is to help the MSME units SIDCO cannot charge more towards service charge in their pricing. While fixing the selling price SIDCO take the actual expenses like freight, interest, insurance, taxes, incidental expenses and provision for shortage/damage etc. As there is availability of low quality and imported wax, full employee cost cannot be approtioned for wax which will lead to high margin and that will alienate SIDCO from their customers. From the service charge SIDCO take in pricing and is meeting the employees cost. The market for wax is not a steady one. There are occasions when SIDCO had to hold stock beyond the normal period of sales depicting the availability of low priced paraffin wax availability in the market. At the same time the three big units always remit advance which help SIDCO to roll the fund to arrange supply to other depots when SIDCO is in short of working capital. There are occasions when SIDCO experienced great difficulties to arrange working capital fund to roll the business,. During such occasions SIDCO used to run the business with the advance they paid for paraffin wax as SIDCO did not have adequate working capital. It takes about 10-20 days to realize the amount taking in to consideration the period for order placing, delivery and sales. So in order to cater the market with 360 MT paraffin wax per month on average basis, calls for working capital fund to the tune of about ₹1.50 crore. Thus utilizing such advances made by major parties for providing wax to other

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			MSME units, as the delivery is given according to the district wise depot order booking only and not on the basis of the advance remitted SIDCO and other MSME units are benefitted. This in turn helped in stabilizing the business of SIDCO to the maximum extent by ensuring supply of wax to other MSME units. Regarding the discount of ₹ 400 offered, the OD interest rate charged by bank is around 16.25% SIDCO utilize the fund remitted in advance for providing wax to other units with which SIDCO able to hold them within their customer base and to prevent them from acquiring the entire market. The quantity wise improvement during the past few years shows the same. 2007-08 543.182MT 2008-09 3439.000 MT 2009-10 3165.225MT 2010-11 3249.570 MT 2011-12 3682.040MT 2012-13 4232.330MT Hence it may be noted that SIDCO had not given any undue benefit to these parties. SIDCO did not give any compromise in their objective and aim in distributing wax to the units through their district depot. Distribution of paraffin wax through SIDCO has generated proper revenue to State Exchequer also resulted by way of VAT remittance to the tune of ₹ 6.44 crores for the past six years. SIDCO had acted in good faith within the constraints of limited working capital. Based on the facts the query may be dropped.
		Iron & Steel	**Iron & Steel :**

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			The decline in sales of iron and steel material intake by MSME units were mainly because of the availability of drawn wire rod in the market at lower price. The price of the material from main producers like SAIL and VSP is much higher as such the quality too. The MSME units gets drawn wire rode at their units on credit basis at much cheaper rate from private steel manufacturers and suppliers from Raipur. Manufacturing items using drawn wire rode is more cost effective to the units as the labour charges can be reduced. The units are getting material from Raipur at competitive rate where as the Government state exchequer is effected due reduction in KVAT. Many of the times the Raipur material is supplied without proper bills. In case of non availability of the material from Raipur and if the offers by the main producers are attractive MSME units source the material through SIDCO. This can be evident from the increased sales in certain months for wire rode and allocation material through SIDCO. The main producers offer the product not only to SIDCO but to all the major MSME units, hence the financially sound units are now sourcing the material directly and they are providing the material on credit basis to other units also. Once SIDCO is eliminated from the scenario, such units will have upper hand and other units were forced to depend on them according to their terms and condition especially price, which may eventually lead small units to a scenario that they were become ancillary or outsourcing units of the leading MSME units.

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			The trading of Iron & steel items increased compared to wire rode allocation intake only but the entire quantity of allocation material intake was depleted mainly due to the above mentioned issues along with the following factors also. The main producers provide offer to SIDCO; but on confirmation the required quantity must be exhausted. The main producers provide rate by letters only if they are forwarding email, the delay in communication to the tune of one week to ten days can be avoided and SIDCO will be getting enough time to canvass order before exhaustion of stock of required material. The offered rates are in different slabs based on quantity and the rates slabs and offers are not informed on timely basis. The required size material may not be there or will be in limited quantity. 30% of the total allocation is ear marked to SIDCO to provide the material to Government department and PSU as per the requirement placed by SIDCO, but such allocation requests were not addressed by main producers. Regarding trading SIDCO is catering the needs of other PSU and Government Department also and in case of the trading also with a minimum charge only SIDCO is arranging the supply. Lack of sufficient working capital and the constraints for stock and sales are the main issues SIDCO is facing. Like a private supplier, stock and sales through depots are not possible due to fluctuating price trend and minimum margin prevailing in the iron and stee

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			sector. SIDCO is catering the requirement of all the MSME units and communicate the offer throughout the State. There is no bias for the supply as all the units are equally required for SIDCO for their own existence in the sector, SIDCO is communicating the rates and the orders received mainly from Ernakulam and Ollur. SIDCO is also receiving order from Kollam, Alappuzha and Kottayam. All the other Districts, the units are not there depending on SIDCO for wire rode items. The discount has been provided to a unit to the maximum and the units are also aware about the facts that they are receiving the discount as well as special offers is passed on to them as being provided by the main producers according to the quantity slab. This can be evident from the increase in sales in certain months for wire rode and allocation material through SIDCO when there is an offer provided by main producers. In order to have a footing in the Iron & steel sector facing severe competition from market by way of price slashes, SIDCO is trying their level to serve the Department and institution apart from MSME units. Based on the facts submitted above; the query may be dropped.
			Bitumen The brand preference of the Bitumen is there among the purchaser ie LSGD Engineers and contractors. Due to constant follow-up by SIDCO tried to establish other brand like MRPL and HPCL in the market and established the name as a supplier of Bitumen from Central public Sector

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			undertaking. During last year SIDCO had sourced bitumen maximum from MRPL and the quantity almost doubled. At MRPL the supply from Kasargod is constraint for increasing the quantity as limited loads only can be delivered from the depot. SIDCO has taken up the matter with MRPL for maximum supply from Kasargod and from Manglore Refinery also. Last year SIDCO has supplied 2759.644 MT compared to 1399.010 MT, the same is achieved by constant interaction to the panchayats and engineers only. Even though shortage in supply was there from BPCL and HPCL, still certain customers were adamant in the supply of Bitumen from BPCL only. Based on the facts mentioned above; the query may be dropped. Raw material Division is extending maximum service and support to to all the tiny and small units under MSME and still act as reliable supplier of quality material at nominal rate to these units, those otherwise will be forced to act as ancillary or outsourcing units of the main financially sound, market established MSME units. SIDCO is also carrying out the trading and thereby providing quality material at reasonable rate to Government Department and institutions and thereby increasing their turnover and profit margin so as to have a self sustained growth.
			Marketing Division Marketing Division, one of the major division of Kerala SIDCO has been supplying furniture items (Wood

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			& Steel), Electrical items, Hospital & Lab equipments etc to Public Sector Undertakings, Government Departments and Local Self Government Departments in Kerala for the past four decades on the strength of various Government Orders. There are Government orders directing SIDCO only to supply furniture items to Government Departments / Public Sector Undertakings. SIDCO is supplying these items through the SSI units registered with SIDCO. The SSI units with own manufacturing products are given registration with SIDCO as per the norms followed at Marketing Division. SIDCO is giving registration only to those SSI units that can fulfill the formalities required for registration. Therefore even though there are more than 2283 furniture units in Kerala SIDCO's major purchase were made only from 178 units which are registered with SIDCO. To overcome these difficulties more units that are approaching SIDCO are got registered with SIDCO after strictly adhering on their norms required to complete registration process. In order to canvass more orders from customer departments with regard to the items which are not available through SSI units with own manufacturing products registered with SIDCO and also not to loose Government orders SIDCO empanel SSI units as their dealers for supply of products as required by Government Departments. Presently SIDCO is releasing payment to SSI units both registered and empanelled in Marketing Division as and when payments are received from their customer	

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		departments for the supply effected by SIDCO. Moreover, SIDCO has no budgetary support from Government to finance the needs of SSI units registered / empanelled with SIDCO. This may sometimes lead to delay in release of payments to SSI units registered with SIDCO as stipulated by the provisions of MSMED Act 2006.
		Government is examining the proposal to revise the rates of furniture supplied by SIDCO to Government Departments.

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