FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

THIRTY FOURTH REPORT

On

TRACO CABLE COMPANY LIMITED

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2004)

927/2017.

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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 Thirty Fourth Report on Traco Cable Company Limited, based on the Report (Commercial) of the Comptroller and Auditor General of India for the year ended 31 March, 2004 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 31 March 2004, was laid on the Table of the House on 5-7-2005. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2014-2016 at its meeting held on 6-1-2016.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 26-4-2017.

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 thank the officials of the Industries Department of the Government Secretariat and Traco Cable Company 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 Traco Cable Company Limited who appeared for evidence and assisted the Committee by placing their views before it.

C. DIVAKARAN,

Thiruvananthapuram,
26th April, 2017.

Chairman,
Committee on Public Undertakings.

REPORT
ON
TRACO CABLE COMPANY LIMITED

AUDIT PARAGRAPH

Introduction

2.2.1 Traco Cable Company Limited was incorporated in February 1960 with the main objective of manufacturing all types and sizes of wires, cables and flexibles for electrical power transmission and distribution, telecommunication, building wiring etc. The Company has a power cable manufacturing division at Irimpanam and a telephone cable manufacturing division at Thiruvalla. The Power Cables Division was commissioned in 1965 with annual capacity to produce 1500 MT of aluminium throughput and 2.5 Lakh Conductor Kilometer (LCKM) respectively. It manufactures Poly Vinyl Chloride(PVC) insulated heavy duty cables, wires, flexibles, bare aluminium conductors and smaller size Jelly Filled Telephone Cables(JFTC). The installed capacity (7.30 LCKM per annum) of the Jelly Filled Telephone Cable (JFTC) Division commissioned in March 1991 was further expanded (March 1996) to 15 LCKM per annum.

Organisational set-up

2.2.2 As on 31st March, 2004 the management of the Company was vested in a Board comprising 10 directors including two Government nominees. The Managing Director is the Chief Executive of the Company who is assisted by Chief of Works(at each of the two divisions), Chief of Finance, a Company Secretary and heads of Marketing, Personnel and Administration, etc.

Scope of Audit

Extent of Coverage

2.2.3 The performance of the Company was last reviewed and results thereof included in the Report of the Comptroller and Auditor General of India for the year 1994-95(Commercial). The Report was discussed by the COPU in August 2002 and their recommendations included in the 31st report were presented (June 2003) to the Legislature. Action Taken Notes thereon were awaited (August 2004).

The present review conducted during the period January to May 2004 covers and activities of the Company for the five years ending 2003-04.

2.2.4 Audit findings as a result of review on the performance and working of the Company were reported to Government/Management in July 2004 with a specific request to attend the meeting of Audit Review Committee for State Public Sector Enterprise(ARCPSE) so that the view point of Government/Management was taken into account before finalising the review. The meeting of ARCPSE was held on 5th August, 2004 and attended by the Additional Secretary, Industries Department, Government of Kerala and Managing Director of the Company. The views expressed by the members have been taken into account during finalisation of the review.

Share Capital

2.2.5 The authorised share capital of Rs.15 crore comprised 1.475 crore equity shares of Rs.10 each and 2.50 lakh preference shares of Rs.10 each. The paid-up share capital as on 31st March, 2004 amounted to Rs. 13.02 crore, contributed by Government of Kerala (Rs. 12.82 crore); KSIDC, KFC, other institutions (Rs. 10 lakh) and public (Rs. 9.76 lakh).

Financial position and Working Results

2.2.6 The Company had finalised its accounts for the period up to 31st March, 2003. The financial position and working results of the Company for the five years up to 31st March, 2003 were as given in *Annexure 14 and 15* respectively. Analysis thereof revealed that ;

- The company's paid-up capital of Rs. 13.02 crore as on 31st March, 2003 was fully eroded by accumulated loss of Rs. 17.65 crore due to dismal performance since 2001-02. The net worth of the Company was negative.
- The liabilities of the Company included Rs. 6.67 crore being guarantee commission payable to Government since 1998-99. Interest on Government loans amounting to Rs. 1.61 crore as well as interest and penal interest on loan from KIRFB amounting to Rs. 2.13 crore were also over due as on 31st March, 2003.

- The sales performance of the Company had substantially declined from 90.86 crore in 2000-01 to 29.24 crore in 2002-03. Consequently, the Company which was earning profit till 2000-01, incurred losses to the tune of Rs. 9.06 crore and Rs. 8. 87 crore in 2001-02 and 2002-03 respectively.
- The profit of Rs. 9.17 crore achieved in 1999-2000 was due to write back of interest on IDBI and IFCI loan (Rs. 7.34 crore) on the basis of waiver allowed as part of a One Time Settlement Scheme.

Production Performance

2.2.7 The production performance of the Company during the five years ending 31st March, 2004, was as indicated below:

Audit Report (commercial) for the year ended 31st March, 2004

Year	Power cables (at Irimpanam)			Telephone cables
	All Aluminium Conductors (AAC) & Aluminium Conductors Steel Re-inforced (ACSR)	All Aluminium Alloy conductors (AAAC)	PVC covered conductors and bare copper conductors	JFTC at Thiruvalla and Irimpanam
Unit	(MT)	(MT)	(Kms)	(LCKM)
Installed capacity	1500	1500	32918	17.50
	Actual Production			
1999-2000	694.155	182.73	149.482	12.34
2000-01	1377.130	152.25	644.082	12.72
2001-02	255.176	NIL	647.815	7.03
2002-03	1074.814	NIL	423.873	2.57
2003-04	1331.150	NIL	328.950	0.72

The overall production of PVC covered conductors showed a declining trend from 2002-03 while the production of JFTC came down from 12.34 LCKM in

1999-2000 to 0.72 LCKM in 2003-04 which was mainly due to non-receipt of orders from Department Of Telecommunication (DOT)/Bharat Sanchar Nigam Limited (BSNL).

The production of All Aluminium Alloy Conductors (AAAC) had to be discontinued since the project was taken up without any firm commitments from the State Electricity Board as discussed in paragraph 2.2.10 infra.

Division-wise production is analysed in the succeeding paragraphs.

Power Cables Division

Production of ACSR & AAC

2.2.8 Irimpanam Division of the Company had been producing Aluminium Conductor Steel Reinforced (ACSR) and All Aluminium Conductors(AAC). The major customer was Kerala State Electricity Board (KSEB). While the Division had installed capacity to produce 1500 MT of conductors per annum, based on aluminium throughput, the actual annual production during the five years ending 2003-04 ranged between 255.18 MT and 1377.13 MT. The percentage of capacity utilisation during the above period ranged between 17.01 and 91.81.

The lowest capacity utilisation of 17.01 *per cent* of installed capacity was recorded during 2001-02, which was attributed to non-receipt of adequate orders from the State Electricity Board. The production of conductors at the Division was not cost effective on account of high labour cost and overhead charges. As a result, the Company could not secure enough orders from potential customers and depended heavily on KSEB for order. No cost control measures were initiated to reduce actual cost and capture market from other customers at competitive rates.

Telephone Cables

2.2.9 In order to supplement the annual production capacity of 15 LCKM at JFTC Division, Thiruvalla, the company created (1996-97) additional installed capacity of 2.50 LCKM, at the power cable Division, Irimpanam at a capital cost of Rs. 1.45 crore. The maximum capacity utilisation at Thiruvalla, ever since the installation of additional capacity at Irimpanam, was 81.38 *per cent* of the installed capacity and capacity equivalent to 279300 CKM all along remained unutilised. The maximum annual production of JFTC at Irimpanam was only 61500 CKM. The production of JFTC at the division was ultimately discontinued in May 2002 due to decline in demand from DOT/BSNL. The type approval by the customer for the product which was a pre-requisite for production of JFTC was also not obtained since then.

Thus, the decision to create surplus capacity at Irimpanam despite lower demand and under utilisation of the then existing capacity at Thiruvalla, resulted in wasteful investment of Rs. 1.45 crore.

Management stated (August 2004) that phasing out of JFTC technology at such a rapid pace, introduction of cellular telephones on massive scale and excess capacity creation for optical fibre cables, were developments not anticipated at the time of capacity expansion.

The reply is not tenable since the pre-expansion capacity at JFTC division, Thiruvalla itself was not fully utilised even after going in for capacity expansion at Irimpanam, and the unutilised capacity (279300 CKM) was more than the additional capacity created (250000 CKM). The company should have also taken note of the obsolescence in the JFTC technology due to emerging technological improvements in the field by other firms in the country.

Creation of idle capacity

2.2.10 In anticipation of demand from KSEB, the company set-up (June 1995) facilities for manufacture of 1500 MT per annum of All Aluminium Alloy Conductors (AAAC), at a cost of Rs. 62.50 lakh. Production with this facility could not be stabilised till January 2000 due to operational problems in the main equipment. Despite this, the Company accepted (February/March 1998) bulk orders from KSEB for supply of 1745 km and could not deliver 1341.66 km within the stipulated delivery period, due to non-stabilisation of production. Supplies against repeat orders for 518 km accepted during April 2000 to June 2000 were also delayed. The loss due to penalty and unfavourable price variation on account of the delayed delivery amounted to Rs. 31.11 lakh.

2.2.11 The production of the material before rectifying the operational problems also caused higher level of rejection. The loss suffered due to excess consumption of Aluminium Alloy during production without stabilisation amounted to Rs. 38.18 lakh (net of scrap value). Further sales were executed at prices below the cost of production, leading to short recovery of cost of Rs.1.81 crore.

Audit also observed that KSEB discontinued procurement of AAAC since 2000-01 without assigning any reason though the material was technically and commercially more advantageous than AAC/ACSR. The Company also did not initiate measures to enter the market in neighbouring states by reducing its cost of production.

Thus, the decision of the Company to install production facility at a cost of Rs. 62.50 lakh without any firm commitment from KSEB, being the only potential customer, resulted in locked up investment since December 2000.

PVC covered Conductors and Bare Copper Conductors

2.2.12 Details of actual production of PVC covered and bare copper conductors for the five years ending 2003-04 were as follows:-

Year	Total capacity (in km)	Drop wire Aerial cable	Weather proof cables	House wire	Total production	Percentage of actual to total production capacity
		(Quantity in km)				
1999-2000	32918	46.389	64.46	38.183	149.482	0.45
2000-01	32918	314.404	Nil	329.678	644.082	1.96
2001-02	32918	Nil	Nil	647.815	647.815	1.97
2002-03	32918	Nil	Nil	423.873	423.873	1.29
2003-04	32918	3.050	Nil	325.900	328.950	1.00

Though the Division was having an annual capacity to produce 32918 km of conductors, it produced only 0.45 to 1.97 *per cent* during the five years ending 31st March, 2004 mainly due to reluctance in entering the competitive market.

Management stated (August 2004) that the market for PVC covered cables was very competitive due to presence of several small-scale manufacturers enjoying tax concessions.

The Company had, however, not taken any measure to reduce the excessive cost of production with a view to compete in the market. In the absence of full fledged production, the related activities such as production planning, documentation of machine/manpower utilisation, etc., were also not given due consideration.

Production Control

2.2.13 The Company's capacity utilisation at the power cable division and small JFTC division were on the lower side. An analysis made in Audit of the control exercised over actual production by the management revealed that it failed to systematically compile and analyse the data for taking corrective measures.

The data on machine and manpower utilisation compiled in Audit revealed that there was non-utilisation of optimum resources when peak production was required to be maintained to meet the supply schedules. Particulars of downtime on account of different reasons during the year 2000-01 were as given below:

Reason	Downtime (machine hours)	Percentage to total down time
Absenteeism	6399	48.55
Want of raw materials	1300	9.86
Delay in previous process	1565	11.87
Machine breakdown	3561	27.02
Power failure	355	2.70
Total	**13180**	**100.00**

It could be seen from the above that all factors, except for downtime due to power failure, were controllable. Hence this was indicative of absence of management control over the production.

Absenteeism was a regular feature in the Unit, for which effective control measures were not taken even when it resulted in loss of planned production hours. This was despite the fact that there was surplus manpower in the Unit during the whole period under review, as discussed in para 2.2.31 infra.

Viability of Power Cable Vision

2.2.14 The table below shows details as to value of production (at realisable value ignoring penalties levied) and contribution obtained (worked out on the basis of cost data in cost audit report) in respect of conductors and cables manufactured at Irimpanam Unit during the four years ending 2002-03.

Year	Gross production (all types of cables/ conductors) in km.	Gross sales realisation	Contribution (Sales realisation minus cost of raw materials and power)	Employee cost	Excess (+)/ short(-)
		(Rs. In lakh)			
1999-2000	14290	1,531.52	249.64	247.33	(+) 2.31
2000-01	10811	2,259.61	294.79	259.70	(+) 35.09
2001-02	7277	758.66	185.26	258.82	(-)73.56
2002-03	13458	1,598.19	181.94	229.33	(-) 47.39

In this regard, the following deserve mention:

- the contribution obtained was not even sufficient to meet the employee cost during the years 2001-02 and 2002-03.
- the contribution generated out of monthly production was less than the monthly staff cost during 30 out of 48 months reviewed in Audit.
- on account of under utilisation of resources the Unit suffered losses to the extent of Rs. 4.75 crore, Rs. 3.18 crore, Rs. 3.55 crore and Rs. 1.62 crore respectively during the four years ending 2002-03.
- though the Company accepted orders even at prices equivalent to aggregate cost of raw materials and power, without any contribution towards fixed cost, it did not initiate measures to reduce the cost of its products. Company executed (2000-01) contracts with contributions as low as 0.81 *per cent*, 1.30 *per cent*, 5.68 *per cent* of sales realisation, whereas the labour cost alone was more than 12 *per cent*.

Management attributed (August 2004) the low level of contribution to lack of facilities for manufacturing wide range of cables, highly competitive market situation and locational disadvantages due to which higher transportation costs were incurred for both raw materials and finished products.

The reply is not tenable as the Management had not taken any action either to upgrade the technology or to capture market for its products through effective cost control measures and marketing techniques.

JFTC Division

Production Planning

2.2.15 Since the Company was not receiving orders for JFTC on a regular and consistent basis, the production planning activity was confined scheduling of production as per delivery schedules given in the confirmed orders. Audit scrutiny, however, revealed that planned levels of production were rarely achieved in full and deviations from plans were quite common. This was on account of reasons such as absence of machine operators, coil/core shortage, bobbin/drum shortage, etc., as per details indicated in *Annexure 16*. The division failed to maintain a steady production and consequently there was under utilisation of resources to a huge extent especially since 2001-02. The fact that most of the causes were controllable indicated inadequacy of controls on the part of the Management.

The details of variations in production level on a month-to-month basis, and capacity utilisation on annual basis for the five years ending 2003-04 are indicated in *Annexure 17*. As would be observed therefrom the production declined from 81.38 *per cent* in 2000-01 to 4.79 *per cent* in 2003-04. There was no production for eight months and four months respectively during the years 2002-03 and 2003-04 due to non-receipt of orders from BSNL.

Management stated (August 2004) that the utilisation of plant was dependent upon the product mix, as ordered for by BSNL from time to time, which differed each time and could not be predicted accurately at the time of setting up the plant. The fact, however, remained that the Company did not take any effective action to explore the market outside BSNL so as to achieve better capacity utilisation.

Inventory Control

2.2.16 The Management adopted a policy of 'just-in-time' procurement of raw materials for the Company. A review of stock holding conducted in Audit revealed that the policy was not being strictly followed by the Company, as discussed in succeeding paragraph:

Accumulation of stock of raw materials/work in progress

2.2.17 The Company held an average monthly inventory of raw materials worth Rs. 1.03 crore during June 2002 to January 2003 and Rs. 59 lakh from July to October 2003. There was hold-up in production at JFTC Thiruvalla, from June 2002 to January 2003 and again from July to October 2003 for want of orders. Based on Company's policy of 'just-in-time' procurement of raw materials, the unit should not have carried inventory worth Rs. 1.03 crore during the periods of production hold-up since the procurement was to be made against confirmed order only. This led to blocking up of funds of Rs. 1.03 crore besides loss of interest of Rs. 12 lakh sustained due to idle inventory during the periods of production hold up.

Management stated (August 2004) that the procurement, in the instant case was on the basis of requirements prior to re-engineering and the reduced requirements resulted out of re-engineering caused excess inventory holding.

Management's reply is not acceptable in view of the fact that though the raw material standards were revised in April 2002, the Company did not adopt the same for procurements made from June 2002 onwards, leading to accumulation of stock of raw material and consequent loss of interest.

Stock of non-saleable telephone cables

2.2.18 As per the contract with BSNL the manufactured cables delivered after a period of six months would not be accepted. The JFTC division, however, manufactured (April 1999 to March 2003) and held in stock finished cables of different sizes worth Rs. 22 lakh without obtaining formal orders from BSNL. As a result the cables could not be sold since the stock period exceeded six months and the finished products became dead stock.

Management stated (August 2004) that the additional quantity was produced in anticipation of rejection of 10 to 15 per cent by BSNL. The reply is not tenable since the cables were being cleared after spot inspection by BSNL and hence there was no need for producing and stocking materials to make up the rejected quantity. Audit also observed that stock worth Rs. 68.82 lakh was retained in production floor for want of orders.

Marketing

2.2.19 The company has been marketing its products among traditional customers; viz. State Electricity Boards for Power Conductors/Cables and DOT/BSNL for Telephone Cables. No Marketing strategy was evolved to enter in to markets outside Electricity Boards/DOT/BSNL. As far as power cables are concerned, supplies to other State Electricity Boards were rendered uneconomical, due to the Company's inability to control the cost of production and offer prices matching with that of competitors. The Company, as such, depended solely on KSEB.

Audit noticed that the percentage of Company's supply with reference to total procurement of power cables by KSEB ranged between 27.67 and 76.07 during the five years ended 31 March 2004. In respect of telephone cables, the Company's supply in comparison to total procurement by DOT/BSNL was in the range of 0.38 *per cent* to 2.88 *per cent* during the four years ending 31 March 2003.

The gradual fall in market share of power cables was attributable to emergence of new suppliers and company's incapacity to offer competitive prices. With the entry of more manufactures in the market, the capacity far exceeded the demand, and Company could not match its prices to that of the new entrants due to excessive cost.

2.2.20 The sole dependence on KSEB for power cables and DOT/BSNL for telephone cables acted as a constraint in all the spheres of activity of the

Company right from capacity utilisation to sales realisation. The supplies made by the Company were subjected to levy of penalties, belated sales realisation, lowering of prices, etc. There were no earnest efforts on the part of the Company to avoid losses by streamlining its systems, reducing costs and improving efficiency of performance, as highlighted in the succeeding paragraphs.

Power Cables

Payment of Liquidated damages

2.2.21 As per the general terms and conditions of supply of conductors to KSEB, delay in supply by the Company attracted payment of liquidated damages @ one per cent of value of materials per month of delay or part thereof subject to a maximum of 10 per cent of such value. Audit observed that out of the 15 supply orders executed during the period April 1999 to March 2004, supplies against eight supply orders attracted levy of liquidated damages amounting to Rs. 35.92 lakh for belated (one to four months) supply.

The delays in delivery were mainly attributable to avoidable reasons such as want of raw materials (9.87 *per cent* of downtime recorded), absenteeism(48 *per cent*) and machine breakdown(27 *per cent*).

Management stated(August 2004) that the optimum product mix and monthly requirement of consignees as per delivery schedule in purchase orders were different and hence backlogs in supply occurred.

The reply is not tenable in view of the fact that the production required to meet the delivery schedule was always achievable, had the Company exercised proper control over the loss of production hours on account of avoidable reasons, such as shortage of raw materials, absenteeism, downtime of machines due to inadequate maintenance and repairs, etc.

Delay in preferring claims

Price variation claims

2.2.22 KSEB publishes the updated prices for power cables every month based on the raw material prices announced by the Indian Electrical and

Electronics Manufactures Association (IEEMA) and TATA Special Steels Limited (TATA SSL). The suppliers were to prefer their price variation claims on the basis of such updated prices. The Company was, however, quite irregular in preferring price variation claims for reasons not on record. The Company suffered loss of interest due to delay in preferring price variation claims, as discussed in the succeeding paragraphs.

2.2.23 As per the contract with KSEB the prices were variable and the Company was entitled to prefer price variation claims for supplies within the delivery period based on price of raw materials announced by IEEMA/TATA SSL. Accordingly, the company preferred(till April 2004) variation claims for 6,293.263 km of power cables involving an avoidable delay of 3 to 32 months after allowing a reasonable time of two months. The delayed receipt of price variation claims aggregating Rs.1.16 crore from January to June 2003 resulted in interest loss of Rs. 27.93 lakh.

2.2.24 Claims in respect of 10987.661 km of power cables supplied (May 2000 to October 2003) within scheduled delivery period and 9,186.45 km supplied (May 1999 to March 2002) beyond scheduled delivery period were pending(April 2004). The delay in preferring claims(after allowing a reasonable time of two months) ranged between 3 and 45 months, and 23 and 55 months respectively. The interest loss suffered till March 2004 worked out to Rs.75.21 lakh.

Thus, the administrative delay in preferring price variation claims resulted in interest loss of Rs. 1.03 crore for the period from May 1999 to March 2004 besides blocking of funds (Rs.2.86 crore).

Sales realisation claims

2.2.25 Scrutiny of claims revealed that after collection of initial 90 *per cent* payment, the Company had not effectively followed up the realisation of balance 10 *per cent* in terms of work order. In 35 instances involving Rs. 44.46 lakh there was delay of more than six months to collect the amount. Further, 62 claims (Rs.78.79 lakh) relating to the period from March 2003 were pending realisation as on 31 March 2004. The interest loss sustained due to delay in realisation amounted to Rs. 21.99 lakh during the five years ending 2003-04.

Management stated(August 2004) that 10 *per cent* of the value of bills was usually paid only after the power conductors supplied were consumed by consignees. The reply is not correct since the agreement specifically provided for release of 10 *per cent* payments on acceptance of material.

Telephone Cables

Lower Vendor – rating

2.2.26 The Department of Telecommunication (DOT) effected (1997-98) a major change in tender evaluation, introducing a 'vendor rating' system, which was based on quality (ISO certification), promptness in delivery and competitiveness of prices quoted. Company's vendor rating ever since the introduction of the system, was below the industrial average, mainly because of the delays in delivery of cables. To compensate for the drop in delivery rating and maintain competitive vendor rating the Company had to quote prices lesser than potential market price.

2.2.27 Audit observed that the delivery rating of the company, came down from 0.86 to 0.72 during 2000-01 when the industrial average stood at 0.82. As per the Management's own assessment, the sales revenue that the Company had to forgo by quoting lower rates to ensure competitive vendor rating for the year was Rs.1.50 crore.

Payment of liquidated damages

2.2.28 As per the terms of the purchase order, delayed supplies to DOT/BSNL attracted levy of liquidated damages @ 1/2 per cent of value of such supplies for each week or part thereof up to 10 weeks, and thereafter @ 7 per cent of the value of delayed supplies for each week of delay for another 10 weeks. Further, delayed supplies were not eligible for price variation claims for the delayed period but the advantage of any reduction in price for basic raw material would be passed on to BSNL.

The Company could not adhere to the schedule for a sizeable portion of the supplies every year. The amount of liquidated damages, price cuts and related recoveries, suffered on delayed supplies amounted to Rs.4.35 crore during the period 1999-2000 to 2002-03 as shown in the table below:

(Rs. in lakh)

Year	Gross sales (JFTC)	Penalties suffered		Other recoveries	Gross recoveries	Percentage of gross recoveries to gross sales
		Liquidated damages	Price cut			
1999-2000	7,346.05	90.14	29.76	1.80	121.70	1.66
2000-01	7,222.62	66.22	20.00	1.98	88.20	1.22
2001-02	3,193.17	46.96	78.65	3.10	128.71	4.03
2002-03	1,495.06	63.99	8.99	23.55	96.53	6.46
Total	**19,256.90**	**267.31**	**137.40**	**30.43**	**435.14**	**2.26**

Audit analysis revealed that the main contributory causes for delays in supply were shortage of plant operators, want of raw materials, wire break, etc. which were controllable to a large extent. Down time due to operator shortage alone accounted for 36.5 *per cent* of total down time recorded. The unit was actually having excess manpower to the extent of 29 *per cent* in semi-skilled and unskilled sectors, which indicates the absence of proper management control over plant operation.

Management stated (August 2004) that the deficiency in skilled sector was causing downtime. The reply is not tenable since the management failed to recruit adequate number of skilled labourers to facilitate utilisation of available capacity but followed an improper policy of recruiting semi-skilled and unskilled labour in excess of requirement thereby adding to avoidable cost of manpower.

Price cut for delayed supplies

2.2.29 As per the contract with BSNL the delayed supplies beyond the date of release of subsequent year's orders attracted reduction in price with reference to the then existing price. Based on this provision, the Company suffered price cut aggregating Rs. 72.17 lakh in respect of 41,114 CKM of cables supplied after the scheduled delivery period (October 2001 to April 2002) in respect of orders for the year 2001-02.

Delay in sales realisation from DOT/BSNL

2.2.30 The contract for supply of telephone cables to DOT/BSNL stipulated payment of 95 per cent of the value against proof of receipt of goods by the consignee and the balance 5 per cent within a period of six months or at an early date against bank guarantee.

Audit, however, observed that even after allowing 15 days for documents to reach DOT/BSNL the payment against 1,410 invoices was delayed for periods ranging from 3 to 382 days from date of delivery during the five years ending 2003-04. The interest loss sustained by the Company due to delay in realisation worked out to Rs.2.95 crore.

Manpower Analysis

Surplus Manpower

2.2.31 The Company had manpower in excess of requirement, as the recruitments were made without conducting proper work-study and the level of activities happened to be much lesser than those initially projected at the time of project implementation. The Management, however, did not take adequate measures to downsize the labour/staff strength. After it was pointed out (August 2001) by the Consultants engaged for a growth plan, that there was additional manpower to the extent of 40 to 45 per cent at Head Office and 35 to 40 per cent in the Units, a Committee constituted (December 2002) by Board identified (March 2003) the surplus manpower as follows:

Particulars	Men in position	Actually required	Excess manpower
Head office	55	20	35
Thiruvalla Unit	376	198	178
Irimpanam Unit	215	65	150
Total	**646**	**283**	**363**

The overall reduction in staff cost after downsizing on the lines proposed was estimated at Rs.1.44 crore per annum. Based on this, the extra cost borne by the Company due to retention of surplus manpower for the five years ending 2003-04 amounted to Rs. 7.20 crore. The Company later requested (June 2003) Government to refer the Company to Enterprises Reforms Committee for restructuring/ diversification. Further developments were awaited (September 2004).

Avoidable payment of overtime wages/production incentive

2.2.32 Despite holding surplus manpower in both the Divisions and the order position much below the capacity levels, the Management resorted to engagement of workers on overtime basis, as a matter of routine, without conducting any cost-benefit analysis.

The overtime wages paid during the four years ended 31 March 2003 amounted to Rs.86.65 lakh. In addition , the Company also disbursed production incentive amounting to Rs.53.43 lakh at JFTC Unit during the three years up to 2001-02. Payment of incentive was not justifiable as;

- The Company could neither avoid levy of liquidated damages by BSNL/DOT for delayed delivery nor the drop in delivery rating which were considered as a basis for approval (October 1999) of the scheme.
- There was large scale absenteeism.
- There was no extra/additional production.

Management stated (August 2004) that the incidence of liquidated damages would have been much more, had it not introduced the production incentive scheme. The reply was not acceptable as the payment of overtime wages and production incentive was not justifiable when the Company had huge surplus manpower, high level of absenteeism coupled with poor production performance.

Incidence of idle wages

2.2.33 The production activities at JFTC Division Thiruvalla came to a stand still with effect from 31 May 2002, for want of orders. The Irimpanam unit also had to stop production with effect from 23 July 2002 awaiting further orders from KSEB against tenders in process. The Company, therefore, informed (October 2002) the Government that there would be considerable savings in establishment expenses, in case a lay off was declared. Though the Government allowed (February 2003) the Company to lay off, the Board deferred the decision and decided to canvass further orders. Thereafter Thiruvalla Division had not been in operation during the period July to October 2003, for want of further orders from BSNL. The option to lay off was, however, not even considered and the idle wages paid during the period of production hold up worked out to Rs. 4.07 crore.

Management Information System (MIS)

2.2.34 The Company did not have a systematic and efficient MIS for better Corporate Governance. In the absence of proper MIS the Management could not address problem areas as discussed below:

- Delay in execution of work orders and high cost of production were the main problem areas for the Company, which adversely affected its order position, sales realisation and profitability. No regular and systematic analysis of the causes of delays were conducted by the top Management/Board.
- There was absence of proper reporting system and remedial measures were not initiated in time.
- The directions from Board of Directors in vital areas were not always promptly complied with.

Internal Audit and Internal Control

Internal Audit

2.2.35 The Company was not having its own Internal Audit wing. The Internal Audit was being conducted by engaging a firm of Chartered Accountants. Audit observed that the findings and related recommendations by Internal Audit were not properly acted upon by the Management. Most of the system deficiencies pointed out in Internal Audit were persisting as indicated below:

- In spite of objections in Internal Audit, Internal Control system in areas of debtors control and cash management left scope for substantial improvement.
- Production standards fixed at the time of commissioning remained unchanged and improvements brought in since then were not properly incorporated in the system for better Internal Control.

- Stock levels remained to be fixed and there was absence of a foolproof system of coding and classification of inventory and proper storage and up-keep of finished goods.
- Though the Company was generating high value scrap materials like Aluminium and Copper, weighments recorded at the time of removal of scrap were often erroneous.
- There was no system in the Company for regular identification and disposal of scrap. The total value of scrap as on 31 March 2003 was Rs.56.19 lakh and it consisted of items dating back to 1963-64.

Audit observed that the observations and recommendations by the internal auditors were not acted upon and were still pending (September 2004).

Internal control

2.2.36 The Internal Control systems in the Company were found to be inadequate in many respects. The deficiencies observed in Internal Control systems are indicated in *Annexure 18*. The nature of irregularities were as follows:

- The Company did not exercise adequate control over consumption of materials resulting in excessive scrap generation.
- The company failed to reconcile the input and output in respect of copper consumed. The excess consumption and unaccounted shortage noticed in Audit amounted to Rs.31.89 lakh (Sl.No.1 of *Annexure 18*).
- The corporate governance lacked in many respects (Sl.Nos.3 & 8 of *Annexure 18*).
- The procurement was often made on the basis of limited tenders which deprived the benefits of open tenders (Sl. No.5 of *Annexure 18*)
- Different rates were paid for same materials procured during the same period at the two divisions involving additional avoidable expenditure of Rs. 16.08 lakh (Sl. No.6 of *Annexure 18*).
- Absence of internal check system led to fraudulent claims to the extent of Rs.13.58 lakh (Sl. No.7 of *Annexure 18*).

The above matters were reported to Government in July 2004; their reply had not been received (September 2004).

[Audit Paragraph 2.2 (2.2.1 to 2.2.36) contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2004].

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

1. The Committee observed that the failure of the Company to capture market for its products through effective cost control measures and marketing techniques resulted in delayed sales realization and blocking up of funds in inventory. The Committee also noticed that the Company had to pay heavy penalties for delayed supplies and suffered substantial losses due to non upgradation of technology and excess consumption of raw materials.

2. As of now the Company is going on progress and sufficiently good comeback has been reported and hence the Committee decided to drop the above said para.

Conclusion/Recommendations

3. **The Committee observes that the Company is currently making good progress and good comeback has been reported by the Company. In the light of the above observation, the Committee decides to drop the audit para.**

C. DIVAKARAN,

Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
26th April, 2017.

APPENDIX-I

SUMMARY OF MAIN CONCLUSION/RECOMMENDATIONS

Sl. No.	Para. No.	Department Concerned	Conclusions/Recommendations
1	2	3	4
1	3	Industries	The Committee observes that the Company is currently making good progress and good comeback has been reported by the Company. In the light of the above observation, the Committee decides to drop the audit para.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

IV			Do
			The auditors observed that The Company should have taken note of the obsolescence in the JFTC technology due to emerging technological improvements in the field by other firms in the country. It may kindly be noted that such decisions are to be taken on valid market studies. Since the company does not have its own market research group, it is essential that the company have to engage specialised organisations having experts in the market study of various products to advise the Company with authentic datas. Even M/s.Fergusan who are pioneers in conducting market studies, who are engaged in 2000-2001 have never anticipated the developments of Cellular Telephone Technologies to the extent what is happening today. The technological developments which is happening around the world get implemented in our country, fastly, considering the present globalisation and economic liberalisation is extremely fast. As far as our country is concerned, acceptance of such technological developments by the Indian community is the fastest among all the countries of the world. Even M/s. Fergusan, pioneers in conducting market studies, could not anticipate in 2000-2001, they have gone in for recommending to the Company for expanding the capacity in the JFTC line itself. However, now it has to be felt that it is a fortune to the Company that the Company didn't go as per the recommendations of the Fergusan due to paucity of funds at that time. The capacity to manufacture Jelly Filled Telephone Cable is based on a product mix of combination from 5 pair to 1600 pair, provided the Company is getting orders exactly as per the product mix. The Company is utilising its full capacity. At the same time, if lower pairs from 5 pair to 20 pair, the demand being higher, the capacity utilisation in terms of CKM will be very very less.In 1996-1997 period, the proposed expansion at a cost of 1.45 crores was undertaken at Irimpanam on account of the huge demand for small pair cables from 5 pair to 20 pair. Further, this decision of expansion at Irimpanam was undertaken purely for utilisation of Thiruvalla plant for higher size cables. In situations where the orders

are more for smaller size, it is essential that the actual linear Kilometres manufactured is to be considered rather than the capacity in CKM. Thus the Company could manufacture the smaller size cables in larger Kilometres, just because of the expansion carried out at Irimpanam, simultaneously manufacturing higher pair cables at Thiruvalla unit.

2.2.10 & 2.2.11

All the Electricity Boards of the country including KSEB had plans for procurement of AAAC conductor to replace ACSR conductor during the period 1994-1995. The advantages called for is more strength with less weight for transmitting same amount of power. However, now all the Electricity Boards have gone back to ACSR conductor, dropping the idea of procurement of AAAC. It could be gathered that the laying and other field problems are the reasons for dropping the procurement of AAAC conductors.

Since the introduction of economic liberalisation and de licensing in the country way back to 1993, the industries were mushrooming for all industrial products. The competition has gone up and the customers stopped giving advances and introduce stringent liquidated damage conditions. Under such situations, the Company was quoting on contributions over Raw Material & variable cost only, irrespective of the fixed cost. This was done to bag orders. Any deviations or rejections in the technical processing, the contributions will become negative. It could be gathered from the records that the rejections and reprocessing were required on account of metallurgical variations in the Alloy Rod. For detecting such metallurgical variations costly equipments are required. And those facilities were not available. Hence the metallurgical treatment such as solution treatment and normalisation are carried out on a trial & error basis. Under such situations of trial & error basis, until stabilisation, the losses incurred are inevitable. The Company have installed Wire Drawing Machine, Tubular Strander and Heat treatment equipments for the manufacture of AAAC conductors, though AAAC conductors are not manufactured now. The Wire Drawing Machine and Tubular Strander are now used for manufacture of ACSR conductor, enhancing the capacity of ACSR conductor to 3000 MT. Hence the investment done for AAAC conductor (except the Heat treatment equipment) is now being utilised for the manufacture of ACSR conductor and hence the investment is not a waste.

2.2.12 &2.2.13

The audit observation is that Company had not implemented cost reduction methods for to be competitive in the tenders. It is a known fact that organised customers in the medium & large scale sectors in Kerala, the overheads are higher compared to the SSIs. This inherent problem is loaded on the Company in a span of time from the inception. While licensing was in force for establishing manufacturing units, there were little competition to bag orders. However, de licensing and economic liberalisation resulting in mushrooming of manufacturing units, this Company which was established 40 years back, could not reduce the overheads already inherent on account of various agreements entered with the Trade unions before the economic liberalisation.

All the cables & conductors are to be manufactured under various BIS specification. The raw materials such as PVC are available in the market in various grades having different qualities. The prices also will vary from 50 - 100%. The Company at any cost cannot buy an inferior quality material at a lesser cost for to be competitive in the tender. This has been observed on finalisation of rates in the tender that the rates offered are not even covering the raw material cost. Though this has been represented to the tenders, their views are only to consider the L1 bidder. Any failure of the manufacture of cables as per BIS requirements, in cable will be rejected leading to unbearable losses, but at the same time, manufacturing cables only on reasonable prices will reduce the losses.

2.2.14

The observation of the audit is that the Management has not taken any action to upgrade the technology or to capture market is far from facts. In 2000-2001, the Company have engaged M/s.Fargusan to undertake a growth plan for Traco. M/s.Fargusan, in their final report have suggested to go in for expansion in the JFTC line itself and not to proceed in the power cable line. As the Company does not have its own Market study team, the recommendations of such renowned organisations are to be accepted to a large extent. However, non availability of fund detracted the Company in going for expansion in the JFTC line.

2.2.15

Generally, the requirement of Jelly Filled Telephone Cables outside the BSNL market is a very small %. Such markets are outside Kerala. It may kindly be noted that some of the Jelly Filled Cable consumers in other states are having Sales Tax holidays and are exempted from paying any Sales Tax. However, irrespective of within or outside the state, Traco has to bear 4%. This was the main drawback of Traco to get orders outside the BSNL market.

2.2.17

It was the desire of the company to adopt just in time procurement to maintain minimum inventory stock level. Since the major raw material for JFTC are to be procured from source/ type approved sources. the sources being located in the north and central India, a complete theoretical just in time procurement cannot be adopted. At least a week's stock of all raw material is to be maintained inorder to avoid a stock-out situation which is inevitable due to the logistical reasons.

The JFTC cables have started manufacturing at Thiruvalla unit under the technical collaboration from M/S General Cable International Inc. USA. The various dimensions of different types of cables are manufactured as

		per design standar .s provided by M/s GCI only,as the final cable manufactured is to satisfy a number of mechanical and electrical parameters which are interactive. The re-engineering aspect is an effort to bring down the consumption of raw materials keeping the technical parameter of cables with in the specification limits of the cable. Any re-engineering effect has to be time tested before amending the consumption norms as the various parameters are to be stabilized which is possible only in the course of bulk manufacture. Hence the implementation of new norms will take time. In the case of re-engineering ,if the technical parameters are not satisfied, the cables are to be manufactured as per the existing design only. The interest loss as mentioned may be appreciated in the long-run savings in the consumption of material by the efforts of re-engineering. <u>2.2.18</u> For manufacture of any size of cable, the process planning has to start from the tandem lines. For drawing 0.63mm cable entire die set and other tooling in the tandem line are to be completely changed. Over and above 9 types of colour schemes is to be employed for insulation. With 9 different colours of insulation 20 different types of twisted pairs are to be manufactured in the twinning machine. Hence the planning is to be done in multiples of 6 KMs for the final product which may result in planning of additional quantity due to unavoidable reasons of production planning. Normally in the past any additional quantity so manufactured used to be sold againt the next order which was a continuous process. However due to diminishing demand of JFTC due to the abnormal growth of mobile technology that too for sizes of 0.63 mm and 0.5 mm could not be sold and is now remaining as dead stock. The alternative at the moment left with the company is only to scrap the cables and dispose it which requires approval of the Board of Directors. <u>2.2.21</u> The Company's optimum product-mix and the monthly requirement of the Consignees as per the Delivery Schedule in the purchase Order are different and hence there may be backlogs in production and supply, which also lead to payment of Liquidated Damages. <u>2.2.22 , 2.2.23 &2.2.24</u> From the records, it is seen that KSEB has fully settled our Price variation claims for supply effected upto 2002, in 2003 itself. <u>2.2.25</u> The delay in receipt of payment from KSEB is due to delay in allocation of funds from the KSEB head quarters because of their financial crunch. Moreover, the 10% bills are usually paid only after the conductors

supplied by us are consumed by the consignees. Delay in consumption of the conductors can delay passing of the final bills.

<u>2.2.26 & 2.2.27</u>

The observation that *"the suppliers with better delivery rating enjoyed higher prices"* is not true. Irrespective of the prices quoted and delivery rating, all suppliers are offered the same prices, - the lowest price (L-1) or even lower. The delivery rating was used only to rate the supplier for the quantity share based on their Vendor Rating. However this will not in any way affect the prices finalized in the tender. For Vendor Rating formula the Delivery Rating is one of the factors.

<u>2.2.28</u>

The payment of LD Rs.4.35 crores relates to earlier years and had happened due to reasons beyond the Company's control which was explained in the Company's reply to the original enquiry issued by AG auditors.

In April 2004 the company accepted an order from BSNL valuing around Rs.15 crores against the tender floated in 2003-2004. Though the prices offered for various sizes of cables were not very attractive, order has been accepted as the prices was covering cost of production. Apart from this, it will enable the plant to run. For the production of PIJF cables , it is mandatory that 5 of the raw material used in the manufacture of JFTC has to be procured from the sources approved by BSNL. Though there are many suppliers listed by BSNL, most of the raw material manufacturing units are closed due to very poor demand condition of PIJF cables, apart from their own financial problems.

Most of the raw materials are petroleum based and any change in crude price will have direct impact on these raw materials. As price variation is applicable only for copper in the supply of PIJF cable and with the poor price offered by BSNL the upward fluctuation of other raw material will landup the company in heavy losses. This was experienced in 2004-2005.

Inorder to avoid such lossess by way of cost increase without corresponding increase in sales price and payment of LD, in the tender 2005-06 of BSNL company has taken in to account such anticipated additional expense and quoted in the tender and qualified for getting 2.721 LCKM which is equivalent to Rs.15 crores. Though company offered 2% discount in the negotiation with BSNL they have finalized on a still low rate which was not acceptable to the Company, as it was hardly covering the raw material cost only. Hence the company did not accept the order.

This decision was also taken for a stable financial situation of the Irimpanam unit which is functioning satisfactorily or otherwise both units will come to a grinding halt.

2.2.29

The DGM (QA) from the BSNL QA Bangalore, visited the Company factory to inspect their processing methods as there were a number of field complaints received by them for the cables of sizes 400 pairs and the above supplied by various manufacturers as regards to failure after installation. THE DGM(QA), after a thorough inspection of the process, stated that, though advanced RF heating system of filing is an approved process, the system being found deficient, instead called for intermediate filling in supr unit stage as well as in the finished stage to ensure sound filling. He has directed to stop production of 400 pair and above, until stage filling are being installed and process modified accordingly.

Since there was no facility for stage filling as per the technology transfer, and since the demand of JFTC is in decreasing trend a substantial investment by procuring suitable machineries was not viable. On enquiry, it could be gathered that equipment suitable for stage filling will cost around 25 lakhs. Further the Drum Twister machine in which the equipment is to be installed, requires modification by the machine supplier which requires another additional investment of Rs. 15 to 20 lakhs. In the diminishing order situation, this investment was found to be unviable.

Under the above circumstances, a very closer design process was envisaged with internal fabrication with the available spares and other things in house, which took around 2 months. The cable was produced and internal test were carried out and the results were found successful. With the results, then Sr. Manager (PPC) met DGM (QA) Bangalore at his office and explained the modified process. Though DGM (QA) was not fully satisfied, he allowed to continue production of 400 pair and above size cable for the current orders in hand. However, he has insisted that 400 and above sizes for future orders will be accepted subject to the installations of suitable machinery and QA approval. Due to the above reasons the production of cable was delayed and consequently company has incurred LD.

Hence after sorting the issue with DGM (QA), Company supplied cables after delivery period as observed by the audit which attracted price cut and liquidated damage. Though the matter was taken up with BSNL circles to waive the price cut and liquidated damage, they have declined to accept the same.

2.2.30

BSNL will enterta n the supplementary Bills for 5% claims only after the payment against the 95% Bills are made, and the amount received forms a part of the information given in the 5% Bill. Hence the preparation of 5% Bills are delayed until the payments against the main Bills are received. Now, the Company is claiming 100% Bills after submitting an additional Bank Guarantee for 5% value of the Purchase Order, as per the revised Tender conditions. Hence this delay will not recur.

2.2.31

Based on the study and recommendation of M/s KITCO and the present bright scenerio for the demand for bare conductors and cables in power sector the Board approved for the procurement of additional machines to incorporate in the existing manufacturing line of JFTC for the manufacture of bare conductor and power cables at Thiruvalla unit. The man power can be effectively utilized on completion of the expansion programme which is expected to be completed in August 2006.

2.2.32

It is true that, Company has paid overtime in addition to production incentive and also incurred liquidated damage from BSNL for non delivery in time. It is to be construed that the then management might have decided incentive payment to the workmen to avoid liquidated damages. At this stage it can only be construed that, the liquidated damage amount might have been much more in the absence of incentive.

2.2.33

In the Govt. letter No. 19144/H1/2002/ID dt. 25.2.2003 of Industries (H) Department the company was directed to take a considered decision on lay off at Board's level and to inform the Govt. Accordingly the matter was placed before the 228th Board Meeting held on 26.4.2003. At that point of time Irimpanam unit had orders worth Rs.16.5 crores from KSEB and Thiruvalla unit had a small order woth Rs.4.5 crores from BSNL. After detailed discussion the Board deferred the decision of lay off as the plants are working at that point of time. The Board further directed that every effort shall be made to obtain further orders to keep the plant running and decided to review the decision as regards lay off in the ensuing Board meeting.

In the 229th Board meeting Dt.2.8.2003, it was reported that the order for Rs.4.5 cr. from BSNL was completely executed by Thiruvalla unit and the plant was idling from 30.6.2003. It was further reported that the tender for 120 LCKM of JFT cables of BSNL is scheduled to be opened on 31st July 2003. No decision was taken on the tender opening till the date of the 229th Board meeting.

As regards to Irimpanam plant the order from KSEB worth Rs.16.5 cr. was completely executed and Irimpanam plant was also idling from 16.7.2003. It was also reported to the Board that KSEB is planning to place further orders for 25% of the executed quantity. The Board took note of the above and no decision of lay off was taken.

In the status report placed in the 230th Meeting of the Board dt.27.10.2003 , the Board was informed that the company is expected to receive Rs.18 cr. orders from BSNL and another Rs.12 cr orders from KSEB. After detailed discussion the Board directed the MD to take up the matter with the Govt. of kerala for declaring lay off to the employees of Thiruvalla unit in case company does not receive a remunerative order from BSNL in the month of Nov. 2003.

Though it has been reported in the 230th Board meeting that Rs.18 crores orders will be received from BSNL in the month of November 2003 itself, the order was placed only in April 2004 after various stages of negotiation by BSNL. Hence the question of Lay off at Thiruvalla unit was getting deferred in all the Board meetings.

The demand for JFTC is getting reduced year after year and also the prices are coming down in each tender. However to the fortune of the company the demand in the power sector for Aluminium bare conductor and cables have brightened on account of the substantial financial outlay provided by the central Govt. for rural electrification. Accordingly company made a proposal for revival of Thiruvalla unit for the manufacture of bare conductor and cables for the power sector utilizing the existing infrastructure to the maximum possible extent simultaneously retaining the manufacturing facilities of JFTC. At present the company is manufacturing the above type of cables and conductors at the Irimpanan unit and does not require additional technical knowhow to introduce its product at Thiruvalla. The proposal has been approved by the Honourable chief Minister in the meeting held on 30.8.2005. Based on the above, the machineries suggested in the proposal is now under the process of procurement. The revamping process will be completed and it is expected that the unit at Thiruvalla will commence production of conductors by Nov- Dec: 2006. With the above corrective action, the company can achieve a better turnaround and utilize the labour force fully and avoid idle wages.

<u>2.2.34</u>

From 2001 – 2002 onwards the accounts are fully computerized. Computerisation in other areas like Stores etc. will be done in a phased manner in future which will further improve the MIS.

As per the procedure followed in the company, the decisions taken by the Board in every meeting will be forwarded to the concerned Dep tment for implementing and report back the status of pending implementation with sufficient reasons for the infoı nation of the Board of Directors.

2.2.35

* It may be noted that our customers KSEB & BSNL being in the public sector used to take inordinate delay for processing the bills and releasing the payments to TRACO. However due to the earnest efforts by the company, the time lag for realization of sales proceeds have been reduced to a great extent and company is still trying to improve the position further for a better cash management.

- Necessary steps are being taken for revising the standards in cost records to bring standard to the realistic level.
-

2.2.36

- For the last 2 years Thiruvalla unit have manufactured only very small quantity of JFTC. Now that the demand for JFTC has come down drastically so also the price. At present we are manufacturing bare conductors as well as control cables at Irimpanam unit for which strict controls has been enforced to minimize the generation of scrap. The company also plan to implement the same pattern of control at Thiruvalla once the unit start manufacturing bare conductors and cables at Thiruvalla unit.
- Now the reconciliation is being done
- The company used to advertise in News paper once in a while to broaden the supplier /vendor list. While advertising also, tender notification used to be sent to individual supplier / vendor as per the list available. It is observed that most of the tenders submitted were by supplier / vendor who were sent the tender notification directly. More over this system is adopted to avoid cost of tendering in the news papers.
- From 1964 onwards the unloading of all raw materials including packing material at Irimpanam were used to be carried out by the casual labourers for whom the unloading charges are to be borne by the packing material suppliers. Whereas the Thiruvalla unit which had started production in 1990, the unloading of packing material is done by company's casual labourers for which the

		unloadi g charges are borne by the company. This system is adopted at Thiruvalla on adminis.rative reasons. Hence the rate of drum supplied to Irimpanam and Thiruvalla are different and Irimpanam always appears to be on the higher side. • Considering the insufficiency of cross verification of SRV due to change in system introduced in September 2000 the old system of sending SRV separately to Finance and purchase was re-introduced subsequently. Also as per the new system a photo copy of the SRV received by the materials department duly certified is to be forwarded to Finance Department from the Materials Department along with other documents for cross verification of Finance Department with their original copies. Also sending the SRVs through messenger from Thiruvalla unit has been discontinued with direction to send only through courier services from Thiruvalla to Registered office at Ernakulam.
V		No
		to

ANNEXURE 14

(Referred to in paragraph 2.2.6)

Statement showing financial position of Traco Cable Company Limited as on 31 March of the five years up to 2002-03

(Rupees in lakh)

Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
A. Liabilities					
a. Paid up capital	1301.81	1301.81	1301.81	1301.81	1301.81
b. Reserves and surplus	393.04	398.04	424.54	398.04	398.04
c. Borrowings (including cash credit)	3857.92	2425.17	2044.29	1592.42	1435.42
d. Trade dues and current liabilities (including provisions)	2706.71	1870.92	2128.34	2289.12	2297.33
Total (A)	**8259.48**	**5995.94**	**5898.98**	**5581.39**	**5432.60**
B. Assets					
a. Gross Block	5660.34	5267.83	5285.33	5327.30	5327.38
b. Less Depreciation	3090.84	4251.81	4413.60	4535.44	4622.67
c. Net Block	2569.50	1016.02	871.73	791.86	704.71
d. Capital work in progress	0.48	0.48	0.48	0.48	Nil
e. Investments	0.02	0.02	0.02	0.02	0.02
f. Current Assets Loans & Advances	4365.05	4571.56	5026.75	3909.92	2962.23
g. Accumulated loss	1324.43	407.86	...	879.11	1765.64
Total (B)	**8259.48**	**5995.94**	**5898.98**	**5581.39**	**5432.60**
Capital employed*	4228.32	3717.14	3770.98	2413.14	1369.69
Net worth#	370.42	1291.99	1726.35	820.74	(-) 65.79

* Capital employed means Net block (including capital work in progress) plus working capital

\# Net worth means paid up capital plus free reserves minus accumulated losses

ANNEXURE 15

(Referred to in paragraph 2.2.6)

Statement showing working results of Traco Cable Company Limited for the five years up to 2002-03

(Rupees in lakh)

Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
Income					
Sales	6551.27	8249.72	9086.42	3430.76	2924.36
Other income	127.82	168.98	194.06	116.62	222.77
Increase (+)/Decrease (-) in stock	(-)615.10	(+)206.42	(+)58.42	(+)272.43	(-) 299.78
Total	**6063.99**	**8625.12**	9338.90	**3819.81**	**2847.35**
Expenditure					
Raw materials	4002.01	5871.14	6667.02	2929.49	2120.80
Power	107.95	176.70	170.43	155.02	117.57
Stores & spares	2.53	5.98	5.94	1.09	1.91
Repairs and maintenance	71.97	66.17	109.28	61.35	20.16
Other Manufacturing expenses	22.89	25.94	30.45	20.62	15.17
Salaries & Wages and other employee costs (production)	465.75	547.37	611.51	605.80	609.39
Salaries and other employee costs (administration)	96.52	135.49	116.31	106.25	125.21
Other administrative expenses	68.08	102.60	113.93	84.08	52.95
Selling and distribution expenses	227.38	289.43	301.52	148.38	87.69
Other expenses	194.68	130.37	156.38	209.21	182.63
Bad Debts written off/provision for doubtful debts	...	657.14	113.53	61.00	108.58
Total operating expenses	**5259.76**	**8008.33**	**8396.30**	**4382.29**	**3442.06**
Interest	253.98	160.99	303.02	221.29	200.96
Depreciation	419.74	213.37	162.22	121.84	90.86
Operating profit(+)/loss(-) for the year	(+) 130.51	(+) 242.43	(+) 477.36	(-) 905.61	(-) 886.53
Extraordinary adjustments	...	(+) 734.14	...	...	...
Tax provision	...	60.00	43.00	...	...
Net profit	**(+) 130.51**	**(+) 916.57**	(+) 434.36	**(-) 905.61**	**(-) 886.53**

927/2017.

ANNEXURE 16

(Referred to in paragraph 2.2.15)

Cause–wise analysis of Machine Hour Downtime at Thiruvalla Unit of Traco Cable Company Limited for the five years ending 2003-04

Particulars	1999-2000		2000-01		2001-02		2002-03		2003-04		Total	
	Machine Hours	Percentage of Total	Machine Hours	Percentage of Total	Machine Hours	Percentage of Total	Machine Hours	Percentage of Total	Machine Hours	Percentage of Total	Machine Hours	Percentage of Total
Absenteeism	12587	29.8	15985	41.8	10077	38.3	1121	36.7	2680	40.4	42450	36.50
Coil/Core Shortage	9173	21.7	13741	35.9	4132	15.7	231	7.6	417	6.3	27694	23.80
Bobbin/Drum shortage	3991	9.4	5233	13.7	6904	26.3	63	2.2	12	0.4	16203	13.90
Raw material Shortage	507	1.2	535	1.4	324	1.2	499	16.3	2329	35.1	4194	3.60
Technical Problem (Mechanical breakdown, Wire Break & Power shortage)	15938	37.9	2747	7.2	5207	18.5	1138	37.2	1188	17.8	25894	22.20
Total	**42196**	**100**	**38241**	**100**	**26320**	**100**	**3052**	**100**	**6626**	**100**	**116435**	**100**

Annexure 17

(Referred to in paragraph 2.[illegible])

Monthly production at JFTC Unit of Trace Cable Company Limited for the five years ended 31 March 2004

Month	1999-2000	2000-01	2001-02	2002-03	2003-04
	(CKM)				
April	92986	75516	3972	133555	18564
May	100068	23227	969	68493	12193
June	78439	906	23798	Nil	9793
July	82486	54177	9886	Nil	Nil
August	104075	102152	402	Nil	Nil
September	103015	104345	19683	Nil	Nil
October	108007	152452	73965	Nil	Nil
November	65224	152074	48325	Nil	642
December	123014	151119	113856	Nil	8862
January	100405	125576	122008	Nil	16073
February	90640	150260	104948	6637	5517
March	123591	128871	122542	31060	254
Total	**1172040**	**1220675**	**644354**	**239745**	**71898**
Installed Capacity (in kms)	15,00,000	15,00,000	15,00,000	15,00,000	15,00,000
Percentage of capacity utilisation	78.14	81.38	42.96	15.98	4.79

927/2017.

ANNEXURE 18

(Referred to in Paragraph 2.2.36)

Deficiencies in Internal control systems in Traco Cable Company Limited as observed by Audit

Sl. No.	Particulars
1	Mention was made in the Audit Report for the year 1994-95 about the excess usage of Aluminium for manufacture of All Aluminium Conductors (AAC) and Aluminium Conductors Steel Reinforced (ACSR). COPU had recommended in its 31st Report (paragraph 52) to take remedial action to reduce excess consumption. The Company, however, took no control measures. There was absence of a system of input – output reconciliation of costly raw material, as part of inventory control. Audit observed that out of an aggregate consumption of 52,85,237 Kgs. of Alumnium and Steel, there was excess usage of 34,032 Kgs aluminium and steel valued at Rs. 18.96 lakh as per the weight of finished products recorded in the packing list. The overall scrap generation was 43,963 Kgs worth Rs. 29.19 lakh, which accounted for 0.83 *per cent* of input against the norm of 0.5 *per cent*. Besides the above there was an unaccounted shortage of 23,200 Kgs valued Rs. 12.93 lakh during the period April 1999 to March 2003. Thus, the absence of input-output reconciliation resulted in unaccounted shortage of materials.
2	Though the Company followed 'Just in Time' policy of procurement, the inventory holding at Thiruvalla unit was quite high, the value thereof ranging between Rs. 2.09 crore and Rs. 9.83 crore. The cash credit with banks could have been reduced substantially with better inventory management. Thus the deviation from the declared procurement policy resulted in overstocking of materials
3	Though it was statutorily required to form an Audit Committee from December 2000 onwards, the Company constituted the Committee only in March 2002. The Meetings of the Committee since then confined to review of annual financial statements alone and did not include other prescribed areas.
4	Avoidable delay in raising sales invoices resulted in interest loss on potential sales realization to the extent of Rs. 28.58 lakh in respect of Thiruvalla unit and Rs. 7.74 lakh in respect of Irimpanam unit.
5	Reels required as packing material of lower size JFTC was being procured separately at Thiruvalla and Irimpanam units. The Company used to procure the reels based on limited tenders up to 1999-2000 and when open tenders were invited during 2000–01, the lowest rates obtained were substantially lesser than the then existing rate of procurement. While the rate of 800 mm came down from Rs. 379 to Rs. 325, the rate of 1,000 mm got reduced from Rs. 529 to Rs. 495. The rates could be further lowered during 2001–02 when open tenders with adequate publicity were invited. Thus procurement made on the basis of limited tenders deprived the benefit of open tenders.

6	Audit noticed that the rates quoted and accepted in respect of the reels procured at Irimpanam Unit were always higher than those obtained for Thiruvalla Unit for the same material irrespective of the fact that Irimpanam unit was located nearer to the source of supply. When the rate at Thiruvalla for 800 mm reels ranged between Rs.215 and Rs. 225.57, the Company paid rates varying from Rs.319.30 to Rs. 415.09 at Irimpanam during the period April 1999 to May 2002. Similarly the rate of 1.000 mm was Rs.509.85 to Rs. 614.20 at Irimpanam when it was only Rs.390.37 at Thiruvalla. When compared with the lowest rates obtained for Thiruvalla Unit, the cost of procurement at Irimpanam was higher to the extent of Rs. 16.08 lakh during the period April 1999 to May 2002.
7	The Company had been following a system of sending one copy each of the stores received notes (SRVs) to their finance wing and materials wing respectively. The payments were made by the finance wing after receiving the SRVs from the Materials Department and checking the correctness with the copy received by them. From September 2000 onwards both the copies of SRVs were being sent to the Materials Department depriving the Finance Department of the checks necessary before effecting final payment. Due to this internal check system lacunae, payments were made by the finance wing against SRVs from Thiruvalla supported by 19 forged invoices for supply of battens and drums during the period from July 2001 to June 2002. The over payment on this account amounted to Rs.13.58 lakh. The Company intimated the matter to the Government, which directed (October 2002) Vigilance Department to conduct an enquiry into the matter. Thus the internal check system lapses resulted in payment against fraudulent claims.
8	While budget estimate for the three years up to 2001-02 were approved belatedly (during June to September), no budget estimates were prepared thereafter. In respect of periods for which budgets were available, wide variation were noticed in the actual working results with reference to budgets.