



FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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

SIXTIETH REPORT
(Presented on 24th January, 2018)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2018

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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

SIXTIETH REPORT

On

**The Action Taken by Government on the recommendations contained
in the Sixty Sixth Report of the Committee on Public Undertakings
(2014-2016) relating to Tourist Resort (Kerala) Limited based on
the Report of the Comptroller and Auditor General of India
for the year ended 31 March, 2007
(Commercial)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)
COMPOSITION

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Shri C. Divakaran.

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Legislature Secretariat :

Shri V. K. Babu Prakash, Secretary

Shri Mathew Kutty. G., Joint 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 Sixtieth Report on the action Taken by Government on the recommendations contained in the Sixty Sixth Report of the Committee on Public Undertakings (2014-2016) relating to Tourist Resorts (Kerala) Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31 March 2007 (Commercial).

The Statement of Action Taken by the Government included in this Report was considered by the Committee constituted for the year 2016-2019 in its meeting held on 28-12-2016.

This Report was considered and approved by the Committee at its meeting held on 17-1-2018.

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

Thiruvananthapuram,
17th January, 2018.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

REPORT

The Report deals with the Action Taken by Government on the recommendations contained in the Sixty Sixth Report of the Committee on Public Undertakings (2014-2016) relating to Tourist Resorts (Kerala) Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 & 2009 (Commercial).

The Sixty Sixth Report of the Committee on Public Undertakings (2014-2016) was presented to the House on 11th December, 2014. The Report contained 11 recommendations in Para Nos. 17, 18, 19, 20, 21, 22, 23, 24, 25, 26 and 27 of which the Government furnished replies to all of them. The Committee accepted the replies to the recommendations in Para Nos. 17, 18, 19, 20, 21, 22, 23, 24 and 27 without remarks. The recommendations of the Committee and their corresponding replies from the Government form Chapter I of the Report.

The Committee accepted the replies to the recommendation in Para Nos. 25 and 26 with remarks. The recommendations of the Committee, their replies from Government and remarks of the Committee form Chapter II of the Report.

CHAPTER I

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

Sl. No.	Para No.	Department concerned	Conclusions/Recommendations	Action Taken by the Government
1	2	3	4	5
1	17	Tourism	The Committee suspects an unholy intention on the part of TRKL, in selecting Taj Group as JV partner, neither after giving adequate publicity nor after inviting leading hotel chains in the country for expression of interest. TRKL has lost the opportunity to get competitive offers in terms of lease rent and margin of income to maximize its profit share in the JV Company.	The steps for formation of joint venture with TKHRL was initiated at a time when Kerala was not marked as a major tourism destination in the international tourism map. It may be considered that the concerted efforts of the Government of Kerala as well as other stakeholders in the State are the primary reason for Kerala achieving the status of the international tourism super brand, enjoyed by it today. It may be noted that the efforts including joint venture partnerships with major players was a crucial step in this direction. At a time when Kerala Tourism was not having a brand image to attract international tourists by itself, incubating Hotel Industry using the two available international brands of Indian origin viz. M/s TAJ and M/s Oberoi Hotels was the available option for attracting tourists to Kerala at an international level.

2	18	Tourism	<p>Thus the scope of TRKL to choose a competitive JV partner was forgone. Such an undue favour from officials of TRKL to Taj Group is suspected to be something malafide. Hence in expressing its serious concern the Committee demands a clear and just explanation for such a selection of JV partner.</p>	<p>TAJ Group was the most prominent hotel group at that point of time which was approximately 25 years back. The joint venture with the TAJ Group had established hotels at major tourism destinations in Kerala and as a result, the destinations have been able to attract attention in the international level which further lead to attracting more entrepreneurs to the destinations. This has resulted in giant leaps in the tourism sector in the state in the following years. The ability of the Group to invite international attention, attract foreign tourists to the state, brand image at international level, etc. was a major factor while identifying the JV Partner and Government of Kerala had been successful in identifying and entering into JV agreement with the most prominent and internationally noted hotel chain in India, the Taj Group, Finding out such a partner of international reputation through a tendering process may not have been practical at the time concerned. Establishment of Hotels under the TAJ Brand by the JV company at the destinations had helped the state to attract other prominent hotel groups also into Kerala at later years. The overall developments resulted in the tourism sector consequent to these pioneering actions of the Government had been able to attract international tourists to Kerala, development of many new hotels in the state and enabled the state to acquire the status in tourism sector it enjoys today. It may</p>
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				<p>also be noted that the JV with Oberoi Group, which was also floated during similar situation could not fructify considering the difficulties involved in setting up business in the hospitality sector at that time. Considering the achievements of Kerala in tourism sector in the later years, the intention of the Government to promote selected destinations through JV with TAJ Group can only be considered as the most appropriate decision at that time.</p>
3	19	Tourism	<p>The Committee further notices that framing of the JV agreement with Taj without detailed study ended up in an agreement which could not safeguard the interest of the Government. This has in turn led to failure of TRKL in maximizing its profits share in the JV Company. It is therefore recommended that such favoritism which adversely affects the interest of the</p>	<p>The JV Agreement between TAJ Group and TRKL was the first such agreement executed in Kerala (may be even in India) on Public Private Partnership mode. The agreement was framed so as to safeguard the interest of the Government. It may be noted that at present TRKL/KTIL is having 33.33% of equity shares in the JV company instead of 20% as indicated. As per the Companies Act, 2013, a share holder can have significant influence in the affairs of the JV company and can also have effective participation in its management if it has more than 20% of equity holdings. Accordingly the representatives of the Government in the Board of Directors of the JV Company is effectively participating in the matters of the JV Company. Through</p>

Government shouldn't be these active monitoring and corrective actions in the Board, repeated in future. Government/ the JV Company had overcome its cumulative loss up to TRKL should redefine the 2008-09 and had started declaring dividends to its share guidelines including draft JV holders. In addition to the dividends, TRKL/KTIL is also agreements for forming JV obtaining lease rent from the properties leased to the JV Companies. As TRKL had Company. The details of amounts received as dividends only 20% shareholding in the and lease rent by the TRKL/KTIL: for the last few years are JV Company TKHRL could as follows:

neither control its affairs nor have effective participation in its management. Equal share participation should be ensured for JV partners. This would enable them to have adequate control over affairs of the JV Company by appointing equal number of directors and Chairman by rotation.

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Lease Rent	61,10	61,10	62,62	80,38	82,98	82,98
	748	748	681	929	804	804
Dividend	83,33	-	83,33,3	54,16	33,33	33,33
Received	332		32	666	333	333

(1)	(2)	(3)	(4)	(5)
4	20	Tourism	<p>As per the JV agreement the Board of Directors of the JV Company shall consist of not less than three and not more than 12 members. However, without the consent of TRKL the size of Board of directors was increased to 15 and TRKL didn't raise an objection on this. Further TRKL failed to nominate its fourth director, despite its right to do so. The Committee understands that representatives of TRKL in the JV Company have failed to discharge their duties effectively. The Company should find the officials who failed to carry out their responsibilities to safeguard the interest of the State and warn them with proper disciplinary actions. The Committee views these lapses to be very serious and directs that such negligence should not get repeated.</p>	<p>At present there are only 10 Directors on the Board of Directors of TKHRL - Three representing KTIL, Six representing IHCL and their Associates and One Independent Director. According to Section 149(4) of the Companies Act 2013 read with Rule 4 of The Companies (Appointment and Qualification of Directors) Rules, 2014, TKHRL shall have atleast TWO Directors as Independent Directors.</p>
5	21	Tourism	<p>The Committee takes note of the fact that TKHRL had incurred excessive operating expenses during the 6 years up to 2005-06, comparing to the All India Average, thus bringing big shortfall in its</p>	<p>The recommendations/Observations are noted for compliance in this regard.</p>

			<p>operating profit. The exorbitant operating charges were agreed upon without giving due weight to the All India Average. This negligence brought about big losses to the exchequer. It is therefore recommended that such decisions in future should be taken only after proper study and analysis.</p>	
6	22	Tourism	<p>Despite TKHRL, incurring losses IHCL had been charging heavily as Brand Common Costs and Central reservation system expenses from the JV Company. However there was clear failure on the part of nominee Directors of TRKL in bringing to the notice, the excessive charging of operating expenses to the Board of TKHRL, and to actively participate in TKHRL Board Meetings and seek explanation for poor performance of TKHRL.</p> <p>The Committee therefore desires to seek explanation of the nominee Directors not showing justice to their role. If the lapse is found, cognizable responsibility should be fixed to the alleged officials.</p>	<p>The recommendations/Observations are noted for compliance in this regard.</p>

(1)	(2)	(3)	(4)	(5)
7	23	Tourism	The Committee recommends that active participation of the Directors of TRKL in the Board Meeting should be ensured and they should exercise an effective control over the affairs of the company so as to check excessive operating expenses charged by the company and to safeguard the interest of the Government.	The recommendations/Observations are noted for compliance in this regard.
8	24	Tourism	Refusal by TKHRL to provide records of the Company as demand for review by TRKL on the plea that its past performance had been reported to its Board which had sufficient representation from TRKL can't be justified. The Committee wants to know why on such a refusal, TRKL failed to approach Central Government / Company Law Board for special audit of affairs of the JV Company under Section 233A of the Companies Act 1956.	At present the JV Company co-operates well with KTIL.
9	27	Tourism	TRKL should adopt commercial and professional practices for supervising, monitoring and managing its joint ventures.	M/s Tourist Resorts (Kerala) Limited, since its establishment in 1989 as a subsidiary under KTDC, has been working with a strength of one Driver only, in addition to the Managing Director. As part of widening its operations, it was in

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2010, the Government decided to delink the Company from KTDC and to restructure it as an independent company for infrastructure development and investment promotion specific to tourism sector in Kerala. As part of the same, the basic essential posts were sanctioned by the Government. The Company is currently working with staff strength of only 8 employees in addition to Managing Director. After completing the formalities with the Registrar of Companies, the Company was renamed as M/s Kerala Tourism Infrastructure Limited (KTIL) with effect from 14th September 2012. With the existing manpower, the company has taken necessary initiatives for commercial and professional practices for supervising, monitoring and managing its joint ventures.

CHAPTER II

REPLY FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAS BEEN ACCEPTED BY THE COMMITTEE WITH REMARKS

Sl. No.	Para No.	Department concerned	Recommendations of the Committee	Action Taken by the Government
(1)	(2)	(3)	(4)	(5)
1	25	Tourism	Oberoi Kerala Hotels and Resorts Limited (OKHRL) was found to have selected its two locations without proper feasibility study. Due to such a selection of sites the projects didn't materialize in view of non-viability of large capacity hotels and protests from Nature Society. This resulted in blocking of equity investment amounting to ₹ 54.4 lakh and preliminary expenses amounting to ₹ 6.16 lakh. The Committee therefore finds that TRKL has high need to appoint independent experienced agencies as consultants and operators so as to avoid such blocking up of funds	Regarding the selection of locations for the hotel Projects of M/s Oberoi Kerala Hotels and Resorts Limited (OKHRL), it is to be noted that the project at Pathiramanal could not be started as a result of the unexpected protests from the environmental activists against opening of Hotel Project at the location. The Projects of OKHRL were decided as per the plans chalked out by the Joint Venture Company utilizing the services of consultants. Viability options for the project have been considered by OKHRL while formulating the project.

2	26	Tourism	<p>The Committee observes that lack of sound business principles and absence of prudent financial practices had paved the way for heavy accumulated loss of the Company. The Committee wants to know the reason for the non execution of lease agreement even though the Government property was transferred to the Company, way back in 1992. The Committee wants to furnish a report regarding the validity of permit the possession of land without executing a lease agreement.</p>	<p>The company is defunct now and is initiating steps for disposal of its property at Thekkady.</p>
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Remarks :- The Committee wants to know present position of the disposal of property of the company at Thekkady and to furnish detailed report on expenditure of ₹ 54.4 lakhs.

Thriuvananthapuram,
17th January, 2018.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

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