FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

SEVENTY FIRST REPORT

(Presented on 25th June, 2018)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2018

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

SEVENTY FIRST REPORT

On

The action taken by Government on the Recommendations contained in the Sixty Seventh Report of the Committee on Public Undertakings (2014-2016) relating to Kerala Minerals and Metals Limited, based on the Report of the Comptroller and Auditor General of India for the years ended 31-3-2009 and 31-3-2010

1245/2018.

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

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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. Sumakumari G., Special Secretary

Shri Harish G., Deputy Secretary

Smt. Deepa V., Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the Report on their behalf, present this Seventy First Report on Action Taken by Government on the Recommendations contained in the Sixty Seventh Report of the Committee on Public Undertakings (2014-2016) relating to Kerala Minerals and Metals Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March 2009 and 2010.

The Statement of Action Taken by the Government included in this Report was considered by the Committee constituted for the year (2016-2019) at its meeting held on 9-5-2018.

This Report was considered and approved by the Committee at its meeting held on 19-6-2018.

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

C. DIVAKARAN,

Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
19th June, 2018.

REPORT

This report deals with the action taken by Government on the recommendations contained in the Sixty Seventh Report of the Committee on Public Undertakings (2014-2016) relating to Kerala Minerals and Metals Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31st March 2009 and 2010.

The Sixty Seventh Report of the Committee on Public Undertakings (2014-2016) was presented to the House on 11th December 2014. The Report contained 6 recommendations in Para numbers 8, 9, 13, 14, 16 and 17 of which the Government furnished Action Taken statements to all of them. The Committee (2016-2019) considered the Action Taken Statements furnished by the Government at its meeting held on 9-5-2018 and accepted them without remarks. The recommendations of the committee and the corresponding Action Taken Statements furnished by the Government are included in this Report.

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ACTION TAKEN STATEMENTS FURNISHED BY GOVERNMENT WHICH HAS BEEN ACCEPTED BY THE COMMITTEE

Sl. No.	Para. No.	Department Concerned	Recommendations/Conclusions	Action taken by Government
1	2	3	4	5
1	8	Industries	The Committee, is irked to note that an investment decision involving crores of rupees has been initiated by the Company in the absence of a Detailed Project Report (DPR) and/or any other investment plan. The Committee finds it paradoxical to note that the Company's decision to abandon the project has been taken on the basis of DPR. The Committee opines that the decision of the Company to place purchase order prior to the approval of DPR has resulted in the wasteful expenditure of ₹ 58.57 crore consequent to the abandonment of the project. Further more, the Committee observes that the Company is functioning in a topsy-turvy manner like constituting a sub-committee to review DPR prior to	KMML, as part of its long term business perspective, had prepared a corporate plan during the year 1999. DPR's were prepared for the following major milestone packages: (i) Enhancing the Capacity of MS plant to 3 lakh MTPA. Estimate was 292.47 crore. (ii) TiO2 plant capacity enhancement from 30000 MTPA to 60000 MTPA. Estimate was 415. 99 Crore (iii) 100TPD Oxygen plant. Estimate was 51. 82 Crore Detailed Project Reports (DPR's) for the various capacity expansion projects were

<table>
<tr><td></td><td></td><td></td><td>abandonment of the project. The Committee concludes that wilful negligence committed by the management in taking crucial investment decisions deterred the Company from channelising the much needed resources for funding other viable projects.</td><td>prepared by KMML during the year 1999. The company obtained GoK approvals for the same in the year 2000. The details are as below:</td></tr>
<tr><td>2</td><td>9</td><td>Industries</td><td>The Committee recommends that before venturing into expansion projects the preparation of DPR should be entrusted to an experienced firm acquainted with this field. An expert Committee of the Company should thoroughly scrutinize the technical feasibility, Viability, market conditions and environmental factors before finalising the DPR. The Committee reiterated that purchase order should never be placed, before the approval of DPR. The Committee suggests that should there be a time lag in implementing the project, the DPR should be revised accordingly and that there should be a provision for cancellation of purchase order. The Committee also</td><td><table>
<tr><th>Project Proposal</th><th>Govt. Approval</th><th>DPR Prepared</th><th>₹ in crores</th></tr>
<tr><td>Enchanting capacity of MS plant to 3 lakh TPA</td><td>GO(Ms.) 16/2000/ID dated 24-1-2000</td><td>KITCO (March 1999)</td><td>292.47</td></tr>
<tr><td>Capacity enhancement of Titanium dioxide plant to 60000 TPA</td><td>GO(Ms.) 16/2000/ID dated 24-1-2000</td><td>MECON (May 1999)</td><td>415.99</td></tr>
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<td>observed that the Additional Chief Secretary, Industries Department had orally agreed to furnish a detailed report before the Committee but it has not been complied with till date. The Committee recommends that liability should be fixed on the officers responsible for placing the purchase order of machinery prior to the finalisation of DPR.</td>
<td>
<table>
<tr><td>100 TPD Oxygen Plant</td><td>GO(Ms.) 16/2000/ID dated 24-1-2000</td><td>KITCO (May 1999)</td><td>51.82</td></tr>
<tr><td></td><td>Total</td><td></td><td>760.28</td></tr>
</table>
Subsequently, based on the above DPRS, a corporate investment plan for the above project proposals was prepared by KMML, envisaging a period of 5 years from 2003-04 to 2007-08. This was placed before the 155th BoD meeting held on 27th December 2002. Board approved the working plan.
Govt. of Kerala vide G. O. (Ms.)No 46/2004/ID dated 23-4-2004 had accorded approval for the above investment plan at a total cash outlay of 760 Cr. Total investment of the projects approved by the Government was within the total cost of projects approved earlier for the expansion of the company.
</td>
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				M/s MECON (A Govt. of india Engineering Consultancy Service) was appointed as the Engineering Consultants in January 2004. Therefore, it is not correct or true to say that KMML proceeded with investment plans without preparing DPRs. Corporate investment plan was a definite spending plan based on the DPRs prepared by MECON and KITCO. In the meanwhile, Kerala State Pollution Control Board, vide letter No. PCB/ TVM/ HWM/a/17/90 dated 25-8-2004, issued a closure notice to KMML citing non-compliance of certain regulations of the hazardous waste management rules. This was done on the basis of observation by Supreme Court Monitoring Committee. The 166th Board meeting dated 1-2-2005 on reviewing the projects, found them to be non-compliance with the new Pollution Control Norms and decided to rework the projects, for which MECON was engaged.

				MECON was appointed as engineering consultants considering their previous experience in the field in setting up KMML's existing plant. There was time lag in implementation of projects mainly due to change in environmental laws. Revising the project to account for the stricter environmental laws led to increase in costs, finally leading to review and cancellation of the projects. The Committee's suggestions on incorporating a clause for cancellation of purchase order due to time lag will be considered on the basis of prevailing contract laws. The Orders for certain machineries were placed subsequent to the approval given by Government for the projects (based on the DPR and investment plan prepared and put up to the Government). It was a fact that the expansion projects were abandoned later and some of the items as ordered with respect to various packages

<table>
<tr><td></td><td></td><td></td><td></td><td>of the projects were received at the site and certain other items were under various stages of processing.

Considering the above, it is submitted that these events should not be seen as lapses on the part of any individual officer and the committee's recommendation to fix responsibility on such officers be dropped. Detailed report offered by the witness is enclosed as Annexure I.</td></tr>
<tr><td>3</td><td>13</td><td>Industries</td><td>The Committee observes that the erroneous calculation of overtime wages resulted in the excess payment of overtime wages amounting to ₹ 2.92 crore. The Committee remarks that this section of the Company is an affront to the Factories Act.</td><td rowspan="2">The company was following the method of calculation of wages for overtime payment based on 24 working days in a month and 7 daily working hours (ie, 180 hours per month) to arrive at the hourly rate, right from the introduction of overtime wages in the company.

However when it was pointed out by C&AG's Audit in 2009 that it is not in conformity with the provisions of the Factories Act, KMML modified the method of calculation of overtime by</td></tr>
<tr><td>4</td><td>14</td><td>Industries</td><td>The Committee reiterates that in the absence of any wage settlement to the contrary, it is mandatory for the labourers to abide by the provisions contained in the Factories Act. The Committee desires to be furnished with the final report of the State Labour Commissioner in this regard.</td></tr>
</table>

				issuing an order dated 15-5-2009, reckoning 30 working days with 8 hours per day (ie 240 hours per month) and overtime payment for the month of May 2009 was calculated based on the revised calculation. All the trade unions objected to the modifications on the plea that the customary benefits available to the workers could not be unilaterally modified by the Management and they demanded withdrawal of the modification and restoration of earlier practice. Since the management did not accede to the demand the unions observed a token strike on 8-6-2009 due to which the plant operations had to be closed down. The Hon'ble Minister for Labour convened discussion of management and trade unions on 10-6-2009 in the presence of Hon'ble Minister for Industries. In the discussions it was decided to freeze the

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				order dated 15-5-2009 issued by the company and to maintain the status quo as existing prior to 15-5-2009 with respect to method of calculation of overtime. It was also decided that State Labour Commissioner will be conveying further discussion to have a final settlement of the issue. The company had continuously followed up the matter with the Labour Commissioner, but no discussion was convened. However the company again issued an Order on 4th October 2014 modifying the method of calculation of overtime by taking 240 hours per month as base. The recognised trade unions filed conciliation petition before Regional Labour Commissioner (Central) regarding the revision of overtime calculation formula alleging that it is the violation of the provisions of Industrial Dispute Act 1947 and thereby the matter was seized as per the instruction from Regional Labour

				Commissioner (Central). Further, RLC (Central) convened conciliation meetings with recognized trade unions and management on 27th October 2014, 27th November 2014, 17th December 2014 and 9th January 2015 but no amicable settlement has been evolved. In the above circumstances RLC (Central) has submitted a failure report to Central Labour Commissioner and Central Labour Ministry, Government of India. The Central Labour Ministry referred the case to Industrial Tribunal/Labour Court, Ernakulam and it is pending. Hence the company is not in a position to act upon the issue until it is settled in the Industrial Tribunal.
5	16	Industries	The Committee criticizes the inexplicable attitude of the Company in not taking timely action to revert to its original contract demand for power, post the abandonment of the expansion project. The Committee adduces this inaction of the Company as a classic example of the laxity	It is true that KMML had applied for enhancing power contract demand with KSEB for the projects planned in 2000 & 2004, but had not reverted to the original contract demand for power after the abandonment of the expansion projects in 2008.

			of its officials in taking timely action which paved the way for an avoidable loss of ₹ 1.19 Crore on electricity charges.	The projects were abandoned since there had been an erosion in the Company's cash reserves from ₹ 0.223 crores in 2003-04 to ₹ 0.89 crores in 2006-07. On the other side the investment outlay was escalating with time and there were no resources to fund the expansion. So the projects were formally abandoned vide G.O.(Ms.) No.15/2008/ID dated 25-1-2008 and G.O. (Ms.)No.168/2010/ID dated 3-8-2010. However Contract Demand with KSEBL was retained in view of the following factors: (i) Titanium Sponge plant Project (TSP) was a separate project conceived in the meanwhile, apart from the expansion projects, which had a maximum demand of 5580 KVA, and was scheduled to commerce operations by December 2008. (ii) KSEB's procedure for enhancing contract demand was at that time

				very time consuming. The application to enhance the contract demand from 7.5 to 10.0 MVA was filed by KMML during September 1986; however, the decision for such enhancement was taken by KSEB only during November 2000. Therefore KMML retained the additionally enhanced contract demand in anticipation of demand from TSP. Unfortunately the commissioning of TSP got delayed. Even after commissioning, production was only in the range of 30%, due to the Operation at lower throughput for want of orders from VSSC. Simultaneously, KMML has taken various internal efforts to implement energy conservation measures, which also resulted in substantial savings to the company in terms of energy costs. The above factors attributed to the lower maximum demand than what was anticipated.

6	17	Industries	The Committee recommends that all those officials of the Company identified as responsible for the lapse should be booked and liability be fixed on them.	An internal committee was constituted by KMML to examine the subject matter in detail. The committee has submitted its report on 8-8-2016. Hence the internal committee could not find lapses on the part of any individual Officer who handled the subject matter during the said period. In view of the above and also considering the fact that the amount in terms of contract demand was transacted to KSEB Ltd. only, another PSU under Government of Kerala, we once again request you to kindly drop the para. Internal Committee report is enclosed as Annexure II.

Thiruvananthapuram,
19th June, 2018.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

ANNEXURE I

ANNEXURE I

DETAILED REPLY ON THE OBSERVATIONS OF AUDIT ASSOCIATED WITH ABANDONED PROJECTS AND CONTRACT DEMAND WITH KSEBL (Para 8/9/16 &17).

Audit Observation	
Para 8:-The committee is irked to note that an investment decision involving crores of rupees has been initiated by the company in the absence of a Detailed Project Report and/or any other investment plan. The committee finds it paradoxical to note that the Company's decision to abandon the project has been taken on the basis of DPR. The committee opines that the decision of the company to place purchase order prior to the approval of DPR has resulted in the wasteful expenditure of Rs. 58.57 Crores consequent to the abandonment of the project. Furthermore, the committee observes that the company is functioning in a topsy-turvy manner like constituting a sub committee to review DPR prior to the abandonment of the project. The committee concludes that willful negligence committed by the management in taking crucial investment decisions deterred the company from channelizing the much needed resources for funding other viable projects.	Para 9:-The committee recommends that before venturing into expansion projects the preparation of DPR should be entrusted to an experienced firm acquainted with this field. An expert committee of the company should thoroughly scrutinize the technical feasibility, viability, market conditions and environmental factors before finalizing the DPR. The committee reiterated that purchase order should never be placed before the approval of DPR. The committee suggests that should there be a time lag in implementing the project, the DPR should be revised accordingly and that there should be a provision for cancellation of purchase order. The committee also observed that the Additional Chief Secretary had orally agreed to furnish a detailed report before the committee but has not been complied till date. The committee recommends that liability should be fixed on the Officers responsible for placing the P.O of machinery prior to the finalization of DPR.

KMML Abandoned Expansion Projects

Back Ground

Detailed Project Reports (DPR's) for the various capacity expansion projects were prepared by KMML during the year 1999. The company obtained GoK approvals for the same in the year 2000. The details are as below:

Project Proposal	Govt. Approval	DPR Prepared	Rs. in Crores
Enhancing capacity of MS plant to 3 Lakh TPA	GO(MS) 16/2000/ID dated 24/01/2000	KITCO(March 1999)	292.47
Capacity enhancement of Titanium dioxide plant to 60000 TPA	GO(MS) 17/2000/ID dated 24/01/2000	MECON(May 1999)	415.99
100 TPD Oxygen Plant	GO(MS) 18/2000/ID dated 24/01/2000	KITCO(May 1999)	51.82
	Total		760.28

Subsequently, based on the above DPRs, a corporate investment plan for the above project proposals was prepared by KMML, envisaging a period of 5 years from 2003-04 to 2007-08. This was placed before the 155th BoD meeting held on 27th December2002. Board approved the working plan. The split up of packages included in the corporate investment plan are as below:

Sl No.	Project	Cost Estimates (Rs. in Crores)
1.	Enhancement of TiO2 capacity to 60000 MT/Yr	50
2.	Setting up of 125 MTPD O2 Plant for above	40
3.	Enhancement of BI production to 55000 MT/Yr with BCA process	40
4.	Additional Mineral Separation facilities for Zircon & Rutile	15
5.	Enhancement of TiO2 capacity to 100000 MT/Yr	100
6.	New Synthetic Rutile plant of capacity 135000 MT	250
7.	Additional stream of 125 MTPD O2 Plant	50
8.	125 MTPH Mineral recovery plant with separation facility	120
9.	Water Supply Schemes(Desalination etc)	40
10.	DCS	20
11.	Miscellaneous	5
12.	Consultancy Charges	30
13.	Total	760

Govt. of Kerala vide G.O (Ms) No.46/2004/ID dated 23/04/2004 had accorded approval for the above investment plan at a total cash outlay of Rs. 760 Cr. Total investment of the projects approved by the Government was within the total cost of projects approved earlier for the expansion of the company.

M/s. MECON (A Govt. of India Engineering Consultancy Services) was appointed as the Engineering Consultants in January 2004. Procurement actions were initiated for different items under various packages and the company started placing orders for them. In the meanwhile, Kerala State Pollution Control Board vide letter no. PCB/TVM/HWM/a/17/90 dated 25/08/2004 issued a closure notice to the company citing non-compliance of certain regulations required as per the hazardous waste management rules This was done on the basis of observation by Supreme Court monitoring committee(Relevant copies are attached). The major non-compliances cited were

a. Acidic iron oxide slurry being stored in the ponds is getting leaked out to the surroundings.
b. The ETP sludge is being deposited in the ponds in the slurry form.

166th Board meeting dated 1/2/05 considered the above non-compliance during the review of expansion projects, agreed for the technological changes to be imparted in the concerned areas. This was especially covering the technology for production of Synthetic Rutile (SR). (Extract of the MoM of Board is attached)

The process know-how for the new SR plant was finalized during November 2005 but the cost of the project was unknown. 21st Board purchase sub-committee decided to carry out a supplier presentation before Board, to assess the project cost. Extract of the M.o.M of Board Sub-committee is attached. Accordingly, DPR incorporating the above changes was updated by MECON during first quarter of year 2006. With the new technology and associated changes, the revised total project cost hiked up to Rs. 1100 Cr. from the earlier Rs. 760 Cr.

Board Sub-committee reviewed the expansion projects in its meeting dated 22/9/2006 and 24/10/2006. It was observed that that the cost of the projects has been overshooting and hence it was felt that a review is necessary. Meanwhile, there was erosion in company's cash reserves (Rs. 223 Crores in 2003-04 to Rs. 89 Crores in 2006-07). On the other side investment was huge and it was difficult to proceed without a funding plan. 181th Board meeting dated 22/11/2006, reviewed the report of its sub-committee and decided to go into the more details. (Extract of Board M.o.M is attached).

182nd Board meeting held on 12/02/07 reviewed the detailed report of the following sub-committee, in connection with the expansion projects

1. Shri. P H Kurian IAS
2. Shri. Ishita Roy, IAS
3. Shri. N R Subramaniam,MD

The above committee (report dated 7th December, 2006) had gone through the various aspects of the projects/situation of the company prevailed then. Hence Board decided to withhold the proposed experienced and competent to handle the same. Corporate investment plan was a definite spending plan based on the DPRs prepared by MECON and KITCO.

ii. As explained above, MECON was appointed as engineering consultants considering their previous experience in the field in setting up KMML's existing plant. Purchase orders were placed by MECON for various items on the basis of packages identified in line with DPR and investment plan. There was time lag in implementation of projects mainly due to change in environmental laws. It may be noted that the company revised the DPRs to address the provisions of the new environmental laws. Unfortunately, the same led to increase in costs finally leading to review and cancellation of the projects. Committee suggestions on providing clause for cancellation of purchase order due to time lag will be considered on the basis of prevailing contract laws. This aspect is being carefully addressed in present tenders.

Considering the above, it is submitted these events should not be seen as at lapses on the part of any individual officer and the committee's recommendation to fix responsibility on such officers be dropped."

Audit Observation

Para 16&17: The committee criticizes the inexplicable attitude of the company in not taking timely action to revert to its original contract demand for power, post the abandonment of the expansion project. The committee adduces this inaction of the company as a classic example of the laxity of its official in taking timely action which paved the way for an avoidable loss of INR.1.19 Crores on electricity charges.

The committee recommends that all those officials of the company identified as responsible for the lapse should be booked and liability be fixed on them.

Reply to Para.16&17 of audit observations

An internal committee was constituted by KMML to examine the subject matter in detail. The committee has submitted its report on 08/08/2016(Copy of report Attached).The committee observed that th actions to enhance the contract demand with KSEB were taken in view of the expansion projects of the company, kicked off with the approvals of GoK during the year 2000 and 2004.But the projects were abandoned later by GoK during 2008, due to various reasons as below.

Board Sub-committee reviewed the company expansion projects in its meeting dated 22/9/2006 and 24/10/2006(as explained in the reply for previous audit observations (Para 8 &9)). It was observed that that the cost of the projects has been overshooting and hence it was felt that a review is necessary. Meanwhile, there was erosion in company's cash reserves (Rs. 223 Crores in 2003-04 to Rs. 89 Crores in 2006-07). On the other side investment was huge and it was difficult to proceed without a funding plan. 181th Board meeting dated 22/11/2006, reviewed the report of its sub-committee and decided to go into more details. (Extract of Board M.o.M is attached).

Board meeting held on 12/02/07 reviewed the detailed report of the following sub-committee, in connection with the expansion projects

1. Shri. P H Kurian IAS.
2. Shri. Ishita Roy, IAS
3. Shri. N R Subramaniam, MD

The above committee (report dated 7th December, 2006) had gone through the various aspects of the projects/situation of the company prevailed then. Hence Board decided to withhold the proposed projects for taking a final decision by the Government on the matter. (Extract of Board M.o.M attached).

Later, Government of Kerala vide order no. G.O (Ms) no.15/2008/ID dated 25.1.2008 and G.O (Ms) no.168/2010/ID dated 3.8.2010 had abandoned the expansion projects of KMML. (Copy of the G.O's attached).However Contract Demand with KSEBL was retained in view of the following factors

(i). Titanium Sponge Plant Project (TSP) was a separate project conceived in the meanwhile, apart from the expansion projects, approved by GoK in the year 2005(which has a Maximum demand of 5580 KVA) and was scheduled to commence operations by December 2008.

(ii). The procedure involved in enhancing contract demand is generally very time consuming. The application to enhance the contract demand from 7.5 to 10.0 MVA was filed by KMML during September 1986 however the decision for such enhancement was taken by KSEB (may be due to power shortage) only during November 2000. Therefore the company was inclined to retain the additionally enhanced contract demand in anticipation of demand from TSP.

Unfortunately the commissioning of TSP got delayed. Even after commissioning, the demand required for TSP has not reached the peak level as expected and it was only in the range of 30%, due to the operation at lower throughputs for want of orders from VSSC. In the meanwhile, company has taken various internal efforts to implement energy conservation measures, which also resulted in substantial savings to the company in terms of energy costs.

The above factors attributed to the lower maximum demand than what was anticipated. Hence the internal committee could not find lapses on the part of any individual Officer who handled the subject matter during the said period. (Report of the committee is enclosed as Annexure). In view of the above and also considering the fact that the amount in terms of contract demand was transacted to KSEB Ltd only, another PSU under Government of Kerala, we once again request you to kindly drop the para.

Reply to Para 13 & 14

The company was following the method of calculation of wage for overtime payment based on 24 working days in a month and 7 ½ daily working hours (ie, 180 hours per month) to arrive at the hourly rate , right from the introduction of overtime wages in the company. However when it was pointed out by C&AG's Audit in 2009 that it is not in conformity with the provisions of the Factories Act , the company modified the method of calculation of overtime by issuing an order dated 15.05.2009, reckoning 30 working days with 8 hours work per day (ie, 240 hours per month) and overtime payment for the month of May 2009 was calculated based on the revised calculation. All the trade unions objected to the modifications on the plea that the customary benefit available to the workers could not be unilaterally modified by the Management and they demanded withdrawal of the modification and restoration of earlier practice. Since the management did not accede to the demand the unions observed a token strike on 08-06-2009 due to which the plant operations had to be closed down. The Hon'ble Minister for Labour had convened discussion of management and trade unions on 10-06-2009 in the presence of Hon'ble Minister for Industries. In the discussions , it was decided to freeze the order dated 15.05.2009 issued by the company and to maintain the status quo as existing prior to 15.05.2009 with respect to method of calculation of overtime. It was also decided that State Labour Commissioner will be convening further discussion to have a final settlement of the issue. The company had continuously followed up the matter with the Labour Commissioner, but no discussion was convened. However the Company again issued an Order on 4^{th} October 2014 modifying the method of calculation of overtime by taking 240 hours per month as base . The recognised trade unions filed conciliation petition before Regional Labour Commissioner(Central) regarding the revision of overtime calculation formula alleging that it is the violation of the provisions of Industrial Dispute Act 1947 and thereby the matter was seized as per the instruction from Regional Labour Commissioner(Central). Further RLC (Central) convened conciliation meetings with recognised trade unions and management on 27^{th} October 2014, 27^{th} November 2014 , 17^{th} December 2014 and 9^{th} January 2015 but no amicable settlement has been evolved. In the above circumstances RLC(Central) has submitted a failure report to Central Labour Commissioner and Central Labour Ministry, Govt of India. The Central Labour Ministry referred the case to Industrial Tribunal / Labour Court, Ernakulam and it is pending. Hence the company is not in a position to act upon the issue until it is settled in the Industrial Tribunal.

ANNEXURE II

REPORT BY THE COMMITTEE TO EXAMINE C &AG AUDIT QUERY ON RETAINING HIGHER CONTRACT DEMAND WITH KSEBL

Vide MD's circular dated 3/2/2016; the following committee was constituted in the light of the declined reply submitted by the company against C&AG audit query on retaining higher contract demand with KSEBL. Committee was instructed to examine the matter in detail and also to ascertain if any person(s) was responsible for the alleged lapse.

1. Mr. Suresh Kumar — TA to MD — Chairman
2. Mr. Georgee Ninan. — JGM (P&M)
3. Mr. Sureshbabu — HOD (PDN)
4. Mr. Santhosh S — AGM (PJ) — Convener
5. Mr. Anil Kumar — AGM (F)

Based on the above, the committee has done a detailed assessment of the records available and its report is as below.

Contract Demand (Chronological)-KMML

Up to 13.11.2000	7.5 MVA
13.11.2000 to 0807.2003	10.0 MVA
08.07.2003 to 16.08.2004	12.5 MVA
16.08.2004 to 16.04.2010	16.0 MVA
16.04.2010 till date	12.5 MVA

Our original contract demand during the initial years was 7.5 MVA. TP Unit was not operating at the rated output during the initial days of commissioning. With major technological breakthrough in process, the Company started operation in full swing. Hence the Company filed an application for enhancement of the contract demand to 10 MVA. KSEB had kept the file long pending.

As a part of Company's corporate vision, the Government of Kerala had accorded sanction for the following projects vide GO (MS) No.16, 17, 18, 19 /2000/ID dated 24-01-2000.

(a) Setting up of Mineral Separation Plant.

(b) Enhancing the capacity of TiO_2 Pigment Plant.

(c) Establishment of a 100 TPD Oxygen Plant.

Subsequently, the Government of Kerala had accorded sanction for the following expansion projects vide GO (MS) No.96/2004/ID dated 23-04-2004.

(a) Synthetic Rutile Plant.

(b) Mineral Separation Plant.

(c) Desalination Plant.

(d) Oxygen Plant on BOO basis.

To cater the power to capacity expansion projects, KMML had signed an agreement with KSEB for the enhancement of contract demand as below;

(a) 7.5 to 10 MVA with effect from 13-11-2000.

(b) 10 to 12.5 MVA with effect from 08-07-2003 (for 22000 to 40000 TPY expansion which was carried out in-house). Our plant maximum demand during that time (2004) was 11800 KVA.

(c) 12.5 to 16 MVA with effect from 16-08-2004 (for the initial requirement of 40000 to 60000 TPY expansions). The initial requirement of maximum demand for the capacity expansion project from 40000 to 60000 TPY envisaged was 3500 KVA.

The Government of Kerala had also approved the Titanium Sponge Project 500 / 1000 TPY vide GO (MS) No.149/2005/ID dated 21-11-2005. The maximum demand of the approved TSP project is 5580 KVA (reference to DPR for 500 TPY TSP by KITCO Ltd. (Annexure - VII, Page No.15).

As such, the maximum demand for the running existing TP unit Plant and Titanium Sponge Project is 17380 KVA. This is 1380 KVA in excess of the then contract demand. It is also worth noting that the envisaged total demand was actually 20880 KVA, considering the maximum demand requirement of existing plant operation(11800 KVA), initial expansion plans to 60000 TPA TiO_2 production capacity(3500 KVA) and TSP project requirements(5580 KVA).

It is a fact that the expansion plans of TP unit & MS plant as approved by the Government couldn't be completed/conceived in the way that was intended. Govt. vide order no. (MS) no. 15/08/ID dated 15.01.2008 had issued to abandon the following projects

(a) Synthetic Rutile Plant.

(b) Mineral Separation Plant.

(c) Desalination Plant.

(d) Oxygen Plant on BOO basis.

But the Government has not given any direction for cancellation / continuation of the other interlinked projects as detailed below which were also included in the corporate plan approved by the Government:

(a) Enhancement of TiO_2 capacity to 60,000 TPA

(b) Conversion to DCS

(c) Enhancement of TiO_2 capacity to 100000 TPA

(d) Miscellaneous project

(e) Consultancy charges

The 187th BoD meeting held on 7th March 2008 has recommended the Govt. for abandoning the above projects since the expansion of TiO_2 plant to 100,000 MTPA and other items mentioned above is not advisable without the expansion of raw material supplies like ilmenite, synthetic Rutile and utilities like oxygen, nitrogen etc.

Meantime the following projects were mooted, as cost reduction activity

(a). Capacity augmentation of Synthetic Rutile plant(SR Project)

(b). 53 TPH AFBC Coal fired boiler with coal & ash handling system

(c). Separation of valuable minerals

Government sanctions were obtained for the above projects.190th BoD meeting held on 24th October 2008 had noted the approval of cost reduction project and steps started for tendering. Board constituted a subcommittee with 4 Directors for periodical review of the progress of execution of the three cost reduction projects.

Power requirement envisaged was as below for the above cost reduction projects

1.	Capacity augmentation of Synthetic Rutile plant(SR Project)	400 KVA
2.	53 TPH AFBC Coal fired boiler with coal & ash handling system	1000 KVA
3.	Separation of valuable minerals	500 KVA

A total of 1900 KVA was envisaged for the cost reduction projects. Hence with the ongoing TSP Project and cost reduction projects, the total envisaged maximum demand requirement stands well above 16000 KVA even after cancellation of company expansion projects(Envisaged MD requirement even at this point of time was 19280 KVA, in actual).

Meantime, we had taken various steps departmentally, as a part of energy conservation efforts to bring down the maximum demand/energy savings, which includes the following in minimum

1. VFD operation for existing Roaster,calciner & its coolers
2. VFD operation for Calciner ID fans
3. VFD operation for old belt filter
4. VFD operation for ARP combustion air fans
5. VFD operation for DM water pumps
6. VFD operation for degasser pumps

All the above installations were carried out successfully, accounted to considerable savings in the energy/demand consumed. The task done was highly appreciable and also the demand reduction offsets the additional KVA requirement for SR project conceived.

Committee also noted the following points

(a) The increase from 12.5 to 16 was done in anticipation of the capacity expansion plans from 40000 to 60000 MTPA, which was further retained for TSP project and cost reduction projects.

(b) Although an additional requirement of 5580 KVA was projected as the requirement for TSP, the contract demand was not enhanced further as the expansion projects (40000 to 60000) was progressing at a very slow pace, these projects were subsequently abandoned.

(c) Titanium Sponge Project was scheduled to commence production by the end of December 2008 (referred to Page No.53, Section 7 of DPR) hence the agreement with KSEB for the contract demand of 16 MVA was retained as such.

(d) Unfortunately the TSP project was delayed. Incidentally, the AG's audit conducted also commented on this matter.

(e) It is also a fact that TSP is now operating at about 30% capacity only which is also a factor in limiting the maximum demand now. As there was difficulty in getting higher power due to short supply, MD anticipating the TSP project etc., the demand of 16 MVA continued. However based on C&AG query, the matter was reviewed and the contract demand was reduced to 12.5 MVA.

CONCLUSION

C&AG in its audit pointed out that "An Unproductive expenditure has occurred consequent to abandoning the capacity expansion projects and unnecessary retention of the contract demand during the period of May 2008 to January 2010".

The higher contract demand charges cited above was passed to KSEBL, another PSU under Government of Kerala.

From the examination of the details, it is clear that the action to enhance the contract demand with KSEBL was taken for the company expansion/diversification projects etc. Unfortunately, the corporate expansion projects were abandoned by the Government. However, TSP Project and cost reduction projects were live, which invited the requirement of contract demand above the tune of 16 MVA so the demand already agreed with KSEBL was retained.

The major factor attributed to the subject issue was the delay in commissioning of TSP project. Moreover, even after commissioning of TSP, the power requirement of TSP was not in the tune as expected due to its low capacity utilization. It is also worth noting that some of the cost reduction projects didn't take off as intended and various steps in terms of energy conservation measures were taken up departmentally, had resulted in reduction of maximum demand availed for the then running plant.

In the light of the above, the committee couldn't find lapses from any one handled the respective matters. Hence we may once again request the concerned authority to drop the query raised by C&AG citing the previous reply given and facts mentioned in the report prepared hereby.

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