FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2019-2021)

EIGHTY FIRST REPORT

(Presented on 6th February, 2019)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2019

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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On

TRAVANCORE COCHIN CHEMICALS LIMITED

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2008 and 2014)

319/2019.

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COMMITTEE ON PUBLIC UNDERTAKINGS (2019-2021)

COMPOSITION OF THE COMMITTEE

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Shri C. Divakaran.

Members:

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Legislature Secretariat:

Shri V. K. Babu Prakash, Secretary

Shri K. Suresh Kumar, Joint Secretary

Shri G. Harish, Deputy Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2019-2021) having been authorised by the Committee to present the Report on their behalf, present this Eighty First Report on the Travancore Cochin Chemicals Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2008 and 2014 relating to the Public Sector Undertakings of the Government of Kerala.

The aforesaid reports of the Comptroller and Auditor General of India for the year ended on 31st March 2008 and 2014 were laid on the Table of the House on 23-6-2009 and 23-3-2015 respectively. 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 2016-2019 at its meeting held on 17-10-2017.

This Report was considered and approved by the Committee (2019-2021) at its meeting held on 1-2-2019.

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

The Committee wishes to express its thanks to the officials of the Industries Department of the Government Secretariat and Travancore Cochin Chemicals 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 Department and the officials of Travancore Cochin Chemicals Limited who appeared for evidence and assisted the Committee by placing their views before it.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
1st February, 2019.

REPORT

ON

TRAVANCORE COCHIN CHEMICALS LIMITED

AUDIT PARAGRAPH 4.3 (2007-08)

4.3 Extra Expenditure

Decision of the Company to discontinue the insurance of critical items of machinery under Machinery Breakdown Policy resulted in extra expenditure of Rs.74.25 lakh.

The Company, engaged in the production and marketing of caustic soda, had been insuring (since 2000-01) its major electrical items with Kerala State Insurance Department under the Machinery Breakdown Policy (MBP). Under this policy, any loss or damage by fire arising from short circuit within the electrical appliance and installation had also been covered. The schedule of machinery insured under MBP for the period 2004-05 included an EMCO make Rectifier Transformer which had a critical function to power the electrolysers. The sum assured for this item was Rs.1.38 crore.

Subsequently, the Company discontinued (March 2005) the insurance under MBP on the ground that it was not advantageous considering the ratio of claim amount received and the actual amount of premiums paid during the previous years. The Company failed to safeguard its interest as coverage of risk under insurance was much more important than the expenditure incurred on premium since the cost of damage would be left uncovered in the case of non-insurance.

In April 2007, the rectifier transformer was damaged due to short circuit and was repaired at a cost of Rs.90 lakh. Later, in the light of accident and breakdown of the transformer, the Company insured (January 2008) all critical equipments under MBP with the Oriental Insurance Company Limited.

Thus the decision of the Company to discontinue the insurance of critical items of machinery under MBP resulted in extra expenditure of Rs.74.25 lakh after excluding saving towards premium payable for two years.

The matter was reported to the Government/Management in April 2008; their reply was awaited (August 2008).

[The Audit Paragraph 4.3 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2008]

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

AUDIT PARAGRAPH 3.4 (2013-14)

3.4 Avoidable payment of interest

Non-collection of lease rent resulted in avoidable payment of interest of Rs.43.18 lakh on working capital loan.

Kerala State Electricity Board (KSEB) executed (May 1999) a long term Power Purchase Agreement (PPA) with BSES Kerala Power Limited (BKPL), which expires in October 2015. Consequently, as directed (November 1998) by Government of Kerala (GoK), The Travancore Cochin Chemicals Limited (Company), a company engaged in the manufacture of caustic soda and other allied chemicals, leased out 20 acres of its land to BKPL for 15 years from 31 March 1997 for setting up a power plant. The annual lease rent was fixed at 1.57 crore[27] for the period April 2007 to March 2012 and was payable in two half yearly instalments in advance on 15th January and 15th July. On expiry of 15 years, the lease period was extendable by mutual agreement between the lessor and lessee on the order of GoK.

BKPL set up the power plant in the leased land and remitted the lease rent at the rates[28] fixed from time to time upto 31 March 2012 (15 years). Before the expiry of the lease period, BKPL requested (November 2011) the Company for extension of the lease period for a further period of 15 years and also paid (January 2012) Rs.78.75 lakh towards six months rent for the period from

27 As per the lease agreement, the Company was entitled to annual lease rent of Rs.70 lakh with effect from 1-4-1997. On expiry of every five years the lease rent was increased by 50 per cent. Rs.1.57 crore is the enhanced lease rent on completion of 10 years of lease period.

28 Rs.70 lakh per annum from 31 March 1997, Rs.105 lakh from 1 April 2002 and Rs.157.50 lakh from 1 April 2007.

Ist January 2012 to 30 June 2012 in advance. The Company, instead of initiating action to renew the lease agreement, refunded (January 2012) Rs.39.38 lakh being the lease rent for a period of three months from April to June 2012 remitted by the lessee. The lessee, however, is continuing to occupy the leased land till date (December 2014) without renewing lease deed.

In the absence of a legally enforceable agreement after March 2012, pending GoK order and fixation of revised lease rent, the Company did not accept any advance/provisional rent. Delay in revising the rent affected the financial health of the Company as it was borrowing for its working capital. The Company could have atleast collected Rs.3.15 crore at existing rate during the period from Ist April 2012 to 31 March 2014 and reduced the interest burden on borrowing for working capital by Rs.43.18 lakh as shown below:

Table 3.5 : Details of interest loss

Rent due	Period to which pertains	Amount (₹)	Interest savings at 11.75 per cent	Months	Amount (₹)
January 2012	April-June 2012	39,37,500	February 2012- March 2014	26	10,02,422
July 2012	July-December 2012	78,75,000	August 2012 - March 2014	20	15,42,188
January 2013	January-June 2013	78,75,000	February 2013 - March 2014	14	10,79,531
July 2013	July-December 2013	78,75,000	August 2013 - March 2014	8	6,16,875

January 2014	January-March 2014*	39,37,500	February 2014 - March 2014	2	77,109
	Total	**3,15,00,000**			**43,18,125**

**Loss worked out till March 2014.*

Government replied (November 2014) that the lease agreement could not be renewed as the Company could not fix the market value of land. Subsequently, based on District Collector's valuation, annual lease rent was fixed at Rs.4.72 crore and as a result, the Company had actually gained. It was also stated that had the Company accepted the lease rent based on old agreement, they would have been forced to accept lease rent at old rate and not at revised rate as per the District Collector's valuation.

The reply was not acceptable due to following reasons:

- Reply is contrary to facts as the Company had estimated (March 2012) higher annual lease rent based on the market value of land. But there was delay in renewal of lease deed.
- In view of the expected delay in revising the lease rent of land, the Company should have collected the lease rent provisionally at old rates and avoided the loss of interest.
- Company had availed loan of Rs.21 crore during the period 2012-2014 for meeting its working capital requirements and incurred Rs. 1.67 crore towards interest. Advance/provisional rent during the period could have reduced their interest burden on borrowing for working capital as brought out above.

Thus, non-acceptance of rent provisionally at the existing rate until revision of lease rent and renewal of lease deed had resulted in loss of interest of Rs.43.18 lakh to the Company.

[The Audit Paragraph 3.4 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2014]

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

Discussion and Findings of the Committee

The Committee probed into the reasons behind the decision of the Company to discontinue the insurance policy for 2004-05 of critical items of machinery like Rectifier Transformer under Machinery Breakdown Policy(MBP) resulted in extra expenditure of ₹ 74.25 lakh and enquired about the officials responsible for taking such a decision. The witness submitted that it was as part of introducing austerity measures to curtail the expenses at that time, the said decision had been taken by the company management. The Committee ruled out the reply of the witness that at present their insurance dealings are with Oriental Insurance Company and that premium is being paid regularly, pointing out that Insurance Scheme is being implemented for providing guarantee and not on the basis of profit and loss of the Company and the money invested in the insurance would be accrued to the Public Sector.

The Committee found that it was when a mishap occurred two years after the discontinuation of the insurance, the Company brought all critical equipments under the purview of Machinery Breakdown Policy. The Committee vehemently criticized the Company, for taking the decision to discontinue the policy without the approval of the Government and remarked that Managing Director had no right to break down the policy which had been prevailing for five years. The witness explained that it was when the company was running at loss, that the insurance premium was discontinued and that there was only good intention behind the action. He assured that they rectified the problem later.

The witness stated that according to Articles of Association of the Company, Government recognition was needed only for matters regarding Capital Expenditure and regarding other matters the Board can take decision or delegate it to the Managing Director.

The Committee was not satisfied with the confrontations raised by the witness and insisted that in the case of delegating decision making power to the Managing Director, the matter should be brought before the Board and that the decision should also be ratified.

The Committee noticed the audit remarks in the Audit Report 2013-14 that, had the Travancore Cochin Chemicals Limited collected lease rent from BKPL (BES Kerala Power Limited) for the 20 acres land after the expiry of the lease period of 15 years, it could have been able to collect ₹ 3.15 crore at existing rate and reduce the interest burden on borrowing from working capital by ₹ 43.18 lakh. The witness explained that annual lease rent was enhanced from ₹ 1.57 crore to ₹ 4.72 crore as per the government order dated 20-9-2014 and the said amount had been collected since 1-4-2012. He added that pending arrears had also been gathered.

The Committee enquired why the lease rent was not collected at old rates provisionally so as to avoid the loss of interest. The witness replied that the lease period expired on 31-3-2012 and hence lease rent was collected up to that period only. He further explained that government approval was obtained only in September 2014 and in the absence of the same lease rent could not be collected. The company had sought legal opinion before ceasing collection of lease rent and on getting the advice not to collect the lease rent, company ceased collection of lease rent until Government accorded sanction for extention of land lease agreement with the valuation by District Collector, Ernakulam.

The Committee observed that the Company failed to extend the lease period at the old rate of lease rent and criticized the Company for delaying the collection of lease rent on the basis of legal opinion until the reply has been received from government in 2014. The Committee noted that the details of legal opinion was not depicted in the government reply and directed that mistakes of this nature should not be repeated in future.

The Committee also accused the Company of not examining the possibility of getting increased lease amount. The witness claimed that as the company took up the issue, it gained an amount of Rs. 4.72 crore instead of Rs. 1.57 crore. The Committee discarded the reply and pointed out that the Company obtained the increased amount only because of Government intervention.

Recommendations

1. The Committee criticizes the Company for discontinuing the Machine Break Down Policy (MBP) without Govt. approval thereby incurring extra expenditure of ₹ 74.25 lakh. The Committee insists that every action taken in the management level should be legalised by getting approval from the Govt. or should be ratified in the Board. The Committee recommends that these lapses should not be repeated in future.

2. The Committee observes that the Company failed to extend the lease period at the old rate of lease rent and criticizes the officials of the Company for the delay in collecting the lease rent. The Committee also points out that a vague reply was furnished regarding the legal opinion sought by the Company and insists that this should not be repeated.

3. The Committee directs to furnish a detailed report on belated collection of lease rent.

Thiruvananthapuram,
1st February, 2019.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

APPENDIX-I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	1	Industries	The Committee criticizes the Company for discontinuing the Machine BreakDown Policy (MBP) without Govt. approval thereby incurring extra expenditure of ₹ 74.25 lakh. The Committee insists that every action taken in the management level should be legalised by getting approval from the Govt. or should be ratified in the Board. The Committee recommends that these lapses should not be repeated in future.
2	2	Industries	The Committee observes that the Company failed to extend the lease period at the old rate of lease rent and criticizes the officials of the Company for the delay in collecting the lease rent. The Committee also points out that a vague reply was furnished regarding the legal opinion sought by the Company and insists that this should not be repeated.
3	3	Industries	The Committee directs to furnish a detailed report on belated collection of lease rent.

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

(AUDIT REPORT 2007-2008)

Sl. No.	Audit Paragraph		Reply furnished by Government
1	2		3
1	4.3		The company had been insuring major electrical items under the Machinery Breakdown Policy (MBP). It was decided to discontinue the insurance for equipment under Machinery Breakdown Policy in March 2005, in view of increased reliability of equipment and very low frequency of failure and the consequent very low claim experience. A statement showing the details of premium paid and claim received of machinery breakdown policy during the period 2000-2001 to 2004-2005 is shown below:-

MACHINERY BREAKDOWN POLICY

Year	Premium paid (In Rs.)	Amt. received (In Rs.)
2000-2001	1107899	187073
2001-2002	724892	188866
2002-2003	803741	116196
2003-2004	703741	80620
2004-2005	787500	140739
	4227773	713494

It can be observed that the total claim received come to 16.88% only of the total premium paid during these years.

The failure of the Rectifier Transformer on 7.4.2007 was a unique kind of failure in the history of chlor-alkali industry in India. Normally such equipment operated without any problems for years and our experience with other transformers uphold this industry experience. In the light of our

1	2		3
			experience and experience in similar Chlor Alkali Industries. failure of such a magnitude could not be anticipated. The decision to discontinue the machinery breakdown policy was taken with the objective of reducing the cost considering the details available with the company. However in the light of the breakdown of the above electrical equipment in the plant, the decision was reviewed on 12.6.2007 to go for insurance of all critical equipments under machinery breakdown policy. The management decision arrived at on the basis of the facts, figures and past experience cannot be called on as injudicious. The decision for discontinuing the Machinery Breakdown Policy was taken considering all related facts available at that point of time. In view of the above mentioned failure, the company started insuring again the machines under the Machinery Breakdown Policy from 25.1.2008.

JAPABALAN OLIVER
Additional Secretary to Govt.
Industries Department
Govt. Secretariat, Tvpm.

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

(AUDIT REPORT 2013-2014)

Sl No	Audit Para graph	Reply furnished by Government
1	2	3
1	3-4	Travancore Cochin Chemicals Limited (TCCL) is a fully owned Government Company engaged in the manufacture of caustic soda and other allied chemicals. Kerala State Electricity Board (KSEB) executed a long term Power Purchase Agreement (PPA) with BSES Kerala Power Limited(BKPL).The TCCL leased out 20 acres of its land to BKPL for 15 years from 31/03/1997 for setting up a power plant. The annual lease rent was fixed at Rs.1.57 crore for the period April 2007 to March 2012 and was payable in two half – yearly installments in advance on 15th January and 15th July. The BSES Kerala Power Ltd had requested to extend the lease agreement further for 15 more years from 01.04.2012. The lease agreement with BSES Kerala Power Ltd clearly indicated that the prior approval from the Government is necessary for any further extension or revision of rates by the Company. The Company sought approval from the Government to extend the lease agreement for further period with a lease rent of Rs.14 crores per annum based on the then prevailing market value of Rs.7 lakhs per cent. The Company approached their Legal Advisor regarding the acceptance of lease rent amount as advance beyond the lease period at the same rate without any lease agreement. The Legal Expert advised to refund the advance amount for the period beyond 01.04.2012 to the party as otherwise it would tantamount to extension of lease period further at the same old rates. As company's intention was to renew the lease period at the new rate of Rs.14 crores per annum based on the then market value of Rs.7 lakhs per cent, they repaid the amount as per the legal advice and in the best interest of the Company. The Government of Kerala had not directed the company to renew the lease agreement further in the month of December 2012 as stated in the para. The Additional Chief Secretary, Industries Department had convened a meeting on December 2012 in which he directed the company to value the land leased to BSES Kerala from the District Collector for fixing the lease rent and the decision would be taken by the Government based on the District Collector's valuation report and financial implication, which is clearly indicated in the Minutes of the meeting. The company had to abide by the Government Order. If they had accepted the lease rent based on the old agreement, they would have been forced to accept Rs.2.36 crores per annum only, instead of Rs.4.73 crores per annum. At present they have established the least lease rent amount eligible to the company at Rs.472 lakhs per year based on the Collector's

1	2	3
		valuation and any future agreement will be based on this rate. Because of this the Company actually gained additional amount to the tune of Rs.236 lakhs per year which will offset any interest loss. Though the initial lease agreement was valid till 31.03.2012, TCCL had approached the Government in 22.11.2011 itself. The G.O.(Ms) No.131/2014/11 (attached as Annexure) dated 20.09.2014 permitting TCC to renew the lease came only on 20.09.2014. The working capital loan would have come down to the extent of lease rent at old rate. Though the interest loss was Rs.43.18 lakh, TCCL gained almost Rs.236 lakhs on account of revised lease rent as acceptance of lease rent at the old rate could have created problem for TCCL as advised by legal counsels.

GOVERNMENT OF KERALA

Abstract

Industries Department – Public Sector Undertakings – Travancore Cochin Chemicals – Land lease agreement with BSES Power Ltd - extended- Orders issued.

INDUSTRIES (H) DEPARTMENT

G.O. (Ms) No.131/2014/ID Thiruvananthapuram, Dated, 20.09.2014

Read:-1. G.O.(Rt) No.121/98/ID dated 31.08.1998

2. G.O.(Rt) No.165/98/ID dated 24.11.1998

3. Letter No.MD/C-7/033 dated 18.2.2013 of the Managing Director, TCCL.

ORDER

As per the G.O read as 1st and 2nd paper above, Government ordered to lease out 20 acres of land owned by Travancore Cochin Chemicals Limited to M/s BSES Kerala Power Limited (BKPL) for 15 years realising lease rent @ 10% of the market value calculated @ ₹ 35000/- per cent with the condition that the land value would be revised by 50% after every 5 years for fixing the annual lease rent. On expiry of the agreement, the Managing Director, TCCL as per letter read as 3rd above forwarded proposal for sanction for the extension of the lease rent agreement. The value of land was refixed for this purpose. As per the valuation done by the District Collector, Ernakulam on the date of expiry of the lease rent, the value of land was ₹ 2,36,363 per cent.

2. Government have examined the matter in detail. There is a Power Purchase Agreement (PPA) between Kerala State Electricity Board and BSES Kerala Power Limited which is valid up to October 2015. The lease rent paid by the BKPL to TCCL is reimbursed by the KSEB to BKPL.

3. In the above circumstances, Government are pleased to order that the land lease agreement between TCCL and BKPL may be extended upto October 2015, i.e. till the date of expiry of Power Purchase Agreement by BKPL and KSEB, by revising the market value of the land as ₹ 2,36,363/- per cent as on 1.4.2012 as fixed by the District Collector, Ernakulam.

4. The other terms and conditions will be the same as that in G.O. read as paper 2nd above.

By Order of the Governor
P.H.KURIAN
Principal S[illegible]

To

The Managing D[illegible] [illegible] Cochin Chemicals Ltd, Udyogaman.

The Accountant General (Audit) / (A&E), Kerala Thiruvananthapuram.

The Finance Department.

The Power Department. (Vide U.O.No 10026/B1/12/PD Dtd. 6.03.2014)

The Stock File/Office Copy.

Forwarded/By order

Section Officer.

KERALA NIYAMASABHA PRINTING PRESS.