FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2019-2021)

EIGHTY SECOND REPORT

(Presented on 6th February 2019)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2019

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On

KERALA STATE TEXTILE CORPORATION LIMITED

(Based on the report of the Comptroller and Auditor General of India for the year ended 31st March 2013)

320/2019.

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COMMITTEE ON PUBLIC UNDERTAKINGS
(2019-2021)

COMPOSITION OF THE COMMITTEE

Chairman:

Shri C. Divakaran.

Members:

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri Thiruvanchoor Radhakrishnan

Shri P.T.A. Rahim

Shri S. Rajendran

Shri Raju Abraham

Shri Sunny Joseph

Shri C. F. Thomas

Shri M. Ummer

Shri P. Unni.

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 second Report on Kerala State Textile Corporation Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2013 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Report of the Comptroller and Auditor General of India for the year ended on 31st March 2013, was laid on the Table of the House on 10-6-2014. 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 3-1-2018.

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 their thanks to the officials of the Industries Department of the Government Secretariat and Kerala State Textile Corporation Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government, Industries and Finance Departments and the officials of the Kerala State Textile Corporation 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
KERALA STATE TEXTILE CORPORATION LIMITED

AUDIT PARAGRAPH 4.4 (2012-2013)

4.4 Implementation of Green Field Projects

4.4.1 Introduction

Government of Kerala (GoK) approved (April 2010) the budget proposal to implement three projects in textile sector at a cost of ₹ 72 crore. GoK declared them as Green Field Projects[68]. The three projects were as follows:

Table 4.19 : Details of Projects in textile sector

Name of the mill	Project cost (₹ in crore)	Capacity	Activity
Komalapuram Hi-Tech Spinning and Weaving Mills, Alappuzha[69]	36.00	18240 spindles and 30 air jet looms	Spinning and weaving
Pinarayi Hi-Tech Weaving Mills, Kannur	20.00	36 looms	Weaving
Uduma Textile Mills, Kasargod	16.00	10368 spindles	Spinning
Total	**72.00**		

The Industries Department entrusted (April 2010) these projects to Kerala State Textile Corporation Limited (Company) and the target date for completion was fixed[70] as December 2010. The incomplete mills at Uduma and Komalapuram were inaugurated in January 2011/February 2011 while the mill at Pinarayi was not inaugurated. The projects reached a stand still after completion of civil works and partial installation of machinery due to which investment of ₹ 98.68 crore was

68 Green Field Projects refers to projects where no previous facility exists.
69 By taking over Kerala Spinners Limited, a sick taxtile unit in private sector.
70 Vide letter no. 253/N/M(IND)/10 dated 4-6-2010 from the office of the Minister of Industries.

idling since 2010-12. Audit reviewed the records in the offices of the Company and the Industries Department during the period from February 2013 to June 2013. Major findings are discussed below:

4.4.2 Funding

The Projects were to be financed from own funds of the Company and equal participation as well as soft loan (*7 per cent interest*) from The Kerala Minerals and Metals Limited (KMML) in the ratio of 1:1:1. The Government, between February 2010 and March 2012, advanced loan of ₹ 35.51 crore as the Company did not have sufficient funds. Thus the project was actually funded (₹ 83.05 crore) by KMML *(₹ 45 crore i.e. 54 per cent)* and GoK *(₹ 35.51 crore i.e. 43 per cent)* and sales proceeds (*₹ 2.54 crore*) of old machinery of Kerala Spinners Limited (KSL). Against the estimated cost of ₹ 72 crore, the actual expenditure up to March 2013 was ₹ 98.68 crore (Annexure 24). The increase in cost was mainly due to extra expenditure incurred on civil/electrical works and procurement of machinery.

4.4.3 Lack of planning

4.4.3.1 Lack of planning in selecting the project and implementing agency

The Industries Department took the decision to set up the projects without setting objectives or conducting feasibility studies, study of market potential, etc., and even the basis of the cost estimate of the projects was also absent. It entrusted (April 2010) the implementation of the project to the Company which was a sick industrial unit with a track record of incurring heavy and continuous operating losses. All the four[71] existing units of the Company were in the red.

Selecting the projects which involved huge investment and entrusting them to a Company whose track record of management has been poor and without adequate planning was not prudent. The Company replied (September 2013) that

71 Prabhuram Mills, Chengannur, Kottayam Textiles, Kottayam, Edarikkode Mills, Kottakkal and Malabar Spinning and Weaving Mills, Kozhikode

the performance of the existing mills could not be taken as a yardstick since they were all taken over as sick units. The reply was not acceptable since the Company could not make these units viable even after 35 years of takeover.

4.4.3.2 Unrealistic target date set for completion

The time frame for completion of the project had to be fixed keeping the project report in mind. The Industries Department, however, even before preparation (July 2010) of Detailed Project Report (DPR) set (June 2010) the deadline of December 2010 for completion of the project. Based on this, the Company allowed only four months to the contractors for completing civil works. The target dates fixed were grossly unrealistic. The delivery period of minimum 12-15 months quoted by the machinery manufacturers as well as the actual time of 13/14 months took for completion of civil constructions substantiated this.

The Company stated (September 2013) that the Government had fixed that target date after taking into account all aspects. The reply was incorrect as Government fixed (June 2010) the target even before preparation (July 2010) of DPR.

4.4.3.3 Declaring a Brown Field Project as Green Field Project for making investment

Green Field Investment refers to investment in an area where no previous facility exists. The Government, however, took over Kerala Spinners Limited (KSL), a private sick textile unit under reference to Board for Industrial and Financial Reconstruction (BIFR) and paid compensation of ₹ 5.18 crore to the employees of KSL with an undertaking to provide employment to them. Thus, under the pretext of Green Field, the Government took up a Brown Field Project and invested ₹ 49.81 crore in a sick company.

4.4.3.4 Taking over Kerala Spinners Limited without following due process

A BIFR referred industrial unit was to be first brought out of BIFR reference before taking over and making further investments. The Industries Department, however, took over KSL through an Ordinance[72] without bringing it out of BIFR

72 No. 24/2009

reference and transferred it to the Company for establishing the Komalapuram Hi-Tech Spinning and Weaving Mills. The Ordinance was subsequently passed as Act 4[73] of 2010 (Act).

The major stakeholders of KSL challenged the constitutional validity of the Act and the Hon'ble High Court directed (September 2010/February 2011) the Company not to alienate or bring about any encumbrance over the property of the unit and stated that all further steps being pursued would be subject to the outcome of the writ petition, which has not been pronounced so far (January 2014). Thus, the sustainability of the takeover of the unit and subsequent investment of ₹ 49.81 crore for the mill were at stake. The Company stated (September 2013) that the unit was taken over since there were demands from different corners for takeover. The reply was not acceptable as legal procedures should have been followed before making huge investment of Government funds.

4.4.3.5 Arbitrary selection of the Consultants

The Company nominated (March 2010) two firms, one Cost Accountant firm for Komalapuram mill and one Chartered Accountant firm for Pinarayi and Uduma mills for preparing project reports. Further, preparation of estimates and supervision of civil construction works costing ₹ 18.24 crore was entrusted (May 2010) to a retired Assistant Executive Engineer from Public Works Department. The Company paid ₹ 5.65 lakh to these consultants. The Company did not explain the basis for selection of these consultants. Thus, selection of consultants was ad hoc and arbitrary.

4.4.4 Deficient project reports

Lack of expertise on the part of the consultants was quite evident from the deficiencies in the preparation of estimates/DPR, technology selected and market projection as discussed below:

- The consultant had not prepared estimates for the civil works at Pinarayi and Uduma mills. Thus, it was left to the contractor to finalise the

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73 The Kerala Spinners, Alappuzha (Acquisition and Transfer of Undertaking) Act, 2010.

estimates. During execution, the cost escalated to ₹ 11.95 crore as against the awarded cost of ₹ 5.93 crore. In the absence of estimates, Audit was not in a position to comment on the reasonability of the claim.

- Estimates prepared for the civil works at Komalapuram were not based on actual requirements and were made without considering machine specifications. This necessitated excavation of additional trenches, construction of power house, electrical cable ducts, building for air compressor, etc., which were not envisaged at the time of estimation. Consequently, actual cost execution increased from ₹ 3.51 crore to ₹ 6.29 crore (79 per cent).

- A lump sum provision for electrical installations was made in the DPRs for three mills without any drawings and estimates. The actual requirement was left to the contractor for finalisation. As against ₹ 3.44 crore provided in the work order, the expenditure on actual execution increased to ₹ 5.44 crore due change in the size and length of HT cables, earthing materials, installation mild steel platform covered with chequered plates, use of copper cables place of aluminium cables originally envisaged, etc.

- The sales turnover projected in the DPR was not supported by any marketing study or consumer survey.

- The consultant, for Komalapuram mill, had projected a breakeven point (BEP)[74] of 71 *per cent* of capacity utilisation expecting the project cost of ₹36 crore. The cost, however, escalated to ₹51.61 crore[75] due to the deficiencies discussed above which led to increase in depreciation and interest expenditure. Audit estimated that at this cost, the project would break even only at 97 *per cent* which is very unlikely to happen as the capacity utilisation projected in the DPR was only 95 *per cent*. Thus, the project was unviable.

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74 Break Even Point is the level of production at which there is neither profit not loss.
75 Including ₹ 1.80 crore demanded by KSEB for construction of dedicated feeder.

The Company stated (September 2013) that the final BEP could be calculated only after deciding the mode of investment by the Government for additional project cost. The reply was not acceptable as BEP was one of the basic criteria upon which viability of the project was assessed and approved. Hence, BEP cannot be revised during the course of execution of the project.

- The project report envisaged five per cent of the total requirement of power to be met out of own generation. There was, however, no provision for the cost of generator to be procured for this purpose.

4.4.5 Deficiencies in implementation leading to extra expenditure of ₹ 2.51 crore

Civil construction, procurement and installation of machinery, recruitment of manpower, obtaining electrical connection and various statutory licences were the important aspects in the implementation. Audit found several deficiencies in these areas leading to extra expenditure of ₹ 2.51 crore as discussed below:

4. 4. 6 Awarding of work without tendering

The Company, without inviting competitive bids entrusted (July/October 2010) the construction works at Uduma and Pinarayi mills for 2.23 crore and 3.60 crore respectively to the contractor[76] at mutually agreed rates. There were no prior approvals from the Board or Government. The Managing Director however, justified his action citing urgency and the GoK ratified (October 2010) the same.

The Company stated (September 2013) that it did not incur any loss due to awarding the work without tendering. The reply, however, was not acceptable as the Company did not adhere to the prescribed procedure for awarding contract at competitive rates and as such loss was not ascertainable.

4.4.7 Construction of factory building without acquiring necessary land and required building permit at Pinarayi

As per Kerala Municipal Building Rules (KBR) 1999, any building should be constructed only after obtaining approval of the building plan by competent authority and the ratio of coverage area to built up area should be 60 : 40[77] (Rule 31).

76 Uralungal Labour Contract Cooperative Society Ltd, Vadakara.
77 Revised as 65:35 in the Kerala Panchayat Building Rules (KBR) 2011.

Audit noticed that:

- Only 1.58 acre of land was acquired (September 2010) at a cost of 35.35 lakh instead of 2 acre envisaged in the project report. As a result, the ratio of coverage area to built up area was 45 : 55 as against the statutory requirement of 65 : 35.

  The Company stated (September 2013) that they started implementing the project in anticipation of acquiring additional land required. The Company, however, did not acquire the land so far (January 2014).

- The construction of the building was completed without obtaining the building permit. The building permit applied for (July 2011) was rejected (December 2011) by the Town Planning Department due to failure in complying with statutory ratio.

- As per KBR, 2011, the width of the approach road to the premises was to be six metres for obtaining occupancy certificate. The width of the approach road constructed was only 4.5 metres. The Grama Panchayat had not issued Occupancy Certificate for the building so far (January 2014) in the absence of which the mill could not function.

  The Company stated (September 2013) that additional land would be purchased to increase the width of the approach road. However, the fact remained that the Company has not acquired the additional land so far (January 2014).

4.4.8 Change of technology

The project report envisaged Open End (OE) spinning technology which was less labour intensive and less expensive. The Company while implementing the project, changed (October 2010) the technology to Ring Spinning (RS) which was costlier and stated that the suppliers were not ready to supply the machinery for the open end mill within the deadline of December 2010. The change in technology was, however, resorted to without conducting cost benefit analysis. The change in technology and consequent change in the Plant and Machinery led to extra expenditure of ₹ 1.67 crore[78].

The Company stated (September 2013) that the approved project costs under both the technologies were same and hence, no extra expenditure was involved. This reply was not acceptable since the costs for RS technology was more by 1.67 crore, than the OE technology as per the DPRs.

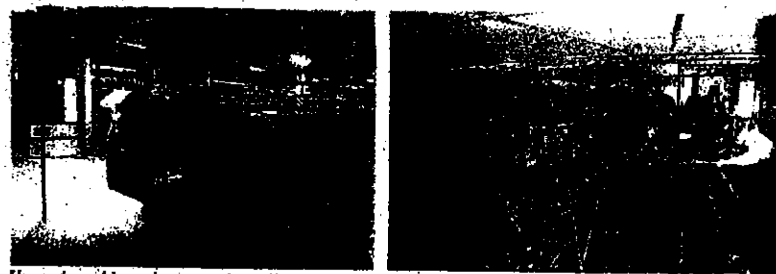
4.4.9 Procurement of Plant and Machinery

The project envisaged procurement of spindles, air jet looms, sectional warping, etc., at an estimated cost of ₹ 54.90 crore. The Company, after inviting competitive tenders, placed orders for procurement of Plant and Machinery for ₹ 65.75 crore from indigenous as well as foreign sources. Audit observed that:

- The suppliers of Plant and Machinery provided performance warranty for periods ranging from six months to eighteen months from the date of delivery. The Plant and Machinery received were not commissioned and tested to ensure satisfactory performance of the machines. Many of the machines (costing ₹12.07 crore) were received after the inauguration (January- February 2011) of the mills and some of the machines namely simplex machines, humidification plant, overhead travelling cleaner, splicers for cone winding machines, etc., already received were not erected or commissioned. The warranty period of all the machines expired in December 2012. Thus, the Company was deprived of the benefits under guarantee/warranty. Non-use of machinery for long periods might result in obsolescence, deterioration in quality, etc.,

78 10.39 crore (cost as per DPR of RS technolgy) – ₹ 8.72 crore (Cost as per DPR for OE technology.)

The Company stated (September 2013) that though the warranty/guarantee expired, they did not anticipate any obsolescence.



Unused machinery in covered condition at Komalapuram (May 2013) and Pinarayi (April 2013)

4.4.10 Bleak prospect of the project becoming operational

The present status of the various components of project implementation indicated bleak prospect of the project becoming operational. The major hurdles to make the mills operational are explained below:

4.4.10.1 Inability to operate mills due to absence of licences

To commence operation, the mills have to obtain licences from different authorities after complying with various legal provisions pertaining to factories. The present status (January 2014) of the licences are as shown below:

Table 4.20: Present status of licences

Sl. No.	Name of licence	Issuing Authority	Mills			Remarks
			Komalapuram	Pinarayi	Uduma	
1	Factory licence	Directorate of Factories and Boilers	Received in September 2012	Received in August 2013	Received in June 2012	Pinarayi mill applied in May 2013
2	Electrical Inspectorate approval	Chief Electrical Inspectorate, Thiruvananthapuram	Received in December 2012	Received in November 2011	Received in June 2011	Received after inauguration

3	Panchayat Licence	Grama Panchayat	Not received	Not received	Not received	Non receipt of Fire and Safety certificate
4	Certificate of Fire and Safety	Department of Fire and Safety	Not received	Not received	Not received	Not yet applied
5	Consent from Pollution Control Board (PCB)	Kerala State PCB	Received in November 2013	Received in October 2011	Received in November 2011	Komalapuram mill applied in May 2011

In the absence of these licences, commencement of operations in the near future is unlikely.

4.4.10.2 Absence of man power to run the mills

The Industries Department[79] (January 2011) created 695[80] posts as per the manpower requirements envisaged in the project reports and outsourced the recruitment to Kerala State Productivity Council (KSPC). KSPC commenced the process of recruitment in January 2011 which was targeted to be completed within a short span of two months (February 2011). The Company paid ₹ 55.31 lakh as remuneration to KSPC.

The ex-employees of erstwhile KSL as well as other candidates challenged the fairness and transparency of the recruitment process in the Hon'ble High Court of Kerala. The major issues were:

(i) the former employees of KSL were not considered for appointment as provided in the Act[81] taking over the mill,

(ii) procedural lapses like sending call letters after the conduct of written test etc.

79 GO(MS) No.1/2011/ID dated 1-1-2011 of Industries Department.
80 352 for Komalapuram 160 for Pinarayi and 183 for Uduma mills.
81 Act 4 of 2010 passed for taking over KSL.

Accepting these contentions, the Hon'ble High Court stayed (February 2011) the selection process. Based on this, GoK cancelled (December 2011) the rank list[82]. Thus, the fee of ₹ 55.31 lakh paid to the recruitment agency also became unfruitful.

4.4.10.3 Absence of electric power at Komalapuram

The existing KSEB feeder line had spare capacity to provide only 400 KVA and the KSEB then advised the Company to draw a dedicated feeder for availing 2000 KVA at a cost of ₹ 1.80 crore. The Company, however, failed to deposit the money due to paucity of funds and in the circumstances, the power connection had not been obtained for operating the mill (January 2014).

4.4.11 Inauguration of mills which were not ready for commissioning

Due to issues brought out above, the Company was in no position to commence operations. Despite this, the Company took several ad hoc measures to give a semblance of completion to the mills. For instance, at Komalapuram, the Company hired generator to conduct the trial run of the machines for inauguration instead of getting a permanent power connection from KSEB. Two mills Uduma and Komalapuram were inaugurated in January 2011 and February 2011 respectively after incurring an expenditure of ₹ 28.82 lakh for putting in place such temporary arrangements. After the inauguration was over, the Industries Department and the Company did not initiate any steps to make the mills operational and the position remained as such as of January 2014.

The Company stated (September 2013) that the mills were inaugurated at the instance of Government.

4.4.12 Financial Impact of unfruitful venture

Besides the investment of ₹ 98.68 crore in the project, the Company had incurred ₹ 5.18 crore towards compensation to employees of KSL and accrued interest of ₹ 11.71[83] crore upto March 2013. Thus, the total expenditure of ₹ 115.57 crore remained unproductive.

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82 Out of 695 candidates in the rank list 27 candidates had joined before the order of the Hon'ble High Court were allowed to continue.

83 Interest incurred up to 31 March 2013 excluding ₹ 2.43 crore already capitalised.

4.4.13 Drawing of 45 crore from the profit of KMML

As directed by the Industries Department, KMML advanced ₹ 45 crore (54 per cent of the cost) for financing the project. This advance of ₹ 45 crore offered by KMML, a profit making PSU to the Company which was a loss making sick industrial unit, was not a prudent financial decision as it did not yield any tangible benefit and led to diversion of scarce resource of a profitable PSU into an unproductive project.

4.4.14 Failure to fulfill export obligations of machinery under EPCG Scheme

The Company availed concessional import duty of ₹ 8.25 crore under Export Promotion Capital Goods (EPCG) scheme on machinery and equipment imported for the period from November 2010 to March 2011, proposed to be utilised in Komalapuram (₹ 4.73 crore), Pinarayi (₹ 2.73 crore) and Uduma (₹ 0.79 crore) projects.

Scrutiny of records revealed that:

- As per the EPCG scheme of GoI, import of capital equipment used in manufacture of goods was permitted at concessional rates of duty. To avail this, the Company was to submit installation certificate of the imported machinery within six months from the date of such import and was also under obligation to export goods worth eight times the duty saved within eight years.
- The Company failed to submit installation certificates of machinery to foreign trade authorities within six months from the date of import.
- The export obligation to be fulfilled by the Company was ₹ 66 crore and 50 per cent of the same ₹ 33 crore) was to be fulfilled before November 2016 i.e. within six years of obtaining EPCG authorisation. The chances of fulfilling the export obligation were remote as the mills did not start commercial production till date (January 2014).

In the event of default in meeting the aforesaid obligations, the liability would arise to the Company to refund the concessional import duty of ₹ 8.25 crore availed with penal interest of 15 per cent (₹ 1.24 crore) per annum from the date of import.

The Company stated that since there was time upto November 2016, the question of refund of saved duty did not arise at this point of time.

4.4.15 Recurring burden on the Company

In addition to the onetime expenditure as mentioned above, the Company is saddled with a recurring expenditure of ₹7.32 crore per annum on account of the following two components viz. interest burden and recurring expenses.

4.4.15.1 Additional interest burden

At the time of announcement of the project, the Company was a loss making undertaking and the accumulated loss as on 31 March 2010 stood at ₹ 54.72 crore as against the paid up share capital of ₹ 58.47 crore. Further, it availed loan of ₹ 63.19 crore from KMML (₹ 22.50[84] crore) and Government (₹ 40.69 crore including ₹ 5.18 crore availed for discharging the liabilities to the employees of KSL) for implementation of the project. As the three projects were not operational, the Company could not service the loan and the debt liability on this account rose to ₹ 77.33 crore including accrued interest (₹ 14.14 crore) upto 31 March 2013 and overburdened with additional interest liability of ₹ 6.27 crore[85] per annum.

4.4.15.2 Recurring expenses

Though the projects were not operational, the Company had engaged ten permanent personnel at the three mills incurring idle wages of ₹ 0.35 crore per annum. Further, it was incurring an annual expenditure of ₹ 0.15 crore towards expenditure on watch and ward and ₹ 0.55 crore towards other expenses. Thus, the Company was incurring an expenditure of ₹ 1.05 crore per annum for maintaining these three idle mills.

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84 KMML financed a loan of ₹ 45.00 crore in the ratio of 50 per cent as equity and 50 per cent as loan.
85 Interest burden per annum on loan of ₹ 63.19 crore.

The project was taken up violating all procedures such as preparation of estimates, realistic planning, awarding contracts through tendering, etc. Government took up all liabilities of a sick textile unit, wrongly classified it as a Green Field Project and set unrealistic milestones for completion. This made the investment of ₹ 115.57 crore idle and the project was saddled with annual loan service/maintenance expenses of ₹ 7.32 crore.

The matter was reported to the Government in July 2013: their reply was awaited (January 2014)

[The Audit Paragraph 4.4 contained in the Report of the C &AG for the year ended 31 March 2013].

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

Discussion and Findings of the Committee

Regarding the implementation of three Green Field Projects in textile sector at a cost of ₹ 72 crore which resulted in an idle investment of ₹ 98.68 crore, the Committee demanded an explanation on the incomplete mills at Uduma, Komalapuram and Pinarayi. The witness replied that in January 2010, Government issued orders to implement the three Green Field Projects by December 2010. The Textile Corporation had commenced the work in March, and in the month of June amount for the above purpose was released too. Financial aid for the project was from own funds of the company, equity participation and industry loan @ 7% interest from KMML in the ratio 1 : 1 : 1. It was added that even though Uduma Textile Mills and the Komalapuram Hi-Tech Spinning and Weaving Mills were inaugurated in March 2011, the Corporation failed to inaugurate the Pinarayi project in the aforesaid period due to land related issues. Further more, there were hindrances in getting the sanctioned amount and there were issues regarding revised estimate and cost escalation. The witness further elucidated that in 2017-2018 the Corporation submitted revised DPR and sanction was accorded, except for Komalapuram Spinning Mills project.

The Committee while pointing out that the target time fixed for implementing the projects was not feasible for carrying out the whole process observed that, this delay could have been avoided if the Corporation had taken enough steps to start the implementation of the project before the release of funds, it added along with that contract was given without tender notification. The Committee criticized the witness for planning the projects without conducting proper study in the matter.

The witness explained that the Corporation released the purchase order only after receiving the funds and that civil works were given without tender only to Uralungal Co-Operative Society.

The Committee discovered that a retired Assistant Executive Engineer from Public Works Department has been chosen as consultant and questioned the propriety of choosing a retired Assistant Executive Engineer from Public Works Department who had no subject knowledge as consultant for a textile project. The witness explained that in 2005 the aforesaid Assistant Executive Engineer was working as a civil consultant in an expansion project of Malabar Spinning Mills where he was paid remuneration on monthly basis and after getting selected as the Project Consultant he was paid on project basis a remuneration of ₹ 1.5 lakh per project.

The Committee criticized the Corporation for awarding the works to Uralungal Co-operative Society instead of selecting from approved list of contractors. The Committee voiced that it strongly suspected a nexus between the corporation and the society.

The witness explained that the selection was done on the basis of a decision taken in the Board meeting and that Government approval had been obtained for the same. The Committee rejected this statement remarking that in the note furnished by the Department it had been clearly stated that the Government had not accorded sanction for the selection of this society. Besides the Corporation is not seen to have circulated the details of the works to all empanelled institutions for selecting one which fulfil the conditions of the corporation; which should have been done in that situation.

The Committee opined that selection of contractor without tender notification was a serious lapse and criticized the company for appointing retired Public Works Department Assistant Executive Engineer who had no experience in spinning mills as consultant; with the result that he failed to tackle the prize escalation and revised estimate related issues which occurred later.

The witness submitted that the major portion of the DPR of the spinning mill had been prepared by the Project Consultant.

The Committee observed that Government norms had been violated by the Corporation and considered it as dereliction of duty on the part of concerned officials. The Committee enquired about the working condition, capacity utilization and production of Komalapuram Hi-Tech Spinning and Weaving Mill. The witness replied that it was working partially and among the 19 frames 5 remained inactive due to shortage of labourers. He further added that lack of working capital also hindered the production earlier and that at present fund has been released and revised DPR has been submitted. The Committee enquired about the profit and loss account and about the balance sheet of the company. The reply given by the witness thereon was accepted as satisfactory by the Committee.

The Committee was astounded to note that eventhough infrastructure, power, raw materials etc. were available for the smooth functioning of Komalapuram Spinning Mill only partial production was enforced and 5 frames remained inactive even after.

The witness further clarified that the recruitment process to these mills was hindered due to court litigation in 2011-2012, but later this problem was solved. As far as mills at Pinarayi and Uduma are concerned, even if machinery was seen installed in both these places the production did not commence.

The Committee criticized the Corporation for letting machines worth ₹ 98 crore lie idle in Komalapuram Spinning Mill and making it futile by disuse. The Committee questioned the logic behind seeking additional fund when the machinery worth crores of rupees remained idle.

The Committee desired to know when full fledged production is expected to be enforced in all the three mills. The witness replied that the three mills would become full fledged within 3 months subject to availability of funds.

The Committee enquired about the repaying capacity of the Corporation in repaying loans availed from KSIDC, KMML and Malabar Cements if there was still no production in the said mills. The Secretary replied that ₹ 36 crore was allotted that year for this purpose.

The Committee wanted to know about the plans to overhaul the imported machines which were worn out and remaining idle since 2011. The witness replied that by proper overhauling these machines can be brought back to working condition.

The Committee enquired about the important marketing places of Corporation's products and the witness explained that their products were marketed through open market and that the main centre was Maharashtra.

The Committee observed that due to stiff competition in open market, proper marketing of products from these mills would be hindered causing economic loss to the Corporation and opined that if the company invest in fresh spindles without exploring marketing possibility, it would be difficult to sell out the products in the tough competitive textile field.

The witness informed that realizing this fact, they had established 30 air jet looms of 18240 spindle capacity at Komalapuram Hi-Tech Spinning and Weaving Mill for carrying out spinning and weaving. He added that the yarn produced at the Uduma Spinning Mill was collected and utilized at Pinarayi Hi Tech Weaving Mill for weaving with the aid of modern machinery.

The Committee opined that the Textile Corporation should find out market for its products within Kerala as Handloom and Hantex are in need of yarn. The Committee added that marketing of yarns produced here, at Maharashtra without taking into account the demands in domestic market would result in denial of benefits to the native weavers and make the job expensive.

The witness informed that the yarn produced at Komalapuram mill has been lending fully to the handloom sector.

The Committee observed that the yarn produced in the mills under the purview of Kerala State Textile Corporation Limited was in great demand inside Kerala and in such circumstances, selling them outside the state did not appear fair. It insisted that the corporation should take necessary steps to facilitate sufficient yarn in the domestic market according to demand.

The Committee found that a retired Assistant Executive Engineer from Public Works Department was appointed as Consultant to implement a civil work of ₹ 18.24 Crore, in textile sector and paid ₹ 5.65 lakh as remuneration.

The witness clarified that it was the board's decision to appoint the person related to the developmental projects of Malabar Cements Ltd. as consultant for these projects also, as he had work experience in the spinning field.

The Committee criticized that the Kerala State Textile Corporation Limited is not supporting the handloom sector in the state. The Committee expressed its apprehension over the necessity of such a Corporation, all the dealings of which were doubtful. It demanded that Secretary, Industries Department should study the matter seriously and take appropriate measures to sell the yarn within the State.

The Committee suggested that a change should be brought in its mode of production for the betterment of the company. The Committee expressed its strong contempt over the awkward statement in the reply furnished by the department on the audit para justifying the arbitrary selection of the consultants, and gave strong directions that replies furnished to the Committee should be prepared with utmost propriety.

The Committee sought explanation on awarding construction works to the contractor at mutually agreed rates without prior approval from the Board or Government and without inviting tender.

The witness was not able to give a satisfactory explanation and they answered that they had paid only scheduled rates of Public Works Department to the contractor for this work and that Government had not suffered any loss on this account. The Committee discarded the reply of this witness to justify their deeds and stated that there was corruption clearly seen in this action. The Committee blamed that the estimate prepared by the contractor had been accepted blindly resulting in a price escalation from ₹ 5.93 crore to ₹ 11.95 crore.

The Committee demanded to explain the reason for not inviting tender. The witness replied that since the Uralungal Co-Operative Society to which this work was entrusted was an empanelled one, they had awarded the work to them and that Government had issued orders regarding this.

The Committee discarded this statement and specified that as per norms, preference should be given to the empanelled society only after giving proper publicity about the contract and not as an arbitrary process carried out in this case. The Committee commented that even though Government had ratified the contract, the corruption cannot be said to have ceased to exist.

The Committee reminded that the contract works of a PSU could not be finalized without tendering by violating the prescribed norms of Government.

The Secretary, Industries Department reported that the Corporation has followed the guideline mentioned in the latest Government Order and added that no loss has been suffered by the State and submitted that such a hasty move was necessary under the circumstances to conduct the inauguration within the prescribed time frame.

Observations/Recommendations of the Committee

1. The Committee vehemently criticizes the Corporation for the idling of machines worth ₹ 98 crore in Green Field Projects since 2011. The Committee recommends to take stringent disciplinary action against the officers of Kerala State Textile Corporation who were responsible for the idling of machinery in Komalapuram Spinning Mill within one month and to initiate revenue recovery proceedings against them.

2. The Committee reprimands the action of the Corporation for appointing a retired Assistant Executive Engineer from PWD who had no subject knowledge in textile field as Consultant to implement a civil work of

₹ 18.24 crore paying a remuneration of ₹ 5.65 lakh. The Committee demands to be furnished with a detailed report on the work carried out by the aforesaid consultant for a huge remuneration and details regarding the criterion adopted for this appointment.

3. The Committee severely criticizes the Corporation for not inviting proper tender and for entrusting the construction works to Uralungal Co-operative Society without obtaining prior sanction from the Government. The Committee points out that by this action the loss sustained cannot be ascertained and considers it as dereliction of duty of officials concerned. The Committee firmly recommends that the financial norms of the government should be strictly followed by the Company and any deviation from the norms should not be made without obtaining prior permission of the Government.

4. The Committee observes that there is only partial production in Komalapuram Spinning Mill and that in mills at Pinarayi and Uduma the production has not commenced yet. The Committee recommends to prepare a total package to rejuvenate the Uduma, Komalapuram and Pinarayi mills by providing adequate fund and by recruiting sufficient workers.

5. The Committee observes that marketing of the products of the Corporation in the open market without exploring market possibilities has caused economic loss to the Corporation. The Committee recommends that the Corporation should take urgent steps to conduct necessary market survey. It also directs to endeavour to supply sufficient yarn to domestic weavers according to demand.

6. The Committee directs that Textile Corporation should take appropriate measures to find market of yarn within the State thereby supporting the handloom sector. The Committee recommends to bring about creative changes in areas like Production and Marketing for the betterment of the Company.

7. The Committee observes that the warranty of all the machines purchased for the implementation of the Green Field Project by the Corporation had already expired. The Committee directs to furnish a report on the present status of functioning of the machinery.

8. The Committee wants to be furnished with details of the licenses and permits pending for the projects.

9. The Committee finds that the Company failed to fulfil actual purpose of purchasing machinery under Export Promotion Capital Goods (EPCG) Scheme due to non commencement of production in the mills. The Committee wants to be informed of the action taken to fulfill the export obligation.

10. The Committee criticizes that the Kerala State Textile Corporation Limited constructed factory building at Pinarayi without acquiring necessary land and the required building permit. The Committee wants to be informed of present status of acquiring necessary land for obtaining license.

11. The Committee wants a detailed report on the utilization and repayment of the entire amount received from KSIDC, Malabar Cements Ltd. and Kerala Minerals and Metals Ltd. for the implementation of the Green Field projects entrusted by the Government to Kerala State Textile Corporation. The Committee also wants a report on the interest liability in respect of other Government loans availed by the Company.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
1st February, 2019.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para. No.	Department Concerned	Conclusions/Recommendations
1	1	Industries	The Committee vehemently criticizes the Corporation for the idling of machines worth ₹ 98 crore in Green Field Projects since 2011. The Committee recommends to take stringent disciplinary action against the officers of Kerala State Textile Corporation who were responsible for the idling of machinery in Komalapuram Spinning Mill within one month and to initiate revenue recovery proceedings against them.
2	2	Industries	The Committee reprimands the action of the Corporation for appointing a retired Assistant Executive Engineer from PWD who had no subject knowledge in textile field as Consultant to implement a civil work of ₹ 18.24 crore paying a remuneration of ₹ 5.65 lakh. The Committee demands to be furnished with a detailed report on the work carried out by the aforesaid consultant for a huge remuneration and details regarding the criterion adopted for this appointment.
3	3	Industries	The Committee severely criticizes the Corporation for not inviting proper tender and for entrusting the construction works to Uralungal Co-operative Society without obtaining prior sanction from the Government. The Committee points out that by this action the loss sustained cannot be ascertained and considers it as dereliction of duty of officials concerned. The Committee firmly recommends that the financial norms of the government should be strictly followed by the Company and any deviation from the norms should not be made without obtaining prior permission of the Government.

4	4	Industries	The Committee observes that there is only partial production in Komalapuram Spinning Mill and that in mills at Pinarayi and Uduma the production has not commenced yet. The Committee recommends to prepare a total package to rejuvenate the Uduma, Komalapuram and Pinarayi mills by providing adequate fund and by recruiting sufficient workers.
5	5	Industries	The Committee observes that marketing of the products of the Corporation in the open market without exploring market possibilities has caused economic loss to the Corporation. The Committee recommends that the Corporation should take urgent steps to conduct necessary market survey. It also directs to endeavour to supply sufficient yarn to domestic weavers according to demand.
6	6	Industries	The Committee directs that Textile Corporation should take appropriate measures to find market of yarn within the State thereby supporting the handloom sector. The Committee recommends to bring about creative changes in areas like production and marketing for the betterment of the Company.
7	7	Industries	The Committee observes that the warranty of all the machines purchased for the implementation of the Green Field Project by the Corporation had already expired. The Committee directs to furnish a report on the present status of functioning of the machinery.
8	8	Industries	The Committee wants to be furnished with details of the licenses and permits pending for the projects.
9	9	Industries	The Committee finds that the Company failed to fulfil actual purpose of purchasing machinery under Export Promotion Capital Goods (EPCG) Scheme due to non commencement of production in the mills. The Committee wants to be informed of the action taken to fulfill the export obligation.

10	10	Industries	The Committee criticizes that the Kerala State Textile Corporation Limited constructed factory building at Pinarayi without acquiring necessary land and the required building permit. The Committee wants to be informed of present status of acquiring necessary land for obtaining license.
11	11	Industries	The Committee wants a detailed report on the utilization and repayment of the entire amount received from KSIDC, Malabar Cements Ltd. and Kerala Minerals and Metals Ltd. for the implementation of the Green Field proj cts entrusted by the Government to Kerala State Textile Corporation. The Committee also wants a report on the interest liability in respect of other Government loans availed by the Company.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS (AUDIT REPORT 2012-2013)

Sl. No.	Audit Paragraph	Reply Furnished by Government
1	2	3
	4.4.1	The then Hon'ble Minister for Finance in his Budget Speech 2010 - 11 announced among other things, implementation of different projects in the State of Kerala through existing Public Sector Undertakings (PSUs) during the year 2010 - 11. Accordingly, the Government of Kerala as per GO (Ms) No 103 / 2010 / ID dated 30.04.2010 approved the scheme for implementation of eleven projects (eight Greenfield projects and three expansion projects) and entrusted implementation of the following five projects with Kerala State Textile Corporation Ltd. 1. Komalapuram Spinning & Weaving Mills - ₹ 36.00 Crore 2. Hi - Tech Weaving Mills, Pinarayi - ₹ 20.00 Crore 3. New Textile Mills, Uduma - ₹ 16.00 Crore 4. Malabar Spinning & Wving Mills (Expansion) - ₹ 15.00 Crore 5. Trivandrum Spinning Mills Ltd (Expansion) - ₹ 5.00 Crore Subsequently, the Government as per GOs dated 01.07.2010 approved the funding pattern for implementation of the projects. While sanctioning implementation of the projects, the Government of Kerala has given the deadline of December 2010 as the targeted date for complete implementation of the projects. The status of implementation of the projects has been monitored by the Additional Chief Secretary to Government, Industries Department and also by the then Hon'ble Minister for Industries himself. In all the status review meetings, the focal point of discussion was completion of implementation of the projects in December 2010 itself. The projects Komalapuram Spinning & Weaving Mills and Uduma Textile Mills were ready for commercial operations partially, at the time of inauguration of the projects. Further, the projects were inaugurated at the instance of the Government of Kerala and also to commercially utilize the already created facilities at the projects.

2		3
4.4.2		The Government approved the funding pattern for implementation of the Komalapuram Spinning & Weaving Mills project at Komalapuram in Alappuzha at a total project cost of ₹ 3600.00 lakh. The implementation of the project has resulted in cost overrun of ₹ 1151.64 lakh as on 31 MAR 2012, as follows:

(Amount ₹ in lakh)

Sl. No	Components of Project Cost	As per Original Sanctioned Project Report	As per Additional Sanction	Revised Project Cost on implementation
1	Building & Civil works	375.00	0.00	782.64
2	Plant & Equipments	2918.00	250.00	3585.10
3	Electrical Installation	125.00	0.00	295.46
4	Other Assets	182.00	0.00	188.52
5	Contingencies	0.00	0.00	149.92
	Total	**3600.00**	**250.00**	**5001.64**

Out of this, an amount of ₹ 4487.58 lakh has been paid from the funds provided, as follows:

Equity contribution from KMML	₹ 1200.00 lakh
Soft Loan @ 7% from KMML	₹ 1200.00 lakh
Government Loan in lieu of KSIDC Loan	₹ 1200.00 lakh
Government Loan for value addition Machines	₹ 250.00 lakh
Sale of old machinery & equipments	₹ 253.86 lakh
Total fund available for the project	₹ 4103.86 lakh
Paid out of KSTC funds / from other Projects	₹ 383.72 lakh
Total payment for project implementation	₹ 4487.58 lakh

Similarly, Government approved the funding pattern for implementation of the Hi-tech Weaving Mill project at Pinarayi in Kannur at a total project cost of ₹ 2000.00 lakh. The implementation of the project has resulted in cost overrun of ₹ 697.47 lakh as on 31 MAR 2012, as follows:

(Amount ₹ in lakh)

Sl. No	Components of Project Cost	As per Original Sanctioned Project Report	As per Additional Sanction	Revised Project Cost on implementation
1	Land	40.00	0.00	36.12
2	Building & Civil works	300.00	43.00	755.06
3	Plant & Equipments	1533.00	150.00	1736.21
4	Electrical Installation	84.00	0.00	143.47
5	Other Assets	43.00	0.00	64.43
6	Contingencies	0.00	0.00	155.18
	Total	**2000.00**	**193.00**	**2890.47**

Out of this, an amount of ₹ 2102.66 lakh has been paid from the funds provided, as follows:

Equity contribution from KMML	₹ 591.00 lakh
Soft Loan @ 7% from KMML	₹ 592.00 lakh
Government Loan in lieu of KSIDC Loan	₹ 667.00 lakh
Government Loan for value addition Machines	₹ 193.00 lakh
Total fund available for the project	₹ 2043.00 lakh
Paid out of KSTC funds / from other Projects	₹ 59.66 lakh
Total payment for project implementation	₹ 2102.66 lakh

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Further, Government approved the funding pattern for implementation of the Uduma Textile Mills project at Uduma in Kasaragode at a total project cost of ₹ 1600.00 lakh. The implementation of the project has resulted in cost overrun of ₹ 274.09 lakh as on 31 MAR 2012, as follows:

(Amount ₹ in lakh)

Sl. No	Components of Project Cost	As per Original Sanctioned Project Report	As per Additional Sanction	Revised Project Cost on implementation
1	Building & Civil works	370.00	0.00	518.33
2	Plant & Equipments	1039.00	215.00	1255.42
3	Electrical Installation	173.00	0.00	179.81
4	Other Assets	29.00	0.00	58.24
5	Contingencies	0.00	0.00	88.29
	Total	**1611.00**	**215.00**	**2100.09**

Out of this, an amount of ₹ 1656.85 lakh has been paid from the funds provided, as follows:

Equity contribution from KMML	₹ 458.00 lakh
Soft Loan @ 7% from KMML	₹ 459.00 lakh
Government Loan in lieu of KSIDC Loan	₹ 533.00 lakh
Government Loan for value addition Machines	₹ 215.00 lakh
Total fund available for the project	₹ 1665.00 lakh
Fund utilized for other Projects	₹ 8.15 lakh
Total payment for project implementation	₹ 1656.85 lakh

The Corporation implemented the projects only in accordance with the funding pattern approved by Government. The Corporation mobilized fund from KMML as ordered by Government only.

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	4.4.3 4.4.3.1		The observation in audit that there was total lack of planning in implementation of the projects is not correct. The Corporation has planned the implementation of the projects so as to achieve the desired objectives of the project by identifying key deliverables and also by scheduling multiple activities on implementation of the projects. The Corporation has scheduled and synchronized the activities on implementation of the projects in such a way that the implementation of the projects is to be completed within the time frame fixed by Government. Accordingly, the Corporation could complete the implementation of two projects (Komalapuram Spinning & Weaving Mills at Komalapuram in Alappuzha and Uduma Textile Mills at Uduma in Kasaragode) on time. However, the Corporation could not complete the implementation of the project, Hi-tech Weaving Mills at Pinarayi in Kannur in time because of the delay in purchase of land required for the project. In fact there is no inordinate delay in implementation of the projects as observed in audit. However, the projects could not start commercial operations due to so many other reasons. The observation in audit that implementation of the projects was entrusted to the Company which did not have any expertise for the task is also not correct. In this regard, it is pertinent to note that the very purpose of formation of the Kerala State Textile Corporation Ltd is to provide managerial and administrative services to the entire textile units (both in public sector and in private sector) functioning in the State of Kerala. The Government of Kerala had decided to entrust the implementation of the projects to the Corporation by considering the capability of the Corporation in implementing the projects. It is brought to the attention of the audit that the Kerala State Textile Corporation Ltd is the only Public Sector Undertaking in textile sector in Kerala, which can be entrusted with the implementation of the projects, for the best interest of the Government and public. It is incorrect to state that the Corporation does not have any experience in implementing a project or civil construction. As can be seen from the records of the Corporation that even way back in 1984, the Corporation implemented very successfully a Spinning Mill Project (Edarikkode Textiles in Malappuram District) and the unit has been functioning since then very smoothly. Further, the Corporation has revived and modernized the three spinning Mills acquired by the Government of Kerala under the Kerala Sick Textile Undertaking (Acquisition and Transfer of Undertaking) Act, 1985 and

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			entrusted to the Corporation. Apart from that the Corporation has implemented a revival project under BIFR packages in the unit Mills of the Corporation in 2006-07, involving capital outlay of over ₹ 24.00 Crore. All these projects involved execution of civil works also. The objectives of setting up three more spinning / weaving mills in the State of Kerala has been elaborated in the Detailed Project Reports (DPRs) prepared and submitted to Government by the Corporation. Copies of all the Detailed Project Reports were furnished to the audit by the Corporation during the course of audit itself. The comment in audit about the objectives behind the decision of the Government to implement three more spinning / weaving mills through the Corporation, when all the existing four mills of the Corporation are in red is also improper. The existing four mills of the Corporation have been on red due to so many factors. The performance of the Mills of the Corporation cannot be taken as yardstick for deciding on the purpose of implementing new projects. As all concerned are aware, three of the four Mills of the Corporation have been acquired by the Government of Kerala under the Kerala Sick Textile Undertaking (Acquisition and Transfer of Undertaking) Act, 1985. The unit Mills were already sick and were on the verge of closure at the time of taking over by the Government and entrusting to the Corporation for revival and to carry on the operations, as unit Mills of the Corporation. The general sickness of the unit Mills coupled with the global downward trend in textile sector commencing from February 2011 onwards has made the unit Mills of the Corporation in red. It is also brought to the attention of audit that even the textile giants in Kerala have incurred heavy losses running to Crores during this period. It is pertinent to note that the Government has decided to implement three more spinning / weaving mills, at the time when the textile sector was booming, and more particularly when the Corporation had generated profits from its operations at the existing four unit Mills (financial year 2010 - 11). The implementing agency (the Corporation) has not contributed anything which led to the failure of the project. The Corporation has implemented the project as envisaged in the Detailed Project Report and also as approved by the Government of Kerala. The Corporation has not done anything contrary to the directions of the Government in implementing the projects.

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	4.4.3.2		The Government of Kerala after considering all aspects in connection with implementation of the projects have fixed the target date for completion of the projects as December 2010. In all the project implementation review meetings at Government level by the then Hon'ble Minister for Industries and also by the Additional Chief Secretary to Government in Industries Department the focal point of evaluation was the completion of the projects in December 2010 itself. This was the reason why the office of the then Hon'ble Minister for Industries has issued directions to complete the implementation of the projects by December 2010 itself. The Government of Kerala has directed the Corporation to complete the implementation of the projects in December 2010 itself, after considering the lead time for procurement of machinery, construction of factory building etc under normal conditions. The target date of December 2010 fixed by the Government in April 2010 was realistic, as there were nine months left for implementation of the projects. However, due to the circumstances beyond the control of the Corporation, the implementation of the projects could not be completed in December 2010. The major reasons attributed for the delay in implementation of the projects are as follows: • The Government of Kerala approved the implementation of the projects on 30.04.2010. The funding pattern was approved and Government Orders issued on 01.07.2010. One of the sources of funding (2/3rd) has to come from Kerala Minerals and Metals Ltd (KMML) and the balance (1/3rd) has to come from Financial Institutions. The KMML has released funds in phased manner from 24.08.2010 to 07.12.2010. The envisaged loan has been sanctioned by the Kerala State Industrial Development Corporation Ltd (KSIDC) in January 2011 and received by the Corporation on 05.02.2011 only. Since the loan from KSIDC carried exorbitant rate of interest, on the request of the Corporation, the Government of Kerala sanctioned funds for swapping the loan from KSIDC on 31.03.2011, which was received by the Corporation in April 2011 only. • After the announcement of the projects in March 2010, there was unprecedented growth in infrastructure creation in spinning industry. The spinning industry all over the world, especially in India witnessed heavy capacity addition during the year 2010. This has resulted in excessive orders in the hands of the textile machinery manufactures. As the manufactures of textile machinery will book orders only against receiving

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			payments as per Purchase Orders received by them, the orders of the Corporation were booked by them in September / October 2010 only, though the Corporation issued Purchase Orders in June / July 2010. Ultimately, the supply schedules were extended beyond the targeted completion date of the projects. • The weather condition during June - December 2010 was very much adverse for executing civil and electrical works. There was heavy rain all through the period, which affected complete implementation of the projects within December 2010 itself.
	4.4.3.3		The Government took over the Kerala Spinners Ltd as per Act 4 of 2010 and entrusted the assets with the Corporation for implementation of the Komalapuram Spinning and Weaving Mills. The intention of the Government on naming the Komalapuram Spinning and Weaving Mills as Greenfield project was that all the facilities available at Kerala Spinners Ltd, including machines, civil works and other infrastructure facilities are to be demolished and a new project has to be implemented. However, the Hon'ble High Court of Kerala ordered that the property vested in the Corporation by virtue of the provisions of the Act, will not be alienated or encumbered, without obtaining orders from the Court. Therefore, the Corporation was constrained to maintain the structures available at the land. Thereby the Greenfield project envisaged by Government became Brownfield. The Government of Kerala paid compensation of ₹ 518.00 lakh to the employees of erstwhile Kerala Spinners Ltd, through the Kerala State Industrial Development Corporation (KSIDC) as required under the Kerala Spinners Alappuzha (Acquisition and Transfer of Undertakings) Act, 2010. The Government of Kerala had decided to pay VRS compensation to the employees in erstwhile Kerala Spinners Ltd. There was no response from the management of erstwhile Kerala Spinners Ltd. as well as from the Operating Agency (Indian Overseas Bank) that a new promoter will be finalized and the unit will be made operational in the near future. Further to the above, as required under Sec 13 of the Kerala Spinners Alappuzha (Acquisition and Transfer of Undertakings) Act, 2010, the employees of Kerala Spinners Ltd have the right of employment in Kerala State Textile Corporation Ltd from the Appointed Day i.e. from 07.09.2006 onwards.

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	4.4.3.4		At the time of acquisition of erstwhile Kerala Spinners Ltd., the Company (Kerala Spinners Ltd) was under reference to BIFR, with Indian Overseas Bank as Operating Agency. Immediately on passing the Act 4 of 2010, the major stakeholders of Kerala Spinners Ltd., M/s. Uttam Holdings Ltd. filed Writ Petition (No.28713 of 2010) before the Hon'ble High Court of Kerala challenging the validity and operation of the Act 4 of 2010. In this case, the Hon'ble High Court of Kerala has issued three orders (all are interim orders) as follows; (i) **Order dated 17.09.2010**: The Court was not inclined to stay the operation of the impugned statute. The Court recorded the submission of the Standing Counsel of the Corporation that the property of the company, which is vested in the Corporation by virtue of the provisions of the Act, will not be alienated or encumbered, without obtaining orders from the Court. (ii) **Order dated 05.10.2010**: The Court appointed an Advocate Commissioner to prepare and file a report with a list of available movables etc., within four weeks. (iii) **Order dated 11.02.2011**: The submission before the Court was with regard to the constitutional validity of the Act 4 of 2010, and the Uttam Holdings Ltd. filed the Writ Petition in view of the steps being taken by the Corporation with regard to installation of new machines after removing the old ones, recruitment of new personnel and the new construction activities besides causing to change the name of the Company. Based on these, after taking reliance to the report filed by the Advocate Commissioner, the Court ordered that all further steps being pursued by the Corporation will be subject to the result of the Writ Petition. In accordance with the above Interim Orders of the Hon'ble High Court of Kerala, on 26.07.2012 when BIFR case came up for hearing, M/s. Uttam Holdings Ltd. filed an affidavit stating that the Hon'ble High Court of Kerala has passed interim orders as above. The above cases before the BIFR as well as the Hon'ble High Court of Kerala are still pending for final orders. The BIFR as well as Hon'ble High Court of Kerala have not issued any orders so far questioning the constitutional validity of the Act 4 of 2010. There is no element of doubt about the sustainability of the takeover of the Kerala Spinners Ltd.

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			It is true that the erstwhile Kerala Spinners Ltd. was under reference to BIFR at the time when the unit was taken over by the Government as per the Act 4 of 2010 and vesting the assets with the Corporation for implementation of the new unit at a total cost of ₹ 3600 lakh. There is no reason to doubt on the sustainability of the takeover of the unit and also in consequent investment for revival of the unit.
	4.4.3.5		(i) For the purpose of preparing Detailed Project Reports, as authorized by the Board of Directors of the Corporation, the Corporation engaged two consultants. One consultant is a Cost Accountant by profession and the other is a Chartered Accountant by profession. The Cost Accountant, Shri N P Sukumaran, BSc, LTC, FCMA, MIMA, is the past President of the Institute of Cost Accountants of India and is also a consultant enlisted in the Directory of Industrial Consultants maintained by IDBI, IFCI and ICICI. In fact Shri N P Sukumaran has prepared the Rehabilitation Proposal of the Kerala State Textile Corporation Ltd in July 2006, which was recommended by the Technical Consultancy Cell (TCC) of the State Bank of Travancore and approved by the Board for Industrial and Financial Reconstruction (BIFR) for implementation in the Corporation at a total cost of ₹ 24.10 Crore. Similar is the background of the Chartered Accountant also. Therefore, there is no substance in questioning the credentials of the consultants engaged by the Corporation in preparing Detailed Project Reports for the three projects implemented by the Corporation. The amount of ₹ 1.31 lakh paid to the consultants for preparing three different Detailed Project Reports, with a total project cost of ₹ 7200.00 lakh is reasonable. (ii) The Corporation had engaged Shri Sahadevan, Assistant Executive Engineer retired from PWD as Civil Consultant for Malabar Spinning and Weaving Mill, in connection with implementation of modernization cum expansion project in 2007 on a monthly remuneration of ₹ 10000/-. Subsequently, in May 2010, when the Government entrusted implementation of three new projects to the Corporation, the services of Shri Sahadevan has been availed for the new projects also. At this point of time, the monthly remuneration has been enhanced to ₹ 20000/- with effect from May 2010. Thus enhanced remuneration of ₹ 20000/- is for Malabar Spinning and Weaving Mill and for the new three projects.

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			Therefore, the monthly remuneration to Shri Sahadevan per project is ₹ 5000/- only. The Corporation has paid remuneration to Shri Sahadevan till September 2012. Accordingly, the total consultancy charge paid to Shri Sahadevan for the three new projects is ₹ 4.35 lakh, at the rate of ₹ 1.45 lakh per project. The payment of ₹ 4.35 lakh towards consultancy charges for the total civil works of ₹ 20.92 Crore is very meager. The observation in audit that the Corporation has paid ₹ 5.80 lakh for the three projects is not correct, as the total amount was paid for the four projects, including Malabar Spinning and Weaving Mill. (iii) The observation in audit that the Corporation failed to explain to audit the basis for selection of these consultants is not correct. In fact the Corporation has explained in detail to the audit that the Board of Directors of the Corporation decided to authorize the Managing Director to engage suitable consultants for preparation of Detailed Project Reports. Further, the Board only authorized the Managing Director to engage the same consultant engaged for the Malabar Spinning and Weaving Mill as the civil consultant for the three new projects also. Therefore, there is nothing adhoc and arbitrary in engagement of consultants for the projects implemented by the Corporation.
	4.4.4		The observation in audit that lack of expertise on the part of the consultants led to several deficiencies in the project report is not correct on account of the following: • It is not true that the Corporation has not prepared estimates for the civil works at Pinarayi and Uduma Mills. In fact the Corporation has prepared estimates based on the then existing PWD Schedule of rates for the civil works of the projects. The Corporation has not left out to the contractor to finalize the estimates. The rates applied for making payment to the civil contractors, M/s Uralungal Labour Contract Cooperative Society Ltd is the then existing PWD Schedule of rates (2010 Schedule of rates). The Corporation has never enabled the contractor to claim for additional works than that was actually executed. In fact the measurement of works carried out by the civil contractor for Pinarayi and Uduma Mills were physically examined and certified as correct by the Civil Consultant of the Corporation, the Chartered Engineer engaged by the Corporation for valuation of the civil works and also by the Chief Technical Examiner in

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		Government. The observation in audit that the audit is not in a position to comment on the admissibility of the claim is not correct. In fact the audit would have verified the physical measurements taken and certified by the three agencies such as the Civil Consultant of the Corporation, the Chartered Engineer engaged by the Corporation and the Chief Technical Examiner in Government, before making such an observation. In this context please be noted that the Corporation has paid for the civil works actually executed by the civil contractors at the then existing PWD Schedule of rates and that the Corporation has not enabled the contractor to claim additional works which are not at all executed and therefore, there is no element of doubt on the admissibility of the claim made by the civil contractors for Pinarayi and Uduma Mill projects. • The Corporation invited tenders for the civil works at the estimated PAC of ₹ 236.22 lakh. Though wide publicity has been given for the tender through print media and website of the Corporation, the response was very poor and that only one tender was received from M/s. Bridgeway Engineering Company Pvt. Ltd., Kozhikode. The tender rate was very high at 66.90% compared to the estimated PAC based on the then existing PWD Schedule of rates. Finally the tender was finalized after negotiation at ₹ 350.84 lakh, with a tender excess of ₹ 114.62 lakh i.e. 48.52% over the estimated PAC. The Government ratified the action of the Corporation in having awarded the civil works of Komalapuram Spinning and Weaving Mills to M/s. Bridgeway Engineering Company Pvt. Ltd., Kozhikode at a total cost of ₹ 3,50,88,746. The high rates claimed by M/s. Bridgeway Engineering Co (P) Ltd are also due to the following among other things: • The entire work costing ₹ 350.84 lakh had to be completed within the targeted period of 5 months, since the project was proposed to be commissioned on 23 DEC 2010 as decided by the then Hon'ble Minister for Industries, at the time of foundation stone laying ceremony. • To implement the project in time, the contractor, M/s. Bridgeway Engineering Co (P) Ltd to whom the works were awarded was well aware of the fact that work to the tune of more than ₹ 2 lakh was to be carried out every day for which labour had to be engaged in two or three shifts totaling to more than 250 labours every day. • The location of the project is at Alappuzha, the place famous for high hold of labour and that higher rates were to be paid especially for night shifts and thereby additional expenses would have to be incurred.

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			During the course of implementation, depending on actual field requirements a lot of additions and modifications have been incorporated in the civil works on account of the following major factors; o The Hon'ble High Court of Kerala ordered on 17.09.2010 that the property of the company, which is vested in the Corporation by virtue of the provisions of the Act 4 of 2010, will not be alienated or encumbered, without obtaining orders from the Court. Therefore, the implementing agency, the Corporation could not make any structural alterations to the then existing buildings and other civil structures. Making full use of the existing buildings and civil structures without any alteration has increased the cost of civil works. o When there is change in specification of machinery and equipments than that were used in erstwhile Kerala Spinners Ltd. the floor plan also changed, which necessitated dismantling of the existing floor and conveying the same to distant place manually as use of mechanical equipments within the existing structures was not possible. o Heavy RCC beams existing in the factory building were dismantled and removed as above so as to accommodate the new machines and equipments in the plant. o The front end RCC structure of the existing main building was in damaged condition and was leaking heavily, which was also to be dismantled and removed for facilitating construction of new RCC structures. o The major portion of the civil works originally envisaged was construction of air trenches for ensuring better humidification. The air trenches are originally envisaged to construct in brick masonry. However, while doing excavation for trench, it was found that the soil is very loose and sandy (being closer to sea). Further, there has been water logging at many places of the trench, which made brick masonry impossible as envisaged in the original estimate and thereby decided to go for RCC walls for the trenches. As the trenches are to be constructed very closely in loose sandy soil, it was not practically possible to make separate excavation for individual trenches. Therefore the entire sandy soil to the depth of the trenches within the plant area had to be removed before constructing RCC walls and thereafter the same soil had to be transported back to fill the gap between the walls of the trenches. This work had consumed lot of time and also attracted heavy additional cost, which has increased the total cost of civil works.

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- o In repairing and renovation to the roof of the existing structures, it was found that many of the MS roof trusses and purling were damaged beyond repairs and hence needed replacement. Further, a number of AC roofing sheets were damaged, which were also replaced by incurring additional expenditure.

The following additional constructions other than those originally envisaged were also executed depending on actual necessity.

- Construction of Power House
- Construction of Cable Trenches and ducts
- Construction of Compressor Building
- Construction of Toilets and Rest rooms
- Camous Road and Shoulder drain

The extra / additional items and extra / additional quantities were also executed at the agreed rate of 48.52% over the estimated rates, which have increased the cost. Therefore, it is concluded that the increase in cost of civil works at Komalapuram Spinning and Weaving Mill is not due to lack of expertise on the part of the consultants but because of the actual requirements necessitated during implementation of the project.

- The observation in audit that drawings and estimates were not prepared for electrical installations is not correct. The provisions made in the Detailed Project Reports are based on the projections made by the Electrical Consultants of the projects, by considering the power requirements of the plant, machinery and other infrastructure facilities required for the projects. It is also not true that the actual requirement was left to the contractor for finalization. The audit would have verified the tender documents released by the Corporation on inviting tenders for execution of electrical works of the Corporation. This tender document contains 44 pages, comprising of:
    - o Bid Synopsis
    - o Project Synopsis
    - o Electrical Distribution
    - o General Specifications
    - o Schedule of Supply & Erection - in seven parts from PartA to Part G
    - o Electrical diagrams and drawings
    - o Terms and Conditions
    - o List of approved makes

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			The increase in cost of electrical works of the projects is not due to the fault of the consultants who prepared the Detailed Project Reports but because of the actual necessities on implementation, on the following grounds: ➢ The Detailed Project Report for Komalapuram Spinning and Weaving Mills project at Komalapuram in Alappuzha has provided an amount of ₹125.00 lakh towards electrical works for the project. The Corporation invited tenders for the electrical works. Against this notification, the Corporation has received four tenders. After due evaluation, the Sub Committee of the Board of Directors of the Corporation on 11.06.2010, decided to award the contract in favour of M/s Power Best Electricals Pvt. Ltd. at ₹ 193.71 lakh i.e. ₹ 68.71 lakh being 54.97% above the estimated cost. Subsequently, consequent to the power requirements of the machines ordered for the project necessitated change in floor plan and depending on actual requirement at site, the contract value has been increased to ₹ 295.46 lakh. Based on the site requirements, the layout of the machinery was modified which led to increase in quantities and extra items; viz. cable size and length, mild steel platform, chequred plates etc. All these contributed to increase in cost of electrical installations to the extent of ₹ 170.46 lakh. ➢ The Detailed Project Report for Hi-Tech Weaving Mill at Pinarayi in Kannur has provided an amount of ₹ 84.00 lakh towards electrical works for the project. The Corporation invited tenders for the electrical works . Against this notification, the Corporation has received only one tender. After due evaluation, the Sub Committee of the Board of Directors of the Corporation on 11.06.2010, decided to award to award the contract in favour of M/s Power Best Electricals Pvt. Ltd. at ₹ 116.20 lakh i.e. ₹ 32.20 lakh being 38.33% above the estimated cost. Subsequently, consequent to the power requirement of the machines ordered for the project, necessitated change in floor plan and depending on actual requirement at site, the contract value has been increased to ₹ 143.47 lakh. Based on the site conditions, the layout of the machinery was modified which led to increase in quantities and extra items; viz. cable size and length, mild steel platform, chequred plates etc. Further, for imported machines, the originally envisaged aluminum cables were replaced with copper cables as per the requirements and suggestions of the machinery suppliers. All these contributed to increase in cost of electrical installations to the extent of ₹ 59.47 lakh.

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			➢ The Detailed Project Report for Uduma Textile Mills project at Uduma in Kasaragode has provided an amount of ₹ 173.00 lakh towards electrical works for the project. The Corporation invited tenders for the electrical works as per Tender Notice No KSTC / TECH / UD / 2010-11 / 712 dated 24.05.2010. Against this notification, the Corporation has received only one tender. After due evaluation, the Sub Committee of the Board of Directors of the Corporation on 11.06.2010, decided to award the contract in favour of M/s Power Best Electricals Pvt. Ltd. at ₹ 124.47 lakh, which was within the estimated cost. Subsequently, consequent to the power requirement of the machines ordered for the project due to change in production process, necessitated change in floor plan and depending on actual requirement at site, the contract value has been increased to ₹ 179.81 lakh. Based on the site requirements, the layout of the machinery was modified which led to increase in quantities and extra items; viz, cable size and length, mild steel platform, chequred plates etc. All these contributed to increase in cost of electrical installations to the extent of ₹ 6.81 lakh. • The observation in audit that there are no bases for the sale projections arrived at by the consultants, as there were no market study and survey is not correct. The other observation in audit that the sales turnover projected in the report was just an arbitrary figure is also not correct. The Detailed Project Reports contain the assumptions on which the projections are made by the consultants in arriving at the financial feasibility of the projects. The audit could have verified the Detailed Project Reports of the projects before making such observations. In view of the details furnished in the Detailed Project Report, the sales turnover projected in the report are not arbitrary, but based on actual projections made by the consultants by considering the facts and circumstances of the cases. • The Detailed Project Report for Komalapuram Spinning & Weaving Mills was prepared based on the then estimated project cost of ₹ 36.00 Crore. Accordingly, the breakeven point was calculated at 71% of the capacity utilization. On increase in project cost from ₹ 36.00 Crore to ₹.50.02 Crore, there is additional project cost of ₹ 14.02 Crore, which would be met by Government, either as share capital contribution or as loan carrying interest. If the amount is provided by Government as loan, the same may carry interest at Government rates. Further, the additional investment of ₹ 14.02 Crore will also attract depreciation at the rates applicable for the

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		respective assets. Therefore, the revised calculation of breakeven point can be made only after deciding on the mode of investment by Government in the project as share capital or loan. In view of these, the observation in audit that the revised breakeven point would be 97% is purely arbitrary and contrary to facts. • It is true that the Detailed Project Report envisages generation of 5% of the total requirement of power. However, having found that the cost of generated power would be more compared with KSEB power, it was decided not to buy generator for the project. The provision for electrical installation as in the Detailed Project Report includes cost of generator to be purchased and installed at the Mills. The envisaged generator has not been purchased and installed because of the high cost of power if the same is self generated.
4.4.5		There are no deficiencies in implementation of the projects with respect to the civil construction, procurement and installation of machinery, recruitment of manpower, obtaining electrical connection and various statutory licenses, as observed in the audit, in view of the detailed explanation / remark furnished below:
4.4.6		The decisions to award the civil works of Hi-tech Weaving Mills and Uduma Textile Mills to M/s Uralungal Labour Contract Co-operative Society Ltd was originally taken by the Sub Committee of the Board of Directors of the Corporation / the Board of Directors of the Corporation and approved / authorized by the Government of Kerala. The Managing Director of the Corporation has not awarded the works at abnormally high rates or without tendering as observed in the audit. It may also be noted that the works were entrusted to M/s Uralungal Labour Contract Co-operative Society Ltd at the then prevailing PWD Schedule of rates only. The Corporation has not incurred any loss on account of awarding the works to M/s Uralungal Labour Contract Co-operative Society Ltd without tendering, as the Corporation settled the bills of M/s Uralungal Labour Contract Co-operative Society Ltd at the then existing PWD Schedule of rates only.

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		The project of Hi-Tech Weaving Mills required nearly 2.5 acres of land. At the start of implementation of the project, 1.5 acres of land was identified for the project, in anticipation of purchasing additional land attached to the 1.5 acres of land already purchased. This decision was taken on the basis of the undertaking from the Local Self Government (Pinarayi Grama Panchayat) that they could arrange as much land as required for implementation of the project, at the rate of the valuation of land by the District Collector. In fact the Corporation had sent request to the Pinarayi Grama Panchayat President on 21.04.2010 to lookout for 3.00 acres of land for the project. Subsequently the Panchayat officials had suggested few sites at Pinarayi. Most of the sites suggested were steep hillocks which were not feasible for the project due to inaccessibility for vehicular movement except the present site. The present land was suggested by the Panchayat, which was measuring 1.502 acres. It was specified that an additional 1.00 acre of land adjacent to the existing site owned by three persons can also be made available to the project and thereby the total land area for the project would be 2.502 acres. Hence the Corporation opted for this site for the project and moved ahead. Initially the land measuring 1.502 acres was purchased to speed up implementation of the civil, electrical and installation of machines etc, so as to complete the implementation of the project within the stipulated time. It was planned that the additional land of 1.00 acre can be purchased later. In the absence of required land to building ratio, the Town Planning Department has not issued No Objection Certificate for obtaining various licenses required for the start of commercial production at the unit. Now that the owner of the nearby land has agreed to sell land to the Corporation at the valuation of the District Collector and hope that the additional land can be made available and thereby obtain approval from the Town Planning Department. In the meantime, the Local Self Government Department issued directions to the Pinarayi Grama Panchayat to issue building permit to the project, based on an undertaking from the Corporation that the additional land required for the project will be obtained within a period of six months. Accordingly, the Corporation have approached the Pinarayi Grama Panchayat and they have allotted Building number to the Corporation. Further, the Pinarayi Grama Panchayat has issued notice requesting the Corporation to remit an amount of ₹ 59870/- towards fees for issuing Factory License for the project. The Corporation remitted the amount immediately for availing the Factory License.

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			The Corporation has planned for the approach road with 6 meter width. But at present the approach road has only 4.5 meter width. The required land for providing 6 meter width to the approach road shall be purchased along with the purchase of additional land required for making the land to building ratio as required.
	4.4.8		The production process of the Uduma Textile Mill was originally planned as Open End Spinning. However, due to inordinate delay in getting required machines for the project under Open End Spinning and also due to the anticipated shortage of required captive raw material for the project, the production process has been changed to Ring Spinning. The Corporation could understand during the process of finalization of tenders that the time lag in delivery of Open End Spinning machines will adversely affect the schedule of implementation of the project. Moreover, the only one Open End Spinning Mill in Kerala (Trivandrum Spinning Mills Ltd) was then under the administrative control of the Corporation and thereby the Corporation could anticipate the problems that an Open End Spinning Mill has to face with respect to the captive availability of raw material (cotton waste from Ring Spinning Mills). Therefore, with the approval of the Government, the technology in production has been shifted from Open End Spinning to Ring Spinning. In this regard it may please be noted that the approved project cost under the two production technologies (Open End Spinning and Ring Spinning) is ₹ 16.00 Crore only. Further, there is no change in funding pattern also due to the change in technology. Hence, there is no extra expenditure in this regard as observed in the audit.
	4.4.9		Immediately on getting approval to the scheme for implementation of the projects (30.04.2010) by Kerala State Textile Corporation Ltd, the Corporation invited tenders for purchase of machinery for the projects. The tender notice was published in all the editions of Business Line and Deshabhimani (on 27.05.2010). The tender details were uploaded in the website of the Corporation and the prospective tenderers were allowed to download the tender form the website till 09.06.2010. The due date of the tender was fixed at 9.30 am on 10.06.2010, with time for opening at 10.30 am on 10.06.2010 (for spinning machines) and at 10.30 am on 11.06.2010 (for weaving machines). The Board of Directors of the Corporation at their 182nd meeting held on 30.04.2007 constituted a Sub Committee for monitoring

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implementation of the projects, which opened the tenders as per schedule. Since the change in technology adoption in textile sector is very rapid and there is a wide variation in technology, the following parameters were considered by the Sub Committee on evaluation of the tenders:

- ➢ Balancing / synchronization of machines within the departments
- ➢ Balancing / synchronization of machines between departments
- ➢ Availability of after sales service which is of paramount importance, especially in Kerala where trained technicians / personnel are not available due to absence of similar units
- ➢ Machines with low maintenance cost
- ➢ Machines which are energy efficient
- ➢ Machines which are less polluting

In view of the above, the following remarks are furnished to the observations in audit:

- The manufacturers of textile machinery in India as well as all over the world will guarantee performance for the machines for six months only. The performance guarantee period of six months will be calculated from the date of supply of the machines or from the date of commissioning of the machines whichever is later. In one particular case only, the performance of the machines was guaranteed for a period of fifteen months.
- All the machines received at the units were erected and commissioned then and there. There are certain attachments to the machines such as overhead travelling cleaner, Splicers etc have not been fitted with the machines, as the machines itself have not been purchased and installed in the units. In the case of humidification plant, the same has been erected and commissioned. But trial run has not been conducted as the unit has not started commercial operation.
- The supply orders were issued to the successful tenderers citing the urgency in requirement. At the time of issuing the supply orders, the Sub Committee of the Board of Directors is well aware of the fact that the normal delivery schedule for textile machines ranges from 6 months to one year. However, considering the urgency in getting the machines supplied and installed, in order to commission the projects in December 2010, the Corporation issued supply orders accordingly.
- The warranty / guarantee period of all the machines got expired in January 2013. All the machines purchased and installed at the projects have been maintained properly by engaging minimum required technical / non technical staff to the projects. The Corporation is not anticipating any obsolescence / deterioration in quality as observed in the audit.

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4.10		The projects are almost ready for commercial operation. The nonavaila. of manpower in all the projects and nonavailability of electricity in Komalapuram Spinning and Weaving Mills are the reasons for non-operation of the projects. Further, overhauling and maintenance of machines is required before starting operations at the projects. There are prospects of the projects becoming operational, unlike the observations in audit to the contrary, as detailed below:
4.10.1		The following are the licenses and permits pending for the projects as on date: o **Permit from Local Panchayat** - The Local Self Governments have not issued permits to the projects. The Local Self Governments will issue their permit only on getting consent from Pollution Control Board and also Certificate from Fire & Rescue Department. o **Consent from Pollution Control Board (PCB)** - In the case of Komalapuram Spinning & Weaving Mills, the Corporation applied for permit under Green Category applicable to Weaving Mills. Since it is a composite Mill with spinning also, the Pollution Control Board rejected our application. The permit under Orange category, which pending for approval. o **Certificate from Fire & Rescue Department** - The Fire and Rescue Department has been insisting for installation of fire hydrant system at the mills, as a prelude for issuing consent. Since installation of fire hydrant has not been included in the original project report, the same has been included in the revised project report. The request of the Corporation for approval and funding to the revised project cost is under consideration of Government.The Corporation can implement fire hydrant system on getting additional fund . The Corporation could obtain the pending licenses without much time. The major problem in this regard is installation of fire hydrants at the Mills for getting license from Fire and Rescue Department. The installation of the fire hydrant requires additional investment of money, and hence the same has been kept pending for installation. Immediately on installation of the fire hydrant at the Mills, the Fire and Rescue Department will issue license, followed by the licenses from the Pollution Control Board and the Local Self Governments.

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	4.4.10.2		The Government have sanctioned 1919 posts in different Public Sector Undertakings under Industries Department, including 882 posts in Kerala State Textile Corporation Ltd. Out of these 882 posts, 352 posts are in Komalapuram Spinning and Weaving Mills, 160 posts are in Hi-tech Weaving Mills, Kannur, 183 posts in Uduma Textile Mills, Kasaragode and the balance 187 posts are in Malabar Spinning and Weaving Mills. These posts were created on the basis of decision in a high level meeting held on 24.11.2010 by the then Hon'ble Minister for Industries, the then Hon'ble Minister for Finance and the higher officials of Finance, Industries, Planning and Economic Affairs (BPE) Departments and RIAB. It was decided in this meeting that: ✔ The recruitment process should be carried out in a transparent manner and reputed agencies like Kerala Industrial and Technical Consultancy Organization Ltd (KITCO), Kerala State Productivity Council (KSPC) and National Institute of Personnel Management (NIPM) Thiruvananthapuram Chapter should be entrusted with the responsibility of the recruitment so that the whole process is managed professionally. ✔ Candidates from the nearest contiguous Panchayat may get 30% weightage and the candidates from the same District may get 20% weightage, 40% weightage should be given for the test, 20% for the interview and 10% for previous experience. ✔ The ex-employees of erstwhile Kerala Spinners who are upto 40 years of age may be considered if they pay back the VRS ex-gratia compensation, if received. ✔ The 20 employees of SERIFED who are left in Uduma are to be considered for suitable positions in the New Textile Mill Project by KSTC. The decisions taken at this meeting forms part of the GO(Ms)No.1/2011/ID dated 01.01.2011. Subsequent to the high level meeting dated 24.11.2010, RIAB convened a meeting at Cochin on 17.12.2010 with the representatives of KITCO, KSPC and NIPM to discuss and decide on the procedures for recruitment of personnel to the Public Sector Undertakings. In this meeting it was decided among other things as follows: ✔ Advertisement inviting applications for all the positions in the organizations have to be released by the respective organization / recruiting agency (KITCO, KSPC and NIPM). ✔ Applications for all the positions will be invited online only.

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- Format for online application in website and arrangements for receiving application online will be done by the recruiting agency.
- For the positions Assistant Manager and below, written test will be conducted for screening the candidates after giving sufficient lead time.
- Selection to the positions Deputy Manager and above will be based on Group Discussion and Interview. However, if the number of eligible applicants for the higher positions is above 30 Nos, preliminary screening will be conducted by a written test.
- Cut off marks for the written test will be 50%. Candidates scoring below 50% marks in the written test will not be shortlisted for the next level selection.
- 80% marks will be given for tests (written test / trade test / skill test / physical test / group discussion / aptitude test etc) and 20% marks will be given for interview.

The decisions taken at this meeting also forms part of the GO the Corporation went ahead with the recruitment of employees to the new projects. As stipulated in the Government Order, the recruitment process has been entrusted with Kerala State Productivity Council (KSPC) under the supervision of RIAB (Public Sector Restructuring and Internal Audit Board). The Corporation issued appointment orders to 74 personnel from the rank list prepared by the KSPC, out of which 27 have reported for duty on different dates from MAR 2011 onwards as follows:

Details	KSWM	HTWM	UTM	Total
Number of Appointment Orders issued	18	27	29	74
Number of Candidates joined	6	7	14	27
Number of Candidates left service	1	3	5	9
Number of Candidates remaining on 31.08.2013	5	4	9	18

During the process of recruitment, the recruitment process has been challenged before the Hon'ble High Court of Kerala. The Hon'ble High Court as per order dated 11.02.2011 stayed the process of recruitment. The Corporation filed Interim Application for modification of the order dated 11.02.2011. Thereafter, the Hon'ble High Court of Kerala on 28.02.2011 stayed engagement of personnel from the rank list prepared by the KSPC. Further, there are some other issues also in connection with recruitment of personnel for Komalapuram Spinning and Weaving Mills. The Government of

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			Kerala has taken over the assets and liabilities of erstwhile Kerala Spinners Ltd (KSL) through the Act 4 of 2010 and the assets thereon were entrusted to the Corporation with retrospective effect from 19.11.2009 for revival and implementation of a new textile project. Before handing over of the assets to the Corporation, on 07.03.2006, a Memorandum of Settlement (MoS) has been entered into between the Trade Unions and Management of KSL on VRS settlement. The MoS interalia states that VRS to the employees of KSL would be given by the management of KSL, if the company re-opens, all the permanent staff and workers, badalies will be given an opportunity for re-employment as fresh employment, based on their capability, attendance, years of service, as per the conditions stipulated by the management. Further, the clause 13 of the Act 4 of 2010 specifies continuation of the service of the ex-employees of KSL in the Corporation. However, the Corporation went ahead with the implementation of the project and also in recruitment process on account of the following: Section 5(3) (b) of the Act 4 of 2010, stipulates that no award, etc which arose before the appointed day (07.09.2006) shall be enforceable against State Government or State Textile Corporation. Also, before takeover of assets and liabilities of KSL, 708 ex-employees of KSL had been provided with VRS compensation through KSIDC based on the conditions of MoS dated 07.03.2006. An amount of ₹ 5.18 Crore was disbursed as VRS compensation to these employees against an affidavit from each employee for their termination of employment from KSL. Hence, according to KSTC, these employees are no more the employees of KSL with effect from 07.03.2006, which was before the appointed day, i.e., 07.09.2006. Further, as per the terms of MoS with respect to rehabilitation to the employees of KSL, the employees of the KSL who are desirous of joining Komalapuram Spinning and Weaving Mills will be provided employment as fresh employment. The Corporation has taken a lenient view to consider the ex employees of KSL for re-deployment based on their merit and suitability. Accordingly they were called to appear for a test cum interview, wherein 339 ex-employees of KSL submitted their application for consideration of the Corporation. When the recruitment process was on, the employees of KSL moved the Hon'ble High Court of Kerala and got the injunction in WP(C) Nos 4073 and 4143 of 2011, upholding that the employees of erstwhile Kerala Spinners Ltd also have claim for employment in Komalapuram Spinning and Weaving Mills, in accordance with the terms of MoS dated 07.03.2006 and also as per the provisions of the Act 4 of 2010.

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			In view of the pending cases before the Hon'ble High Court of Kerala and also because of other reasons, the Government of Kerala ordered for cancellation of the recruitment process initiated through KSPC and ordered for fresh recruitment to the posts under the supervision and control of RIAB. The order of Government for cancellation of the earlier recruitment process and entrusting the new recruitment through RIAB has been challenged before the Hon'ble High Court of Kerala. Further, the recruitment process initiated by RIAB as per orders of Government dated 02.12.2011 has also been challenged before the Hon'ble High Court of Kerala. In view of these the Corporation could not engage personnel required for starting commercial operation of the new projects, Komalapuram Spinning and Weaving Mills, Hi-tech Weaving Mills and Uduma Textile Mills. The Corporation has initiated the recruitment process through KSPC in January 2011 and completed the process of recruitment in February 2011. The Corporation has issued appointment orders to 74 persons included in the rank list. At this point of time, the Hon'ble High Court stayed the engagement of personnel from the rank list. The projects were ready for commercial production / operation in February / March 2011. The payment to KSPC has been made based on an agreement with them and also for the work actually done by them. Hence, there is no extra expenditure in this regard as observed in the audit. In view of the above, the following remarks are offered to the observations in audit: (i) The former employees of KSL were also considered for appointment as provided in the Act 4 of 2010, taking over the KSL. This has been specified in the GO as below: "the ex-employees of erstwhile Kerala Spinners who are upto 40 years of age may be considered if they pay back the VRS ex-gratia compensation, if received". Therefore, the observations in audit in this regard are not correct to that extent. (ii) There is clear transparency in entrusting the recruitment process to Kerala State Productivity Council. The decision to entrust the recruitment process to Kerala State Productivity Council was taken by Government and implemented based on a meeting convened by the Secretary, RIAB at Cochin on 17 DEC 2010 with the representatives of KITCO, KSPC and NIPM to discuss and decide on the procedures for recruitment of personnel to the Public Sector Undertakings. In this meeting it was decided among other things that the recruitment will be

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			entrusted to KITCO, KSPC and NIPM. The minutes of the said meeting forms part of the Government Order dated 01 JAN 2011. Therefore, the observations in audit in this regard are not correct to that extent. (iii) One of the candidates alleged that he has received the intimation about the written test after the conduct of the written test. He has also filed a Writ Petition in this regard before the Hon'ble High Court of Kerala. The petitioner has never complained that the call letter was sent by KSPC after the date of the written test. He has made his claim on the ground that he has received the call letter after the date of the written test only. Therefore, the observations in audit in this regard are not correct to that extent. The amount of ₹ 57.93 lakh had been paid to Kerala State Productivity Council for the work actually performed by them based on the decision of the Government to entrust the recruitment process with them. The Corporation paid to them as per the terms of agreement entered into with them. The work done by the agency is fruitful. However, the Corporation could not make use of the benefits of their work due to different litigations connected with the recruitment of manpower in the Corporation.
	4.4.10.3		The erstwhile Kerala Spinners Ltd had a connected load of 1300 kVA, which is sufficient for the operations of the mills during initial years at the expected level of capacity utilization. As per the provisions of the Act 4 of 2010, the licenses, permits, registrations etc in use in Kerala Spinners Ltd can be utilised by Kerala State Textile Corporation Ltd. Accordingly, the electric connection with the connected load of 1300 kVA can also be used by the Komalapuram Spinning and Weaving Mills. As per the records of the Kerala Spinners Ltd and also as per the records of KSEB an amount ₹ 69.81 lakh has been due to KSEB towards electricity charges pertaining to pre takeover period. Apart from that the outstanding electricity charges attract interest and penal charges, which worked out to ₹ 69.19 lakh till 2010. While the assets were entrusted with the Corporation for revival and implementation of a new spinning and weaving mills, the total amount payable to KSEB had been calculated at ₹ 139.00 lakh. The KSEB had been reluctant in providing electricity connection to the mills, pending clearing of the outstanding dues together with interest etc. This has been negotiated with KSEB and the amount has been reduced to ₹ 45.34 lakh, for settlement under One Time Settlement (OTS) Scheme by December 2010. Since the dues were related to pre takeover periods, the Corporation requested Government for settlement. Accordingly, the Government of Kerala sanctioned and released

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			an amount of ₹ 45.34 lakh to the Corporation for settlement of electricity dues of erstwhile Kerala Spinners Ltd, as working capital loan. The Corporation settled the amount due to KSEB by paying ₹ 47.93 lakh, including interest for the period from January 2011 to April 2012 amounting to ₹ 2.59 lakh. Now there are no pending dues to KSEB against the connected load of 1300 kVA. However, at present KSEB could provide only 400 kVA power to the project, in view of the existing availability. As such, KSEB had directed the Corporation to remit an amount of ₹ 25.00 lakh towards security deposit for giving electric connection. However, the Corporation has been delaying payment of Security Deposit to KSEB and in taking electric connection in order to avoid further losses on payment of minimum demand charges to the KSEB, as the Corporation could not start commercial operation even after getting the power connection due to pending settlement of labour related issues, which are now under consideration of the Hon'ble High Court of Kerala. The power requirement of 1385 kVA (i.e.; 900 kVA for spinning and 485 kVA for weaving ascertained during the time of preparation of DPR has been increased to 2000 kVA on account of the following; ➢ The machines / equipments selected while finalizing the tenders were having advanced features of higher productivity and automated attachments, which require higher power usage. ➢ The machines like blow rooms and cards purchased for the project require Automated Waste Evacuation System (AWES) which require high power usage. ➢ The DPR envisaged utilization of the old cone winding machines available at erstwhile Kerala Spinners Ltd. with old technology requiring lesser power usage. However, on implementation of the project the old machines were found to be unusable due to non synchronization and therefore new machines with new technology requiring Electronic Yarn Cleaner (EYC) were purchased, which require high power usage. ➢ The new generation machines like Simplex machines etc. require higher connected load due to their added features like auto doffing etc., which require high power usage.

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		It may please be noted that had the Corporation availed electric connection by paying ₹ 25.00 lakh towards CD charges, the Corporation would have to pay Minimum Demand Charges from the date on which the connection is obtained. Therefore, by not availing the electric connection, the Corporation could save the minimum demand charges, which otherwise would have been paid.
4.4.11		The Government of Kerala had fixed the targeted date of completion for implementation of the projects as 31.12.2010. The target date fixed for implementation of the project was realistic, considering the lead time required for completion of civil works, electrical works and purchase and installation of the machinery and equipments required for the projects under normal conditions. However, since there was delay in completing civil works on time as per schedule due to the site conditions and adverse weather conditions, the installation of machines were also delayed accordingly. Further, shortage of funds for implementation of the project has also delayed implementation of the project. The inauguration of the projects was made at the instance of the Government of Kerala (Komalapuram Spinning & Weaving Mills on 15.02.2011 and Uduma Textile Mills on 28.01.2011) so as to make use of the created facilities at the projects. The total amount spent by the Corporation amounting to ₹ 28.82 lakh with respect to inauguration of the projects is not a huge amount when compared to the size of investment in the projects. However, due to unprecedented reasons, the Corporation could not start commercial production at the projects as explained earlier. The Corporation has not taken any adhoc measure to give a semblance of completion of the projects as observed in audit. The Corporation has taken adequate measures for getting permanent electric connection to the Komalapuram Spinning and Weaving Mills. As explained, as per the records of the Kerala Spinners Ltd and also as per the records of KSEB, an amount ₹ 69.81 lakh has been due to KSEB towards electricity charges pertaining to pre takeover period. While the assets are entrusted with the Corporation for revival and implementation of a new spinning and weaving mill, the total amount payable to KSEB has been calculated at ₹ 139.00 lakh, including ₹ 69.19 lakh towards interest and penal interest upto 2010. The KSEB has been reluctant in providing electricity connection to the mills, pending clearing of the outstanding dues together with interest etc. This has been negotiated with KSEB and the amount has been reduced to ₹ 45.34 lakh, for settlement under One Time Settlement (OTS) Scheme by December 2010. Since the dues were related to pre takeover periods, the Corporation requested Government for settlement. Accordingly, the Government of Kerala sanctioned and released an amount of ₹ 45.34 lakh to the Corporation for settlement of electricity dues of erstwhile Kerala Spinners Ltd, as working

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		capital loan. Since there had been delay in getting permanent electric connection to the Mills, the Corporation has arranged hired generators to conduct trial run of the machines. The observation in audit that the Industries Department and the Corporation did not initiate any steps to make the mills operational after inauguration and left the mills as such is not correct. The reasons for not making the projects operational are clearly explained to audit. One of the major problems for not making the projects operational is the pending litigations before the Hon'ble High Court of Kerala. The very purposes of implementing the projects are detailed in the respective Detailed Project Reports. The intention and wisdom of Government in implementing such projects deserves consideration
4.4.12		The observation in audit that the compensation paid to the employees of the erstwhile Kerala Spinners Ltd amounting to ₹ 5.18 Crore should also form part of the cost of project (Komalapuram Spinning and Weaving Mills) and that the interest on this amount should be an additional burden on the project is not correct. The Government of Kerala had decided to make payment of VRS compensation to the employees of erstwhile Kerala Spinners Ltd for and on behalf of Kerala Spinners Ltd. The payment and settlement of compensation was made not through the Corporation but through the Kerala State Industrial development Corporation Ltd (KSIDC). The payment of VRS compensation to the employees of Kerala Spinners Ltd has nothing to do with the cost of implementation of the project and the viability of the project. Further, as per the provisions of the Act 4 of 2010, the amount of compensation paid / payable to the employees by the Government cannot be treated as loan but to be considered as equity contribution of Government only. Therefore, the observation that the project has to bear additional interest cost is not correct and justifiable. The observation in audit that there would be additional interest burden of ₹ 11.71 Crore upto 31.03.2013 is not correct. This is also a hypothetical observation made in audit. This additional liability will be there only if the projects are not made operational at any point of time and also that the created facilities are kept idle for ever. Therefore, there is no additional interest burden on the project at this stage, as observed in audit.

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	4.4.13		The Kerala Minerals and Metals Ltd (KMML) has sanctioned and released an amount of ₹ 60.00 Crore to the Corporation, including ₹ 45.00 Crore for the new projects, as ordered by the Government. The amount has been released as share capital and loan carrying 7% per annum interest in equal proportion. The Corporation has utilized the entire amount received from KMML for the purpose for which the amount was sanctioned and released to the Corporation. There has been no diversion of funds in the Corporation. Therefore the observation in audit that the direction of the Industries Department ultimately resulted in siphoning of ₹ 45.00 Crore from a profit making PSU (KMML) to a loss making sick industrial unit (KSTC) is not correct.
	4.4.14		It is true that as stipulated in the Detailed Project Report, the Corporation availed the benefit of import of capital machines under EPCG Scheme envisaged in the Import Export Policy of Government of India. Accordingly, the Corporation could save import duty amounting to ₹ 8.25 Crore in respect of Komalapuram Spinning and Weaving Mills (₹ 4.73 Crore), Hi-tech Weaving Mills (₹ 0.79 Crore) and Uduma Textile Mills (₹ 2.73 Crore). As per the scheme, the Corporation is required to submit installation certificates for the machines imported under the Scheme, within six months from the date of such import and also to export goods manufactured with the machines worth eight times of the duty saved, within a period of eight years. Since the duty saved is ₹ 8.25 Crore, the export obligation would be ₹ 66.00 Crore. Out of this export obligation of ₹ 66.00 Crore, 50% amounting to ₹ 33.00 Crore has to be exported within four years, i.e. before November 2016. In this regard it may be noted that the Corporation has submitted installation certificates for all the machines imported under the scheme to the Director General of Foreign Trade in July 2012. Though there has been delay in submitting the installation certificates as envisaged under the scheme, the installation certificates were admitted by the Director General of Foreign Trade and nothing heard from them about the rejection of any of the certificates so far. The observation in audit that submission of certificates is pending is not correct. In the case of completing export obligations amounting to ₹ 66.00 Crore, it may be noted that the Corporation could export products only on commencement of production at the units. Since the units are yet to start commercial operations and that there is time till November 2016 for completing the first 50% of the obligations, the observation in audit that there is liability to the Corporation to refund the saved duty amount of ₹ 8.25 Crore together with interest at 15% per annum does not merit consideration at this point of time.

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	4.4.15		The position on additional interest burden to the Corporation and also recurring expenses are explained below. There are no additional burdens on account of interest on loans and recurring expenses to the projects and also to the Corporation as observed in audit.
	4.4.15.1		It is true that the Corporation is a loss making company with accumulated loss of ₹ 54.72 Crore as on 31st March 2010. The Corporation has availed loan from KMML and also from Government of Kerala for implementing the projects entrusted by Government to the Corporation and not to fund the accumulated loss of the Corporation. The observation in audit that the compensation paid to the employees of the erstwhile Kerala Spinners amounting to ₹ 5.18 Crore should also form part of the cost of project (Komalapuram Spinning and Weaving Mills) and that the interest on this amount should be an additional burden on the project is not correct. The audit could have verified the facts relating to the matter before making such observations. The Government of Kerala had decided to make payment of VRS compensation to the employees of erstwhile Kerala Spinners Ltd for and on behalf of Kerala Spinners Ltd. The payment and settlement of compensation was made not through the Corporation but through the Kerala State Industrial development Corporation Ltd (KSIDC). The payment of VRS compensation to the employees of Kerala Spinners Ltd has nothing to do with the cost of implementation of the project and the viability of the project. Further, as per the provisions of the Act 4 of 2010, the amount of compensation paid / payable to the employees by the Government cannot be treated as loan but to be considered as equity contribution of Government only. All the other loans from KMML and the Government are taken for implementation of the projects. The loans carry interest at the rates envisaged in the Government Orders only. All the loans were availed by the Corporation at the instance of the Government for implementation of the

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			projects only. All the loans are specific to the projects and interest on those loans is also attributable to the projects only. Therefore, the additional interest burden can be neutralized and mitigated on starting commercial operations at the projects.
	4.4.15.2		The Corporation has been incurring only bare minimum amount required to look after and maintain the created facilities at the projects and therefore the same could not be avoided. On starting commercial operation at the projects, these expenses will also be absorbed there itself. Further, the total expenditure incurred on the three projects during 2013-14 is ₹ 100.27 lakh.
			The conclusion in audit that the project was taken up violating all procedures, the Government took up all liabilities of a sick textile unit and wrongly classified it as a Green Field Project and set unrealistic milestones for completion etc are not correct in view of the explanation / remarks furnished above. The observation that the investment of ₹ 115.57 Crore is idle and the project was saddled with annual loan service / maintenance expenses of ₹ 7.32 Crore are imaginary and not based on facts. The estimation of the figures is anticipatory in nature.

Nagarajan

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ANNEXURE 24

Statement showing the actual cost vis-a-vis estimates of three green field projects by Kerala State Textile Corporation Limited

(Referred to in paragraph 4.4.2)

(₹ in crore)

Items	Komalapuram		Pinarayi		Uduma		Total	
	As per DPR[6]	Actual	As per DPR	Actual	As per DPR	Actual	As per DPR	Actual
Building and Civil Works	3.75	7.83	3.40	7.91	3.70	5.18	10.85	20.92
Plant and Machinery	29.18	35.84	15.33	17.36	10.39	12.55	54.90	65.75
Electrical Installations	1.25	2.96	0.84	1.43	1.73	1.80	3.82	6.19
Other Assets	1.82	3.18	0.43	1.48	0.29	1.16	2.54	5.82
Total	**36.00**	**49.81**	**20.00**	**28.18**	**16.11**	**20.69**	**72.11**	**98.68[7]**

[6] Detailed Project Report.
[7] Out of ₹ 83.05 crore available, the Company paid ₹82.52 crore to suppliers/contractors and the balance amount of ₹16.16 crore (i.e. ₹ 98.68 crore –₹ 82.52 crore) was pending payment.

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