FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE ON PUBLIC UNDERTAKINGS (2019-2021)

EIGHTY THIRD REPORT

(Presented on 6th February, 2019)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2019

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2019-2021)

EIGHTY THIRD REPORT

On

Paragraph 3.1 (2014-2015) of the Report of the Comptroller and Auditor General of India relating to five PSUs

(TRACO CABLE, SIDCO, KELTRON, SIFL AND UEIL)

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2015)

321/2019.

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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 Third Report on Paragraph 3.1 (2014-2015) of the Report of the Comptroller and Auditor General of India relating to five PSUs (TRACO CABLE, SIDCO, KELTRON, SIFL AND UEIL) based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2015 relating to the Public Sector Undertakings of the Government of Kerala.

The aforesaid Report of the Comptroller and Auditor General of India for the year ended on 31st March 2015, was laid on the Table of the House on 28-6-2016. 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 meetings held on 7-6-2017 and 22-11-2017.

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

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

The Committee wishes to express its thanks to the officials of the Industries Department of the Government Secretariat and TRACO CABLE, SIDCO, KELTRON, SIFL and UEIL for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government-Industries and Finance Department and the Officials of the TRACO CABLE, SIDCO,KELTRON, SIFL AND UEIL 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

Paragraph 3.1 (2014-15) of the Report of the Comptroller and Auditor General of India relating to five PSUs

(TRACO CABLE, SIDCO, KELTRON, SIFL AND UEIL)

AUDIT PARAGRAPH 3.1 (2014-15)

3.1 Implementation of greenfield projects by five PSUs

Introduction

3.1.1 Government of Kerala (GoK) decided (April 2010) to implement five greenfield projects at a total project cost of ₹ 53 crore through five Public Sector Undertakings (PSUs). The projects, to be commissioned by December 2010, aimed at creating new facilities in manufacturing and to generate skilled work force. Status of implementation of these projects as on 31st March 2015 was as given below:

Table 3.1 : Status of implementation of greenfield projects as on 31 March 2015

Sl No	Name of the Project	Implementing PSU	Annual Capacity	Project cost (₹ in crore)	Month of commiss-ioning	Actual cost (₹ in crore)
1	House Wiring Cables Unit	TRACO Cable Company Limited (TRACO)	4.43 lakh coils of 90 metre	12.00	July 2013	8.25
2	Tool Room cum Training Centre	Kerala Small Industries Development Corporation Limited (SIDCO)	-	12.00	April 2013	10.87
3	Mini Tool Room cum Training Centre	Kerala State Electronics Development Corporation Limited (KELTRON)	-	12.00	December 2011	8.44

4	Machining[1] Unit of SIFL	Steel and Industrial Forgings Limited (SIFL)	1000 Metric Ton (MT)	12.00	December 2012	9.55
5	Liquid Crystal Display (LCD) Meter Production Unit	United Electrical Industries Limited (UEIL)	12 lakh units	05.00	Not Impleme nted	0.62
Total				**53.00**		**37.73**

[Source : Government Order No. G.O.(MS) No. 103/2010/ID dated 30-4-2010]

Out of the five projects planned, four projects were commissioned after delays ranging from 12 months to 30 months, while LCD Meter Production Unit of UEIL at Palakkad was not implemented.

Against the estimated cost of ₹ 53 crore, the actual expenditure was only ₹ 37.73 crore. Less expenditure was mainly due to non-implementation of LCD Meter Production Unit, Palakkad and non-procurement of vital machinery and equipment envisaged in Detailed Project Reports (DPRs) of SIDCO, KELTRON and SIFL. Audit examined the implementation of greenfield projects to ascertain compliance to Government Orders, DPRs, Manuals of GoK and GoI.

Audit Findings

3.1.2 The DPRs of the four commissioned projects envisaged net profit of ₹ 15.70 crore up to March 2014. Despite investing ₹ 37.73 crore, these projects incurred aggregate loss of ₹ 11.59 crore up to March 2014. This was mainly due to non- achievement of envisaged turnover since the DPRs were prepared without carrying out proper feasibility studies. Further, there were deficiencies in DPRs, non-availing of Government assistance, etc., by TRACO, SIDCO, SIFL and KELTRON as discussed in succeeding paragraphs.

1. Machining is the process of conversion of raw forgings to ready to fit components

Planning of projects

Imprudent selection of implementing agencies

3.1.3 As per the Government Order (GO), one-third of project cost of three[2] projects, totalling ₹ 12 crore was to be financed out of their own resources/loans from financial institutions. In the case of UEIL, the project cost of ₹ 5 crore was to be financed by equal equity participation (₹ 2.5 crore) and soft loan (₹ 25 crore) from Malabar Cements Limited[3] (MCL). GoK selected TRACO, SIDCO, KELTRON and UEIL, PSUs with poor track record of performance and continuous operating losses, for implementing four projects. These PSUs had an aggregate accumulated loss of ₹ 310.25 crore at the end of March 2010, TRACO, SIDCO and KELTRON failed to comply with the Government Order on financing the project. Consequently, GoK had to extend financial assistance to TRACO and SIDCO and certain vital machinery was curtailed in respect of SIDCO and KELTRON as explained in *Paragraph 3.1.6.*

Thus, selection of the projects without proper feasibility study and entrustment of their implementation to PSUs with poor track records was not prudent.

Preparation of feasibility report

3.1.4 According to Project Implementation Manual (PIM) published (1989[4]) by Ministry of Statistics and Project Implementation, Government of India (GoI), approval for any public investment should be preceded by a feasibility report. The feasibility report should focus on whether the project was conceptually sound and feasible for its economic benefits as well as financial returns.

During scrutiny of records, it was noticed that the decisions to set up the greenfield projects were not backed by feasibility studies.

Deficient Detailed Project Reports (DPR)

3.1.5 As per the PIM, preparation of an accurate and realistic DPR is the foremost activity for any project. The DPR should contain complete break up of

2 Units of TRACO, SIDCO and KELTRON
3 A Public Sector Undertaking in Kerala engaged in manufacture of cement
4 Revised in June 2010

all components of the project with specific time schedule and firmed up costs, market demands, pricing, location, etc. It is used as an instrument for controlling and monitoring the physical as well as financial progress of the project. The DPR must address all issues related to the justification, financing and implementation of the Project. The services of professional bodies could be hired for preparation of the DPR, if considered necessary.

The DPRs for Machining Unit (SIFL), House Wiring Cables Unit (TRACO), LCD Meter Production Unit (UEIL) and Mini Tool Room cum Training Centre (KELTRON) were prepared in-house by the implementing agencies and that for Tool Room cum Training Centre (SIDCO), it was prepared by engaging a chartered accountant (GSPU Associates, a regular consultant of SIDCO). Lack of expertise and adequate due diligence on the part of the agencies and consultants was quite evident from the deficiencies in the DPRs and market projections as discussed below:

- Against financing pattern[5] prescribed (April 2010) in the GO for the projects of SIDCO and KELTRON, DPRs were prepared envisaging 100 per cent equity contribution from the GoK. Similarly, in respect of the project of SIFL prescribed funding pattern of own funds and loans from financial institution was in the ratio of 1:1. DPR was, however, prepared envisaging 100 per cent borrowed funds. Consequently, capital investment was restricted by curtailing procurement of vital machinery as explained in *Paragraph 3.1.6.*

KELTRON replied that the DPR was initially prepared envisaging 100 per cent financial support from the GoK, but the decision on fund allocations was received later.

The reply was not acceptable as the deviations from GO was due to non-revision of DPRs which were prepared before receipt of GO on funding.

- Estimates prepared for the civil works in the DPR were not based on the actual requirements and were made without considering the machine specifications. This necessitated construction of additional space and facility, which were not envisaged at the time of estimation.

5 Ratio of 1:1:1 (equity contribution and soft loan by MCL and own fund/loan from financial institution)

Consequently, actual cost of execution of civil works increased from ₹ 0.92 crore to ₹ 2.36 crore (157 per cent increase) in respect of SIDCO and from ₹ 1.40 crore to ₹ 4.55 crore (225 per cent increase) in respect of KELTRON.

SIDCO and KELTRON while agreeing with audit observation replied that plinth area envisaged in the DPR had no rationale with the plinth area actually required and were prepared without considering the size and dimensions of the machinery and area to be occupied by the machinery.

- DPR of House Wiring Cables Unit of TRACO envisaged production of 11.08 lakh coils of 90 metre for the first three years (annual production capacity – 4.43 lakh coils of 90 metre size) whereas actual production for the first three years was only 1.34 lakh coils of 90 metres. Against this production, actual sales were 1.31 lakh coils of 90 metres.

  It was noticed that annual production capacity was pegged (2010) in DPR at 4.43 lakh coils of 90 metre size based on the market study report received from KITCO in July 2004. Due to fixing annual production capacity based on an outdated market study, TRACO faced problems in marketing and TRACO could not find enough dealers for selling its products. TRACO was using its three outlets for marketing its products.

  TRACO replied (October 2015) that efforts were being made to boost sales through registration with Government Departments like, Public Works Department and appointment of marketing agents.

- Sales turnover and breakeven point were not projected while preparing the profitability analysis in the DPR of Tool Room cum Training Centre of SIDCO.

Non-compliance to Government Orders on funding of projects

3.1.6 As per the GO, out of project cost of ₹ 12 crore each in respect of TRACO, SIDCO and KELTRON, ₹ 8 crore was to be financed by MCL and the balance ₹ 4 crore each by the implementing agencies. In the case of SIFL, the project cost of ₹ 12 crore was to be equally funded out of own resources and loans.

MCL advanced its share of ₹ 24 crore (₹ 12 crore as equity and ₹ 12 crore as loan) in the year 2010. MCL also advanced ₹ 1 crore as equity to abandoned project of UEIL. The implementing agencies, however, failed to comply with the provisions of the GO on financing the projects as shown in *Table 3.2*

Table 3.2: Status of funding

Name of the Implementing agencies	Required funding (₹ In crore)		Actual funding (₹. In crore)		Impact
	MCL	Own	MCL	Own	
TRACO	8	4	8	Nil	GoK had to extend financial assistance of ₹ 4 crore by way of working capital loan. This loan together with accrued interest was subsequently converted (November 2013) into equity.
SIDCO	8	4	8	0.87	GoK had to give loan of ₹ 2 crore. Capital investment was restricted to ₹ 10.87 crore curtailing procurement of vital machineries required for the project.
KELTRON	8	4	8	0.44	Capital investment was restricted to ₹ 8.44 crore curtailing procurement of vital machineries required for the project.
SIFL	0	12	0	9.55	SIFL contributed ₹ 6.55 crore against required contribution of ₹ 6 crore as per the G.O. Loan from financial institutions was arranged to the extent of ₹ 3 crore only. Consequently capital investment was restricted to ₹ 9.55 crore curtailing procurement of vital machineries required for the project.
UEIL	5	0	1	0	Project cost of ₹ 5 crore was to be financed by equity participation and soft loan from MCL in the ratio of 1:1. As the project did not take off, ₹ 4 crore was refunded to MCL, keeping the balance of ₹ 1 crore with the Company.

In the absence of required funding by the implementing agencies, implementation of the greenfield projects was curtailed and limited to the funds provided by MCL, a profit making PSU, as it contributed ₹ 25 crore out of the total expenditure of ₹ 37.73 crore incurred on the greenfield projects.

Implementation of Projects

Issues noticed in the implementation of the greenfield projects are discussed below:

Deviation from DPR

3.1.7 During implementation of greenfield projects, implementing agencies deviated from the DPR as discussed below:

- As per the DPR, the Machining Unit of SIFL should be located near the promoter's existing company to reduce the transportation cost. Machining Unit of SIFL was proposed to process the raw forgings manufactured in its Forging Unit at Athani. SIFl had eight acres of un-utilised land adjacent to its Forging Unit at Athani. The Company, however, set up the machining unit in three acres of land taken (August 2010) on lease at Shoranur, which was 22 km away from Athani for a period of 99 years at the rate of ₹ 30,000 *per annum* with 10 *per cent* escalation every five years. The requirement of setting-up of machining unit at Shoranur was taken in the meeting (March 2010) chaired by Hon'ble Minister for Industries and Commerce, GoK.

  The Machining Unit of the Company was located at a distant place despite having suitable land near the Forging Unit. As a result, after commissioning of the Machining Unit, the forged material (811.07 MT) had to be transported from Athani to Shoranur for machining purpose by incurring avoidable expenditure of ₹ 5.32 lakh (up to February 2015) towards transportation charges and avoidable committed liability on lease rent of ₹ 30,000 per year.

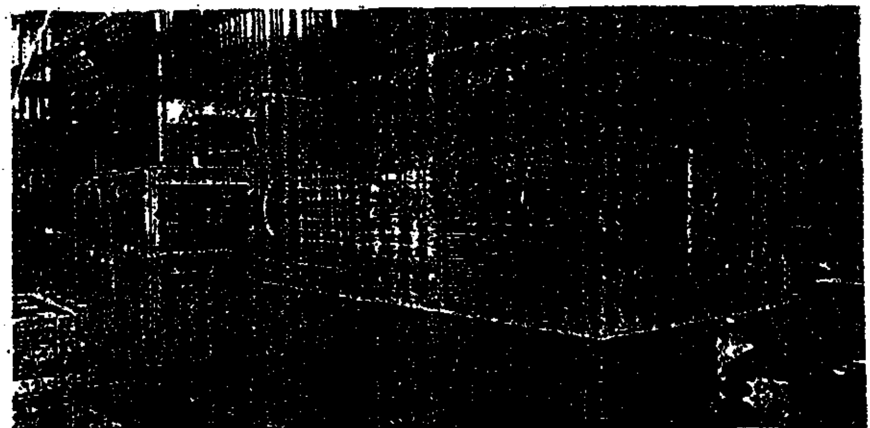
  Management replied (May 2015) that the Unit was set up at Shoranur at the instance of GoK. The reply was not acceptable as the Company should have brought to the notice of GoK the extra expenditure in setting up the project at Shoranur but it had failed to do so.

- DPR of Tool Room cum Training Centre of SIDCO envisaged procurement of machinery worth ₹ 10.31 crore for the project. The Management, however, did not procure machinery worth ₹ 3.39 crore. The Management replied that non-procurement of machinery was due to shortage of funds that resulted from the increased cost of construction. The reply was not acceptable as the increased cost of construction was due to constructing double the area envisaged in DPR. Further, SIDCO had brought only ₹ 0.87 crore against its share of ₹ 4 crore in the project cost.

- Lump sum provisions for electrical installations were made in the DPRs without any drawings and estimates. As against ₹ 18 lakh (SIDCO) and ₹ 14.50 lakh (KELTRON) for electrification provided in the DPRs, expenditure incurred was ₹ 96.12 lakh (434 *per cent* increase) and ₹ 37.67 lakh (160 *per cent* increase) respectively.

- SIFL supplies different types of gears and pinions in a ready to fit condition that involved the process of forging and extensive machining. The Company did forging works in its forging unit at Athani and machining works through outsourcing at faraway places like Bangalore and Bhopal involving approximately 50 *per cent* of the total cost of the finished product. The objective behind setting up the Machining unit at Shoranur was to carry out all machining jobs in-house with better monitoring, control and with faster results. One of the machining works, gear hobbing process involves gear hobbing, gear shaping, gear grinding, heat treatment and inspection. This requires operation of the gear hobbing machine in tandem with gear grinding machine, gear shaping machine and co-ordinate measuring machine. DPR envisaged procurement of all these machines at a cost of ₹ 6.55 crore. SIFL, however, procured gear hobbing machine only excluding the remaining equipment needed for finishing operations due to non-availability of sufficient funds as discussed *in Paragraph* 3.1.6. As a result, the gear hobbing machine procured (March 2012) at a cost of ₹ 1.68 crore was not put to use so far (March 2015).

Consequently, SIFL had to continue outsourcing these works. Moreover, due to failure of the Company to procure related equipment needed for finishing operations, against envisaged conversion of 4000 MT forgings for the first four years (2011-12 to 2014-15) actual conversion was only 811.07 MT forgings.



Gear hobbing machine lying idle at Machining Unit of SIFL at Shoranur

While accepting Audit observations, Management stated that efforts were being taken to utilise the gear hobbing machine after exploring the possibility of outsourcing balancing work.

- Similarly, though the DPR did not envisage procurement of shot blasting machine, SIFL procured the machine at a cost of ₹ 0.18 crore at the behest of Senior Manager (Special Projects) and was commissioned in March 2011. SIFL discontinued shot blasting and fettling operation and the machine was lying idle since May 2012.

The Management replied (May 2015) that shot blasting process was adversely affecting the performance of the sophisticated co-machines and consequently, shot blasting and fettling operation at the Shoranur unit were discontinued. This indicates deficient procurement planning as the problems of shot blasting machines were known to the

Company as they were using the same for their forging operations in its parent unit.

- DPR of Tool Room cum Training Centre of SIDCO and KELTRON envisaged giving short term training courses to 5400 students and 9060 students respectively up to March 2015 whereas actual training (long-term) was given to only 53 students and 391 students, respectively. SIDCO replied that their main aim was to focus on post diploma course for engineering graduate/diploma holders and efforts were being made to provide awareness about courses to prospective students. However, the DPR envisaged short term training courses only and this deviation from DPR indicated that the same was not realistic and prepared arbitrarily. Basis for projection of short term training courses was not furnished to Audit, though called for.

- DPR of Tool Room cum Training Centre of SIDCO envisaged setting up of Effluent Treatment Plant (ETP) and obtaining approval from Pollution Control Board (PCB). Neither ETP was set up nor approval from PCB obtained, so far (February 2015).

  Company stated that ETP was not installed as the machine installed has in-built system to treat effluents.

  The reply was not acceptable since installation of in-built system to treat effluents was not informed to the PCB and certificate to that effect obtained from PCB. In the absence of certificate from PCB, adequacy of in-built ETP to treat effluent could not be ensured.

Non-availing of assistance under Government of India scheme

3.1.8 In XI Five year Plan, GoI introduced a scheme for providing assistance to set up Mini Tool Room & Training Centre. As per the Scheme, GoI would provide one time grant equal to 90 *per cent* of the cost of machinery and equipment subject to a maximum of ₹ 9 crore.

The Tool Rooms cum Training Centre projects implemented by SIDCO and KELTRON were eligible for financial assistance under the above scheme. DPR of

KELTRON also envisaged use of such grant. The total investment in these projects of SIDCO and KELTRON amounted to ₹ 7 crore and ₹ 3.25 crore respectively and the eligible grant on this investment was ₹ 9.23 crore[6].

The implementing agencies, however, did not tap GoI assistance due to misconception about the parameters by the unit-in-charge (AGM/IT) in case of SIDCO and purely an omission in case of KELTRON. Consequently, this fund gap had to be met through loans from MCL and GoK carrying interest rate of seven per cent and 11.5 per cent respectively resulting in avoidable interest burden of ₹ 3.22 crore[7] up to March 2015.

KELTRON stated (October 2015) that central assistance to set up mini tool room was eligible only for units set up under Public Private Partnership model.

The reply was not correct since State agencies were also eligible for central assistance according to the guidelines of the scheme.

SIDCO replied (June 2015) that earnest efforts were made to avail grant from GoI, but could not get the desired results as minimum two acres of land was lacking. The reply further stated that efforts were still being made to avail of the grant from GoI. The fact, however, remains that even though infrastructure facilities were created in February/March 2012, applications for the grants were yet to be submitted. In the case of SIDCO, the Company was ill-informed about the parameter of two acres of land, which was not taken care of in the guidelines issued for the scheme.

Irregularities in award of work

3.1.9 As per Kerala Financial Code (Rules 51 and 126), contracts for the supply of stores or the execution of works should be entered into after invitation of open tenders whenever the estimated value of contract exceeded ₹ 10,000. In all cases of open tender, wide publicity should be given to the tender notification. The codal provisions were not complied in the following two cases.

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6 90 per cent of ₹ 7 crore and ₹ 3.25 crore.

7 (₹ 4 crore*7 percent*4.5 years)+(₹ 2 crore*11.5 per cent*4.5 years)+(₹ 2.93 crore*7 per cent*4.5 years).

- Work Order (WO) for construction of factory building, substation building, etc., of House Wiring Cables Unit of TRACO was awarded (December 2010) to Kerala Electrical and Allied Engineering Company Limited (KEL) for ₹ 1.87 crore without inviting tender. In the absence of open tender, the competitiveness of rates could not be ensured and financial impact could not be ascertained.

  TRACO stated (October 2015) that work was awarded to KEL without invitation of tender since tendering process was time consuming and as per orders of Government, the project was due for completion within December 2010.

  The reply was not acceptable because tendering process was not to be compromised for timely completion of work and required additional time should have been sought from Government.

- In the award of civil works for Tool Room cum Training Centre of SIDCO, the implementing agency had failed to ensure competitiveness of rates by giving wide publicity for the tender notification. Against publication of tender notice in one or more leading regional languages and one or more issues of a leading English newspaper as per provisions of Kerala Financial Code, tender advertisement was published only in local newspaper denying opportunity at all India level.

  SIDCO replied that the tenders for construction of civil works were advertised in local newspaper with the intension to curtail expenditure. The reply was not acceptable as the practice adopted by the agency was in violation of the codal provisions, which aimed at ensuring transparency and competitiveness of rates.

Unfruitful expenditure on recruitment

3.1.10 Industries Department, GoK created (January 2011) 395 posts as per the man-power requirement envisaged in the DPR of greenfield project and outsourced the recruitment to Kerala State Productivity Council, National Institute of Personnel Management and KITCO Placement Park. The agencies commenced

(January 2011) the process of recruitment that was targeted to be completed by February 2011. The PSUs paid ₹ 0.41 crore as remuneration to these agencies. The conditions of recruitment included weightage to local candidates. The prospective candidates challenged the fairness of the recruitment process in the Hon'ble High Court of Kerala questioning the conditions in the notification for recruitment and the process of selection.

Accepting their contentions, the Hon'ble High Court stayed (February 2011) the selection process. In the meantime, 10 personnel were recruited for the greenfield projects. Based on this, GoK cancelled (December 2011) the remaining rank list already prepared and RIAB[8] has been appointed to oversee the recruitment process to ensure transparency. The new recruitment process was in progress. Thus, fee of ₹ 0.41 crore paid to the recruiting agencies became unfruitful. In the absence of recruitment, contract employees, apprentices and employees on deputation were engaged for the working of the greenfield projects thus, impacting the implementation period and commissioning schedule of the projects.

SIFL and KELTRON replied (May 2015) that they were not in a position to conclude the recruitment outsourced, consequent to the stay from Hon'ble High Court of Kerala. The reply was not acceptable since lack of transparency in the recruitment process was the root cause for Court's intervention.

Hasty inauguration of the greenfield projects

3.1.11 As per Rule 4 and 5 of Kerala Factories Rules, manufacturing process shall be carried out only after obtaining Factory Licence. Due to delay in completion of construction, commissioning of machinery, obtaining statutory licences and electricity connections, the above projects were not in a position to commence the operations by the target date of December 2010. Despite this, inauguration ceremonies were conducted in January and February 2011 by incurring ₹ 0.48 crore by taking several ad hoc measures, like hiring generator instead of getting permanent power connection from Kerala State Electricity Board Limited (KSEBL)[9], to give a semblance of completion.

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8 Public Sector Restructuring and Internal Audit Board.

9 Erstwhile Kerala State Electricity Board.

Mini Tool Room cum training centre of KELTRON commenced training (July 2012) and commercial production (February 2013) without obtaining Factory Licence from the Director of Factories and Boilers.

Further, both the Tool Room cum Training Centres of KELTRON and SIDCO had not obtained licence for fire and safety so far (March 2015) from the Department of Fire and Safety.

KELTRON replied (may 2015) that necessary steps were taken for obtaining fire and safety clearance. Further, necessary procedures had been completed for obtaining Factory Licence. Receipt of both the certificates was, however, awaited (December 2015).

Infructuous expenditure due to non-implementation of LCD Meter factory of UEIL

3.1.12 UEIL was awarded an order for six lakh LCD Meters by KSEBL with a delivery schedule of one lakh meters per month. Since Kollam unit had limitation to manufacture one lakh meters monthly, UEIL decided to set up a new production unit (LCD Meter Production Unit) at Palakkad under the greenfield project of GoK during 2009-10. DPR of the project envisaged supply of meters to other State power utilities as well. Kannadi Grama Panchayat allotted one acre of land for 99 years on lease basis to construct the proposed factory. The approved project cost of ₹ 5 crore consisted of construction of building worth ₹ 2 crore and procurement of machinery and other assets worth ₹ 3 crore. MCL advanced ₹ 5 crore for implementation of the project.

UEIL awarded the construction work to BSNL. They could not execute the construction work as the land allotted as unsuitable for construction and there was no approach road to the plot. Yet, UEIL made temporary arrangements at the Panchayat Community Hall at Kannadi Grama Panchayat, incurring total expenditure of ₹ 0.62 crore (including ₹ 0.20 crore towards cost of machinery) and inaugurated (January 2011) the project. Further ₹ 0.38 crore was diverted for meeting the working capital requirements of another unit which was irregular.

After inauguration, UEIL decided (March 2011) not to go ahead with the project as KSEBL had stopped accepting meters from UEIL due to problems in the field performance of meters already supplied from Kollam unit (2.7 lakh LCD Meters). UEIL had not received any orders from other State electricity utilities even though the DPR had envisaged it. Thereafter, as ordered by GoK, balance fund of ₹ 4 crore was refunded (March 2011) to MCL.

Thus, selection of the project without proper feasibility study/market potential resulted in infructuous expenditure of ₹ 0.62 crore.

UEIL replied (May 2015) that KSEBL stopped purchase of LCD Meter from them and hence, the LCD Meter Factory, Palakkad was not commissioned and machinery was not installed.

The reply of UEIL was not acceptable as cancellation of order by KSEBL was due to quality issues. Also, though the DPR envisaged orders from power utilities of other States, no such order could fructify.

Non-availing of credit for excise duty paid on capital goods

3.1.13 As per Rule 3 and 4 of the CENVAT Credit Rules, 2004, a manufacturer or producer of final products was allowed to take credit (availment) of excise duty paid on capital goods received in the factory of manufacturer of final product. The CENVAT credit can be utilised for payment of excise duty on any final product. For availing the CENVAT credit, the assessee has to file return in which credit taken on capital goods on invoices issued by manufacturers has to be furnished. KELTRON procured (February to June 2011) machinery worth ₹2.91 crore (basic cost) paying ₹ 0.22 crore as excise duty but did not avail of the CENVAT credit (till March 2015) due to non-filing of return showing the details of capital goods purchased.

Management replied (May 2015) that CENVAT credit on machinery purchased would be availed during the financial year 2015-16. The fact, however, remains that even after a lapse of 39 months after commissioning the unit the CENVAT credit was not availed.

Conclusion

The implementation of the greenfield projects was beset with poor planning and execution of projects. The DPRs were prepared without actual feasibility study. Despite poor track record of TRACO, SIDCO and KELTRON, the decision of GoK to divert funds from MCL resulted in high probability of the loans advanced by MCL remaining irrecoverable. There were failures to avail of Central Government assistance and CENVAT credit. Envisaged funding was also not ensured leading to curtailment of investment in machinery and equipment. All these factors led to the greenfield projects clocking losses of ₹ 11.59 crore in their operations up to March 2014.

The matter was reported (October 2015) to Government; their reply was awaited (October 2015)

[The Audit Paragraph 3.1 contained in the Report of the Comptroller & Auditor General for the year ended 31 March 2015.]

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 the five greenfield projects through five PSUs, the Committee demanded an explanation for the less expenditure of ₹ 37.73 crore against estimated expenditure of ₹ 53 crore. The Additional Chief Secretary, Industries Department admitted that the feasibility study report and detailed project report were deficient and there was deviation from the DPR at the time of implementation of the project which were the main reasons for incurring an aggregate loss of ₹ 11.59 crore despite investing ₹ 37.73 crore. He added that efforts were being made to improve the present deplorable condition by submitting proper DPR to RIAB and working group and that new projects could be implemented after their scrutiny.

Regarding the delay behind the commissioning of the projects the Committee remarked that there had been a serious lapse on the part of the five PSUs and there was clear violation of rules seen. The Committee criticized that the government fund has not been availed in time or utilized properly by the PSUs.

The witness submitted that Finance department has not been allotting funds in time which resulted in delay in implementing the projects. He added that they were trying to improve the method of implementation of the projects by carrying out proper study and scrutiny before sanctioning projects.

The Committee pointed out that the lapse in preparing DPR was the main audit objection and enquired whether there were any suggestions from the part of Industries department to rectify the defects while preparing DPR. The witness replied that even though there were remedial measures to solve the problem practical difficulties exist in enforcing it. He added that the present circumstances were not congenial to provide strong board of directors with technical knowhow and competitiveness and make them autonomous and accountable for better results.

The Committee enquired why the DPR was not prepared in accordance with the actual requirements. The witness admitted the lapse adding that serious fault did occur in envisaging the actual requirements while preparing the DPR. He added that enough measures have been taken to avoid such lapses in future.

The Committee declared that it is of the view that grave lapse had indeed occurred on the part of the companies in preparing the DPR, and criticized that the companies neither utilize the State Government funds allotted to them properly nor endeavour to ensure financial assistance from the Central Government.

The Committee pointed out that eventhough Malabar Cements financed ₹ 8 crore each from its dividend, for the implementation of the Green field project, the implementing agencies failed to comply with provisions of Government Order on financing the projects with their own share which resulted in curtailing the implementation. The witness admitted the audit observation and stated that Malabar Cements had not received interest for the amount funded for the project and besides they had to pay tax for the unavailable interest. The witness in this connection also put forth a request to the Committee to recommend to Finance department to convert the loan from Malabar Cements interest free.

The Committee at this point remarked that there had been lapses on the part of Finance department also and pointed out that allotment and diversion of funds without proper analysis of the projects had resulted in money-drain from Public exchequer. To a query of the Committee the witness replied that there is a practice in the Industries Department to lend money from profit making Companies to Companies running at loss without the permission of Finance Department. The witness added that this adversely affects the existence of profit making companies.

The Additional Secretary, Finance Department stated that the department is allotting fund in bulk as per budget provision and the details of its expenditure is not received. The Committee observed that public money was being spent unfruitfully because Finance Department has lost financial control over PSUs.

The Committee enquired the reason for setting up the machinery unit of Steel and Industrial Forgings Ltd. (SIFL) at Shornur without intimating the government about the availability of suitable site nearby, so that transportation and lease rent could be avoided. The Committee also sought an explanation for the wide deviation from DPR in actual execution and about the investment behind Gear Hobbing machine and its utilization. The witness replied that the machinery unit of SIFLwas setup at Shornur as per Government decision. He explained that Gear Hobbing machine was not working at present for which ₹ 1.5 crore had been invested and further to install the remaining equipments an additional amount of ₹ 6 crore was also necessary. He added that an amount of ₹ 12 crore was sanctioned for the project of which ₹ 6 crore was the Company's own fund and the remaining ₹ 6 crore was loan from KSIDC.

The Committee enquired if the Gear Hobbing machine could be utilized later after remaining idle. The witness replied positively and explained that due to the lack of grinding equipment, the hobbing machine cannot be put into use at present. The Committee enquired the reason for not procuring grinding equipment. The witness stated that owing to curtailing of the project cost, the machine could not be purchased.

The Committee observed that it was only after purchasing the machine, the Company realized that additional machinery was needed for its functioning. The Committee expressed discontent with the fact that due to insufficient funds the Company was not able to procure the remaining equipments needed for the functioning of the machinery, which made it remain idle thereby making the investment in this field also futile. The Committee criticized the Company for purchasing the machine without proper study thereby draining the public exchequer.

The Committee sought reason for not availing assistance under Government of India scheme by Small Industries Development Corporation Ltd. (SIDCO) and KELTRON to set up Mini Tool Room and Training Centre resulting in an avoidable interest of ₹ 3.22 crore. The Committee also enquired about the functioning of SIDCO. The witness replied that they are availing all funds from Central Government at present. He explained the functioning of SIDCO and stated that its land was transferred to Sports Department and the process for getting compensation for the deal was under way.

The Committee expressed its displeasure for the non-utilization of Central Government fund by KELTRON and SIDCO.

The Committee sought explanation for the lapse in ensuring wide publicity of tender notification in leading English news papers as per provisions of Kerala Financial Code. The witness replied that advertisement in at least three National dailies would cost ₹ 10 lakh. He further clarified that it was because the works were of an estimate below ₹ 5 crore, tender notification was given only in local news papers. The Committee directed to be furnished with the details of advertisements given regarding tender notification.

The witness further explained that earlier tender notices were advertised in National dailies by I & PRD for reasonable rates. But at present news papers have stopped receiving advertisements from I & PRD which has rendered tender notification in national dailies more expensive. The witness suggested that, considering these facts, the Finance Department should effect adequate amendments in the Financial Code.

The Committee declared that there are fixed norms regarding tender adding along with, that in order to avoid corruption occurring on the part of the contractors, the Government has fixed competitiveness of rates by ensuring open tender and remarked that provision in the Kerala Financial Code had been violated. The Committee opines that even though this condition was enforced with good intention there will be some practical difficulties in implementing it. The Committee also pointed out that the Department had not furnished proper reply to the audit observation.

When the Committee enquired about the loss of ₹ 41 lakh paid as remuneration to the recruitment agencies for the regular recruitment of personnel for the Greenfield Projects, the witness replied that the recruitment failed to materialize as a result of a weightage that was given to local candidates. The recruitment process therefore was also stayed by the Hon'ble High Court.

The Committee understood that the works of Greenfield Projects were carried out by engaging contract workers and employees on deputation, and remarked that such a recruitment was not necessary. The witness claimed that regular recruitment avoiding contract workers was planned for the systematic functioning of the project. The Committee commented that the purpose failed even though ₹ 41 lakh was spent.

The Committee desired to know why other agencies were opted instead of employment exchange for the recruitment. The witness explained that it was done inorder to avoid the hazards of preparing a selection panel from the list of candidates proposed by employment exchange. The Committee criticized the choice of other agencies for the recruitment process thus making the Government Employment Exchange a mere spectator.

When the Committee enquired whether factory license and fire and safety clearance have been obtained, the witness replied that KELTRON obtained factory license and measures to obtain fire and safety clearance have been taken. The Managing Director, SIDCO stated that in the case of SIDCO, factory license and fire and safety clearance were not obtained and that measures for obtaining the same had been undergoing.

When the Committee enquired whether CENVAT credit of ₹ 22 lakh has been availed, the witness clarified that out of ₹ 22 lakh, ₹ 5 lakh has been availed and that within 2 years the rest of the amount too would be availed.

The Committee enquired about the delay of 30 months occurred in commissioning the Green field projects by Traco Cable Company. The Committee also questioned the logic behind adopting DPR on the basis of the market study conducted in July 2004 and enquired the reason for not updating it.

The witness was not able to give a convincing reply to the Committee and just explained that as per the documents, the market study was conducted in July 2004 and the report was presented to Government in 2010. The Committee was thoroughly dissatisfied with this reply of the witness, which it viewed as careless and irresponsible.

The Committee further enquired about the loss sustained by Government in implementing the project in 2010. The Committee also sought the reason for the delay in implementing the project. The witness replied that as government found the DPR prepared in 2004 inadequate, it had to be recast after conducting proper study, before implementing the project in 2010. Besides that, there was delay in getting government assistance causing six years delay in the implementation of the project.

The Committee observed that the performance of Traco Cable Company was poor and that it has been running at continuous operating losses and the company has neither proper accounting nor project report. Besides that the company had failed miserably in executing projects in time. The Committee criticized the company for awarding work order to KEL without inviting tender and pointed out that it was implementing projects in its own way without complying the rules and orders thus rendering severe loss to the state exchequer. The Committee condemned that the Company had not sought extension of time from the Government to implement the project.

The Committee noticed seriously that the decision to set up the Greenfield Projects was not backed by feasibility studies. The witness replied that this matter relates to the year 2010 and pointed out that at present detailed project report was prepared for each and every project and it was approved after presenting it before Restructuring and Internal Audit Board (RIAB) and before special working groups. The witness claimed that detailed scrutiny of the project report was being carried out now a days and that sanction is given only for realistic projects.

The Committee expressed its dissatisfaction over the reply and remarked that the department is liable to answer the audit objections also of yester years.

The Committee enquired about the implementation of the Greenfield Projects relating to United Electrical Industries Limited and sought an explanation on the audit para. The witness explained that the company was awarded an order of 6 lakh LCD meters by KSEBL in 2011 with a delivery schedule of 1 lakh meters monthly. Since the Kollam Unit was having only limited capacity to manufacture LCD meters according to the orders, the company decided to set up a new subsidiary production unit at Kuzhalmannom in Palakkad District under the Greenfield Project. But KSEBL had stopped accepting meters from the Company due to field rejection in supplied meters and besides that cancelled orders too. The witness further explained that the company had availed a loan of ₹ 5 crore from Malabar Cements and out of this ₹ 4 crore was refunded and the audit objection was for the remaining ₹ 1 crore. He added that since no further orders for the LCD meters were received from KSEBL, the unit had to be wound up after one year.

The Committee pointed out that the meters supplied by the Company lacked required quality and that was the reason behind KSEB's cancellation of order.

The Committee noted that the amount invested for the project had lapsed due to the cancellation of orders from KSEB.

The Committee criticized that the action of company which functions in Kollam District, in starting their unit at Kannadi Panchayat in Palakkad was imprudent. The Committee also criticized the Company for inaugurating the unit in one acre land at Kannadi Panchayat without conducting feasibility study and started functioning in a community hall and wound up the unit after one year. The Committee remarked that all these activities ultimately rendered loss to the State exchequer.

When the Committee enquired about the present functioning of United Electrical Industries, the witness replied that Government has issued orders to allot 35% purchase preference and 15% prize preference to Public Sector Undertakings.

To a query of the Committee the witness replied that the Company was able to produce good quality materials and deliver them to KSEB and other such companies and for that amount was allotted in this year's budget for upgradation of machinery and that it receives technical advice in the matter from C-DAC.

The Committee observed that the meter supplied by UIELwas lacking in superior quality because, spare parts of low quality were used to assemble it. The Committee also suggested that the Company should make tie-up with similar successful companies.

The Committee enquired the possibility of starting up Research & Development Institutes under Industries Department. The witness replied that this involves bulk investments and at present research and developmental training was being conducted by C-DAC in the event of which the need to start another institution was not felt to arise.

To a query about the production of the company the witness answered that production stopped three months ago and was now involved in the production of A.B. Switch for 110 KV. line.

The Committee enquired about using the infrastructure of the company in the production of any other product other than electrical meters; the witness replied that the latest DPR submitted was for the production of modern meters for KSEB, AB switches and LED bulbs for KSEB's 11 KV line. The Committee opined that since complete electrification programme envisaged by the government at the time had been completed, the need for new electrical meters would be scarce. It also observed that the need for new meters would arise only when damaged meters were to be replaced. The Committee viewed that the Company again undergo stagnation if they stick on to electrical meters only.

Observations/Recommendations

1. The Committee observes that grave lapses and defects had occurred in the DPRS prepared by the five Companies. The Committee strongly recommends that DPR should be prepared with due diligence and accuracy by carrying out proper feasibility studies and in accordance with actual requirements.

2. The Committee observes that the Finance Department has not been allotting funds in time to sanctioned projects which is one of the reasons for the inordinate delay in the implementation of greenfield projects. Hence the Committee recommends that Finance Department should allot funds to sanctioned projects in a time bound manner.

3. The Committee observes that public money was spent unfruitfully through Greenfield Projects by the Companies and that Finance Department has no control over the PSUs in the expenditure of money allotted as per budget provision. The Committee recommends that the Finance Department should be diligent enough to release funds by budget allocation and should monitor its utilization.

4. The Committee finds that Industries department is lending money to companies running at loss, borrowing from profit making companies like Malabar Cements Ltd. without the permission of Finance Department. The Committee opines that it will adversely affect the existence of profit making companies since they had to pay tax for the unavailed interest on the non refunded loan. The Committee recommends that prior sanction of Finance Department should be obtained before lending funds from the profit making companies.

5. The Committee understands that Malabar Cements Ltd. has been paying tax for the unavailed interest. The Committee therefore recommends to make the loan lent to companies by Malabar Cements for the implementation of Greenfield Projects interest free.

6. In order to ensure wide publicity of tender notifications the Committee recommends that the Finance Department should effect adequate amendments in the Financial Code, so that I& PRD can publish tender notifications in National dailies at reasonable rates. The Committee also recommends the Finance Department to examine the matter and furnish report to the Committee.

7. The Committee seeks an explanation on the delay and the loss of ₹ 11.59 crore incurred in implementing the Greenfield Project by TRACO, SIDCO, KELTRON and SIFL and the non-implementation of the project by UEIL. The Committee also wants a detailed report regarding the implementation of Green Field Projects.

8. The Committee strongly recommends that stringent action should be taken against the delinquent officials who were responsible for nonmaterialization of the Greenfield Project, irrespective of whether they are currently in service or not.

9. The Committee directs to be furnished before the Committee the reason for not availing the funds of State Government and Central Government for implementation of the Greenfield Project by the Public Sector Undertakings.

10. The Committee is astounded to note that the Detailed Project Report (DPR) prepared by Traco Cable Company in 2004 had not been revised before implementing the greenfield project in 2010. The Committee recommends to furnish a report on the delay of 30 months occurred for commissioning the project, thereby incurring huge loss and the reason for adopting a deficit DPR without conducting feasibility studies.

11. The Committee criticizes the authorities of Traco cable Company for not approaching the Government for extension of time in implementing the project. The Committee views this as a serious lapse and recommends that the authorities of the company should be diligent enough to avoid such lapses in future.

12. The Committee vehemently criticizes the United Electrical Industries Limited (UIEL), which functions in Kollam district for starting its new production unit in a community hall at Kannadi Grama Panchayat in Palakkad District and winding up the same after one year incurring an avoidable expenditure of ₹ 0.62 crore. The Committee recommends to conduct an enquiry in this regard and furnish the report to the Committee within three months.

13. The Committee directs to furnish a report on the latest position of revival of the units of UEIL and on the upgradation of its machinery.

14. The Committee suggests that after conducting a feasibility study UEIL should start another unit to manufacture new products. At the same time care should be taken to avoid starting units in inappropriate places like community halls in future. The Committee also directs the Company to revamp its management inorder to ensure a high degree of efficiency and to avoid losses in future.

15. The Committee vehemently criticizes the practice of paying wages and other benefits like PF, ESI and Pension to labourers in non-working PSUs and recommends that the government should take urgent steps to put an end to this practice. It suggests to deploy such workers to other working PSUs.

16. The Committee vehemently criticizes the SIFL for purchasing gear hobbing machine without proper study and not realising in time, that additional machinery would be needed for its functioning. The Committee recommends to take urgent measures to utilize the gear hobbing machinery and to furnish a report on the measures taken to the Committee in this regard.

17. The Committee observes that there was deliberate lapse on the part of KELTRON & SIDCO in utilizing the Central Government fund and directs to furnish the explanation for the lapses.

18. The Committee recommends to expedite the procedures for obtaining the factory license and fire & safety clearance in the case of SIDCO and to take measures to obtain fire & safety clearance in the case of KELTRON.

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 observes that grave lapses and defects had occurred in the DPRS prepared by the five Companies. The Committee strongly. recommends that DPR should be prepared with due diligence and accuracy by carrying out proper feasibility studies and in accordance with actual requirements.
2	2	Finance	The Committee observes that the Finance Department has not been allotting funds in time to sanctioned projects which is one of the reasons for the inordinate delay in the implementation of greenfield projects. Hence the Committee recommends that Finance Department should allot funds to sanctioned projects in a time bound manner.
3	3	Finance	The Committee observes that public money was spent unfruitfully through Greenfield Projects by the Companies and that Finance Department has no control over the PSUs in the expenditure of money allotted as per budget provision. The Committee recommends that the Finance Department should be diligent enough to release funds by budget allocation and should monitor its utilization.
4	4	Industries and Finance	The Committee finds that Industries department is lending money to companies running at loss, borrowing from profit making companies like Malabar Cements Ltd. without the permission of Finance Department. The Committee opines that it will adversely affect the existence of profit making companies since they had to pay tax for the unavailed interest on the non refunded loan. The Committee recommends that prior sanction of Finance Department should be obtained before lending funds from the profit making companies.

5	5	Industries and Finance	The Committee understands that Malabar Cements Ltd has been paying tax for the unavailed interest. The Committee therefore recommends to make the loan lent to companies by Malabar Cements for the implementation of Greenfield Projects interest free.
6	6	Finance	In order to ensure wide publicity of tender notifications the Committee recommends that the Finance Department should effect adequate amendments in the Financial Code, so that I& PRD can publish tender notifications in National dailies at reasonable rates. The Committee also recommends the Finance Department to examine the matter and furnish report to the Committee.
7	7	Industries	The Committee seeks an explanation on the delay and the loss of ₹ 11.59 crore incurred in implementing the Greenfield Project by TRACO, SIDCO, KELTRON and SIFL and the non-implementation of the project by UEIL. The Committee also wants a detailed report regarding the implementation of Green Field Projects.
8	8	Industries	The Committee strongly recommends that stringent action should be taken against the delinquent officials who were responsible for nonmaterialization of the Greenfield Project, irrespective of whether they are currently in service or not.
9	9	Industries	The Committee directs to be furnished before the Committee the reason for not availing the funds of State Government and Central Government for implementation of the Greenfield Project by the Public Sector Undertakings.
10	10	Industries	The Committee is astounded to note that the Detailed Project Report (DPR) prepared by Traco Cable Company in 2004 had not been revised before implementing the greenfield project in 2010. The Committee recommends to furnish a report on the delay of 30 months occurred for commissioning the project, thereby incurring huge loss and the reason for adopting a deficit DPR without conducting feasibility studies.

11	11	Industries	The Committee criticizes the authorities of Traco cable Company for not approaching the Government for extension of time in implementing the project. The Committee views this as a serious lapse and recommends that the authorities of the company should be diligent enough to avoid such lapses in future.
12	12	Industries	The Committee vehemently criticizes the United Electrical Industries Limited (UIEL), which functions in Kollam district for starting its new production unit in a community hall at Kannadi Grama Panchayat in Palakkad District and winding up the same after one year incurring an avoidable expenditure of ₹ 0.62 crore. The Committee recommends to conduct an enquiry in this regard and furnish the report to the Committee within three months.
13	13	Industries	The Committee directs to furnish a report on the latest position of revival of the units of UEIL and on the upgradation of its machinery.
14	14	Industries	The Committee suggests that after conducting a feasibility study UEIL should start another unit to manufacture new products. At the same time care should be taken to avoid starting units in inappropriate places like community halls in future. The Committee also directs the Company to revamp its management inorder to ensure a high degree of efficiency and to avoid losses in future.
15	15	Industries	The Committee vehemently criticizes the practice of paying wages and other benefits like PF, ESI and Pension to labourers in non-working PSUs and recommends that the government should take urgent steps to put an end to this practice. It suggests to deploy such workers to other working PSUs.

16	16	Industries	The Committee vehemently criticizes the SIFL for purchasing gear hobbing machine without proper study and not realising in time, that additional machinery would be needed for its functioning. The Committee recommends to take urgent measures to utilize the gear hobbing machinery and to furnish a report on the measures taken to the Committee in this regard.
17	17	Industries	The Committee observes that there was deliberate lapse on the part of KELTRON & SIDCO in utilizing the Central Government fund and directs to furnish the explanation for the lapses.
18	18	Industries	The Committee recommends to expedite the procedures for obtaining the factory license and fire & safety clearance in the case of SIDCO and to take measures to obtain fire & safety clearance in the case of KELTRON.

APPENDIX-II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

(AUDIT REPORT 2014-2015)

Sl No	Audit Paragraph		Reply furnished by Government
1	2		3
1	3.1.2		DPR was prepared on the basis of market study conducted by KITCO in July 2004. here in the demand of House wiring cables was forecasted as 300000km in Kerala for residential buildings ANNEXURE I . In this connection a letter sent to The Secretary,RIAB dt 15 03 2010 is enclosed as Annexure II
2	3.1.5		As per the DPR the estimated demand was 438000 coils per year in assorted sizes of coils of 90 meters length. However, due to various other reasons TRACO could not make the fullest measure of 438000 coils. As TRACO was having the experience in the corporate sales for its products for decades by bagging orders through competitive tenders, and the house wiring cables being the new market, as a whole, initial challenges were there for penetrating the public market. As TRACO a new entrant to the House Wiring cables' market, it has been facing tight competition and they have taken several interventions in the market to boost the demand for their product. The following are the action taken after the manufacturing setup was made. 1. Registering with Govt departments like PWD,Stores Purchase Manual etc.. 2. Arranging Local Agencies, Marketing representatives, Dealers etc..

1	2		3
			Being the new product line for the public, launching of new strategies exclusively for house wiring cables by re modeling marketing department by way of assigning responsibilities unit wise. 3. Learning the marketing strategies of competitors by way of appointing house training. 4.The company. obtained the ISI approval to the products in December 2011 and started the sale of House Wiring Cables only through Company outlets (Three Units, Thiruvananthapuram and Ernakulam Offices) from May 2012 onwards. 5. As there was no new employment made, re allocation of employees from other units were made. 6. Needed marketing tools were used for making the brand image of TRACO through Audio media, Print Media, Hoardings and flex boards, Social media, advertisements etc. 7. Now Traco is having 8 marketing executives and 5 dealers all over Kerala. 8. Presently the active media tools are in place especially TV Ads and Flex boards. 9. At present TRACO is having major clients like L&T, Police Canteen, ARTECH Builders for continued purchases of our Building Wiring Cables. There is repeat purchase due to customer adoption and word of mouth promotion by the customers themselves due to better quality. The production is going in line with the sales and TRACO will be able to improve the capacity utilization as sales increases in the near future.

1	2		3
3	3.1.6		The total cost of our House Wiring Cables Unit Project at Thalassery was Rs.12 crores. Out of which Rs.3 crores is working capital. In actual execution the project cost was 9.05 crores(828.05 Lakhs (fixed assets) +77.06 lakhs(preliminary expenses)=9.05 core As per Govt. Order, project cost of Rs.8 crore of Traco Cable Company Ltd. was financed by Malabar Cements Limited and the balance of Rs. 4 crore was to be financed by the company itself. Though the company approached M/s.KSIDC for sanctioning a loan of Rs.4 crores towards the project as Own funding, the loan was not sanctioned by KSIDC due to various reasons and as per their request Govt.of Kerala sanctioned Rs.4 crore (initially 2.17 crores and subsequently 1.83 crores) as loan in this regard.
4	3.1.9		It is pointed out that for House wiring cables unit of TRACO,the work order for construction of factory building, substation building etc were given to Kerala Electrical & Allied Engg Company Ltd (KEL) for Rs.1.87 crore without inviting tender.

1	2		3
			◦ TRACO had approached the Architecture Department of Govt Engg College, Thrissur for the civil construction and later due to their poor response,KEL was entrusted to do the work after several negotiation to arrive at an economically feasible rate for the consultancy work. ◦ Due to the time constraint prescribed by the Govt directive regarding the implementation of Greenfield Project TRACO had to resort to avoid the tendering formalities and selected KEL which is also a Kerala Govt company for the civil construction work. It is also reported that the project taken by KEL was commissioned within the targeted period in a reasonable rate without any further escalation in price.

A.JAMES RAJ
Joint Secretary
Industries Department
Govt. Secret iat, Thiruvananthapuram

5.0 Summary of market survey by KITCO

After conducting the market survey on cables, KITCO comes out with the following conclusions.

- Demand for cables using for power generation, transmission and distribution is growing. Insulated cable market expects to grow at an average annual growth rate of 16%. The GDP growth, infrastructure developement, good performance of industry all augur well for future growth of cable industry.
- Rural electrification projects will boost the demand for bare conductors further. Also increasing demand for transmission capacity will boost demand for large size bare conductors.
- Demand for communication cables, especially jelly filled cables will be too low; fiber optic cables have in large quantities replaced these. The growth of the communication cable industry is negative. In one year time the turnover halved. The growth in optical fiber cable industry does not show a commensurate growth rate since the telecom companies giving emphasis on CDMA and GSM mobile communication.
- Setting up of an efficient market networking is essential for the company. Well-organized companies use modern marketing techniques to garner as much business as possible. It is suggested to set up a dynamic marketing department in the company. Similarly building up stockpile to meet the immediate needs of clients for not to loose the customers to competition as well as to win over new clients.

- **Bare Conductors**

1. Requirement is about 6, 00,000 ct km in all India level.
2. Requirement in Kerala is about 1, 00,000 ct km.
3. Non-conforming products are the threat to market.

- **XLPE / PVC Cables**

1. KSEB require 1, 03,000 km per annum on an average of assorted size.
2. 5% is the normal distributor commission.
3. PVC insulated cables have more demand than XLPE cables at present. However, the trend is in the changing phase.
4. XLPE cable will replace PVC cables in future.
5. Present ratio of XLPE to PVC cables is 30:70.
6. The fast moving size is 185 sq. mm.

- **Paper Insulated wires (Cu / Al)**

1. Though transformer industry is stagnant at present, it is expected to grow considering the requirement of further distribution and transmission network. Paper insulated wires being dependent on transformer industry will have a higher demand.
2. The demand is fluctuating.
3. Govt. plans 75000 MW generation capacity additions to the end of the decade and has allotted Rs. 40,000 Crore under the plan fund.

- **Enameled copper wires**

1. A decreasing demand trend seen in the market.
2. Major market is Coimbathore, Hyderabad and Northern States.
3. *Retailers are decisive in promoting brands.*
4. *Commission to retailers is an important factor.*

- **House wiring cables**

1. About 3,00,000 km is in estimated annual demand in Kerala for residential building.
2. Finolex is the market leader with 40% share.
3. Electricians have a say in promoting brands.

- **Communication Cables**

1. There is only a small demand for jelly filled / dry telecom cables.
2. UTP cable has demand in computer networking.
3. Estimated demand for UTP cable is 10,00,000 km per annum.

Supply demand gap is negative in cable / conductor / winding wire industry. TRACO has to capture the existing market beating others through modern marketing technology. Under APDP Rs. 115 Crore for the year 2004-05 and Rs. 200 Crore for the year 2005-06 has been allocated to improve transmission and distribution, which will give boost to transformer industry also. TRACO shall also exploit the demand from transformer manufacturing PSU's including TELK and KEL for paper insulated wires.

No.MD/O1/ 07 /10

11th March, 2010

The Principal Secretary to government
Industries (H) Department
Thiruvananthapuram

Dear Sir,

Sub : Detailed Project Report for a new unit of the company for manufacture of House Wiring Cables at Pinarayi,Thalassery. Kannur District dist. – reg.

....

We are forwarding herewith the detailed project report for a new unit of the company for the manufacture of House Wiring Cables at Pinarayi, Thalassery, Kannur District. The salient features of the proposed project are:-

1. On commissioning, the unit proposes to manufacture 4, 43,000 Coils of House Wiring Cables at a total sales turnover of Rs.32.07 Crores (excluding duties and taxes).

2. The total investment on fixed capital is estimated to be Rs.9.25 Crores and working capital requirement is estimated to be Rs. 3.50 Crores, the project cost thus totaling to Rs. 12.75 Crores.

3. The funding of the project proposed is by Govt. of Kerala towards fixed capital expenditure by way of equity and provision of working capital by one time grant.

4. The financial statement shows that the working results from the first year onwards are in profit, with a steady growth, and the unit will break even on achieving a sales turnover of Rs.18.63 Crores at 58.41% capacity utilization.

5. The invested capital can be fully recovered in 5 years of operation.

6. The project envisages employment generation for 160 personnel.

7. On getting possession of the land, the execution of the project can be completed within 9 months for commencing commercial production.

8. The new unit of the company is proposed to be put up in the industrially backward district of Kannur District.

The executive summary of the project and the check list as per Govt. letter No. 28551/H1/08/ID dt. 21.08.2008 are also included in the project report.

It is requested that approval may kindly be accorded at the earliest for the implementation of the project as proposed.

Thanking you,

Yours faithfully,
For TRACO CABLE COMPANY LIMITED

CDR. (RETD.) K. SHAMSUDDIN
MANAGING DIRECTOR

Encl: Detailed Project Report- in duplicate

Copy to: The Secretary,
RIAB, V^{th} floor,
CMD Building, Thycaud P.O.
Thiruvananthapuram-695014.

with one copy of the Detailed project report

Copy to: Smt. B. Lekha, A.M. (P & A)

M.F., O.C.

ANNEXURE-II

No.MD/O1/10 /10

15th March, 2010

The Secretary
RIAB, 5th floor, CMD building
C. V. Raman Pillai Road
Thycaud P. O.
Thiruvananthapuram-695014

Dear Sir,

Sub : Modernisation/Expansion projects proposed during 2010-11 – reg.
Ref : RIAB's letter no. ADMN-H/1-0/09-10/D-805 dt. 12-03-2010

With reference to the above, we would like to inform that we have submitted two project reports to the Government as detailed below:

1. Second phase of revamping of Thiruvalla unit for the manufacture of High Voltage XLPE insulated cables and Super Enameled Copper Conductors.

2. Setting up of a new unit of TRACO (third unit) at Thalassery, Kannur District for the manufacture of PVC insulated House Wiring Cables.

As advised we are enclosing the profile of both the projects for scrutiny and analysis.

Thanking you,

Yours faithfully,
For TRACO CABLE COMPANY LIMITED

15/03/2010
MANAGING DIRECTOR

Copy to: Manager(Finance),
Smt. B. Lekha, A.M. (P & A)
M.F., O.C.

PROFILE OF THE PROJECTS

A. Second phase of revamping of Thiruvalla unit:

1. The proposal for the manufacture of High Voltage XLPE cables and Super enameled copper conductors as part of second phase of revamping of Thiruvalla unit was prepared consequent to the drying up of demands for Jelly Filled Telephone Cables and consequent slowing down of the operations of the Thiruvalla unit.

2. As a first step, the Thiruvalla unit was revamped in 2006 for the manufacture of ACSR Conductor, with addition of two numbers Tubular Stranders and few other associated machineries at a total cost of Rs.1.63 Crores. Now the product is well stabilized at Thiruvalla Unit.

3. Though the Ist phase of revamping has been completed, the major part of machineries installed for Jelly Filled Cable manufacture is still in-operative and also around 60% of the workmen in Thiruvalla unit are under utilized now. Around 75 employees of Thiruvalla Unit are now on deputation to various other Government Organizations mainly to M/s Beverages Corporation.

4. The major break-through while implementing the IInd phase of revamping for the manufacture of high voltage XLPE Cables and Super enameled Copper Conductors at Thiruvalla Unit are:-

   A. Full utilization of the permanent employees of the Unit.

   B. Utilization of the existing plant, machinery and equipments can be increased to about 80% with certain technical up-gradation/modifications.

   C. The existing plant, machinery and equipments installed for Jelly Filled Cable manufacture have been utilized only for less than 15 years now. These plant, machinery and equipments are still having another 20-25 years of useful life. XLPE Cables and Super enameled wires are the only products which can be taken up to utilize the balance life of the existing plant, machinery and equipments to the maximum extent.

   D. Since the proposed IInd phase of revamping is in the Cable manufacturing field, our expertise being in the same field, the expenses will be minimum for accessing and assimilating technology.

   E. The proposed XLPE and Super enameled cables can be brought on stream quickly at Thiruvalla unit as they fall in the same generic class of products handled by the unit at present.

   F. The market demand for the products is steadily on the rise.

5. For implementing the IInd phase of revamping only few additional balancing machime and certain technical up-gradation/ modification of the existing plant and machinery are required at a total proposed investment of Rs. 6 crores. In addition to the above we have also requested an amount of Rs. 3.5 crores for working capital requirements.

6. The project report was forwarded to the principal secretary to the Government, Industries (H) department vide our letter no. MD/01/06/09 dt. 19.01.2009. Vide Govt. letter no. 1962/H1/09/ID dt. 02.02.09 directed us to furnish the details as per the check list, which was submitted vide our letter no. MD/01/34/09 dt. 18.05.2009. Government vide letter no. 21681/H1/09/ID dt. 03.08.2009 intimated us the decision of the subject committee IV (request for grants). The subject committee IV have recommended for sanctioning to our company 6 crores by way of fixed capital and 3.5 crores by way of grant for meeting the proposed expenditure of the project. Again Govt. vide letter no. 1962/H1/09/ID dt. 21.09.2009 directed us to inform the proposed changes in the overall performance of the company with the implementation of the new proposal. Vide our letter no. MD/01/107/09 dt. 18.11.2009 we have submitted the details called for. Further Govt. vide letter no. 21681/H1/2009/ID dt. 20.02.2010 directed us to inform the status of the project proposal recommended for implementation by subject committee IV, we have submitted our reply vide our letter no. MD/01/05/10 dt. 06.03.2010. Further decision/direction in this regard is awaited from the Government.

7. The specific details called for are furnished below:

a. Proposed means of finance: --The total fund required for the project is estimated at Rs.9.5 crores, out of which 6 crores is for the procurement of plant and machinery and Rs.3.5 crores towards working capital. The entire fund requirement is proposed to be met by Govt. by way of equity share capital/grant.

b. Expected date of completion: - On obtaining the required fund, the total project can be implemented and commercial production can be commenced within 10 to 12 months.

c. Source of technology: - The project is to be implemented generally on in-house technology, with minimum assistance from indigenous sources.

d. Viability indicators:- The most sensitive aspect of the second phase of revamping project is for deployment of the balance 60% redundant work force usefully, also 80% of the present plant and machineries installed for Jelly Filled Telephone Cables can be utilized with certain modification/ up gradation for another 15 to 20 years. The turnover of the company will double on implementation of the proposal and this is considered important phase in restructuring the operations of Thiruvalla unit after obsolescence of the original product i.e., Jelly Filled Telephone Cables.

B. Setting up of a new unit of TRACO (third unit) at Thalassery, Kannur District for the manufacture of PVC insulated House Wiring Cables.

1. The company prepared a detailed project report for setting up of a new unit (third unit) at Thalassery, Kannur District for the manufacture of PVC insulated House Wiring Cables at a total investment of Rs.12.75 crores, out of which Rs.9.75 crores towards fixed capital expenditure and Rs.3.50 crores for working capital requirement.

2. The detailed project report was forwarded to the principal secretary to government, industries (H) department vide our letter no. MD/01/07/10 dt. 11.03.2010 for approval of the Government, also a copy of the project report was forwarded to secretary RIAB. Further the copy of the project report was submitted to special private secretary to the Hon. Minister for Industries for the kind information of Hon. Minister.

3. The specific details called for are furnished below:

a. Proposed means of finance: - The total fund required for the project is estimated at Rs.12.75 crores, out of which 9.75 crores is for the implementation of the project including plant and machinery and Rs.3.5 crores towards working capital. The entire fund requirement is proposed to be met by Govt. by way of equity share capital/grant.

b. Expected date of completion: - On obtaining the required land and fund, the total project can be implemented and commercial production can be commenced within 9 months.

c. Source of technology: - The project is to be implemented purely on in-house technology, as the company is in the line of manufacture of these type of cables from 1964.

d. Viability indicators: - A study conducted by M/s. KITCO on behalf of Traco has revealed that, as on Dec 2004, the total projected requirement of House Wiring Cables is 3, 00,000 Kms in the State of Kerala and the demand was growing steadily. The project proposed to capture about 15% of the market in Kerala. The market can be also extended beyond Kerala to the Southern States of India in due course. The demand will increase year after year based on the enhanced civil construction of various nature. This Project is to set up as a unit of Traco at Thalassery, Kannur District an industrially backward District in Kerala State. This project offers direct employment to 160 persons.

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

(Audit Report - 2014-2015)

Sl No	Audit Paragraph		Reply furnished by Government
1	2		3
1	3.1.1		**Investment in plant and machinery as per DPR and actual** As far as SIDCO is concerned, the investment in plant and machinery envisaged in the DPR was Rs.8,92,20,000/- (plant and machinery, furniture and fittings, office equipment) . Whereas the actual investment towards the same was Rs.7,76,59,282/- (plant and machinery, furniture and fittings, office equipment and software) which means that there was an under investment of Rs.1,15,60,718/- which SIDCO was planning to add, after assessing the profit percentage on starting the commercial production.
2	31.2		**Turnover envisaged in DPR and actual attained upto March, 2014.** As per the DPR, the turn over and profit envisaged in the Tool Room cum Training Centre is as follows :

Year	Turnover	Profit
2012-13	5,12,50,000.00	7,70,098.40
2013-14	5,53,83,000.00	57,32,404.75
2014-15	6.45,62,400.00	1,37,70,422.02
2015-16	4.48,18,800.00	2,22,49,338.21

Whereas, the actual turn over and profit is as follows :

Year	Turn over	Profit/(Loss)
2012-13	45,89,799.00	(2,25,07,091.00)
2013-14	1,02,54,884.69	(2,11,51,478.00)
2014-15	2,14,78,597.00	(1,49,92,006.00)
2015-16	2,58,77,817.00	(1,64,81,571.00)

1	2		3
			The contention of audit that the profit as per DPR was not attained is correct. The unit could not attain the envisaged turnover, because the additional investment proposed in the plant and machinery could not materialise due to lack of funds. Moreover, the revenue from training was not attained as expected. However, from the above statement, it is evident that **the turnover in the said unit is increasing** and the loss is decreasing (during 2015-16, there is a hike in loss of Rs.14 lakhs from the previous year due to a machine failure)
3	3.1.3		The observation of audit is not correct as far as SIDCO is concerned. SIDCO is running 7 other production units having experienced skilled and unskilled workers to take up the orders. Since the financial condition of SIDCO during the implementation period was poor, Government of Kerala supported SIDCO towards the cost of implementation. SIDCO had the technical knowledge and for maximum utilisation of the workers, the project has been given to SIDCO by Government of Kerala.
4	3.1.4		Not applicable.
5	3.1.5		Audit observed that against financing pattern prescribed in Government Order (which was 1:1:1 equity contribution, soft

1	2		3
			loan and own funds), DPRs were prepared envisaging 100% equity contribution from Government of Kerala. The observation that DPR envisaged a 100% equity contribution from Government of Kerala is not correct. In the DPR submitted by SIDCO, it is envisaged as follows: Contribution from PSU as equity : 4 Crore Soft loan from PSU :- 4 Crore Term loan from KSIDC/FI with 12% interest :- 4 crore **Total :- 12 crore.** While the actual funding pattern was : Equity and loan from PSU (M/s. Malacements Limited) :- 8 Crore Loan from Government :- 2 crore **Total :- 10 Crore.** The only deviation arise from the DPR was, instead of 12 Crs, only 10 Crs has been invested for the said project. This is because of the non-availability of funds. Meanwhile, as per the DPR, Rs. 2Crs were to be utilised for working capital margin, preliminary and pre-operative expenses, equipments etc.. Most of the critical and productive items of plant and machinery had been acquired and the project got underway with work orders from VSSC and ISRO.
	3.1.6		As far as SIDCO is concerned, the observation of audit, that Capital Investment, was restricted to Rs.10.87 Crs curtailing procurement of vital machineries required for the project is not correct. The vital machineries as stated above, were procured and the functioning of unit was started on receiving the orders from VSSC and ISRO.
7	3.1.7		The contention of audit that the investment in plant and

1	2		3
			machinery envisaged in the DPR was 10.31 Cr is not correct. As per the approved DPR, the investment proposed was Rs. 8,92,20,000/- (plant and machinery, furniture and fittings, office equipment). Whereas the actual investment towards the same was Rs. 7,76,59,282/- (plant and machinery, furniture and fittings, office equipment and software) which means that there was an under investment of Rs.1,15,60,718/- which SIDCO was planning to add, after assessing the profit percentage on starting the commercial production. The contention of the audit that the area constructed was double the area envisaged in the DPR is not correct. Audit may please note that the built up area envisaged in the DPR is 29,212 sqft, whereas the actual area constructed is 15335.86 sq.ft. The contention of the audit that the short term training was envisaged for 5400 students, but SIDCO could train only 53 students, is correct. Due to the shortage of space, SIDCO could not conduct the training as envisaged. The TRTC is not doing any chemical treatment and there is no environmental pollution while using the type of machinery erected there. The waste is only metal waste (solid). The effluent is only from the coolant used in the machine which is mixed with water and the same will get vaporised during the use. Moreover, the machine installed has in-built system to treat effluents. However, as per the suggestion of audit, SIDCO is taking up the matter with PCB for getting the certificate.
8	3.1.8		There was a misconception from the part of SIDCO regarding the eligibility for applying for Central Government funding. However, efforts will be made to avail the same for expansion of TRTC, provided the scheme is still available with Government of India.

1	2		3
9	3.1.9		Audit observed that wide publicity was not given and the advertisement was given in one newspaper only. Contention of audit is correct. However, SIDCO received five tenders in response to the above advertisement. The L1/M/s. Entech Engineers were awarded with the work and an agreement for this was executed on 28/07/2010.
10	3.1.11		The contention of the audit that the fire and safety license was not obtained. is correct. Steps are being initiated to comply with the same.

494/P2/2013/ID

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

(Audit Report - 2014-2015)

Sl No	Audit Paragraph			Reply furnished by Government
1	2			3
1	3.1			**3.1.1 – Delay in implementation** Though Government issued G.O.(Ms) No: 103/2010/ID dated 10/4/2010, KELTRON received the fund from M/s.Malabar Cements Limited in September 2010 and the Project was commissioned in December 2011. Hence, there is no much delay from Company's side in commissioning the Project. **3.1.2 – DPR made by KELTRON in-house** KELTRON had a track record of skill development through KELTRON knowledge Centres. Also they have a Tool Room cum Training facility – KELTRAC at Aroor, which is run by the executives of KELTRON. Thus KELTRON have experience to prepare a DPR on its own. **3.1.5 – Deficiency in DPR** • Though DPR envisaged total Project Cost of Rs.12 crore, Company had decided to limit the expenditure

1	2		3
			to Rs.8.44 crore in the first phase and further investment on need basis, based on business growth. The expenditure on machinery and equipment ensured all essential vital items both for production and training. • Rational for increasing the plinth area was explained in the audit stage. The variation of expenditure on civil work machinery, equipments and electrical work were necessitated because focus was shifted from production to skill development and training, from what was envisaged in DPR. **<u>3.1.6 - Non compliance of GO – funding of Project</u>** Though DPR envisaged total Project Cost of Rs.12 crore, Company has decided to limit the expenditure to Rs.8.44 crore in the first phase and further investment on need basis, based on business growth. Further investment from KELTRON will be made as per the requirement of the Tool Room. **<u>3.1.7 – Deviation from DPR – Cost of Electrical Installation; reduction in number of students</u>** • As mentioned above, since the plinth area has increased, consequently the cost of electrical installations was also increased. • KELTRON had tied up with NTTF to increase the utilisation of the Tool Room facility and further the

1	2		3
			company is proposing to conduct courses by KELTRON Knowledge Services at Tool Room cum Training Centre, which will increase the number of students and will make the centre operationally profit. **<u>3.1.8 – Non availing of assistance under GoI Scheme</u>** KELTRON is preparing a revised proposal to improve the utilisation of Tool Room facility and funding support will be made through GoI Schemes. **<u>3.1.10 – Increase in recruitment expenditure</u>** KELTRON has not made any fresh recruitment in regular category and has spent Rs.1.02 lakh for the centralised recruitment process, which was subsequently cancelled by Government. **<u>3.1.11 - Non obtaining of licences</u>** All necessary licenses have been obtained and no further action has been pending in this regard.. In order to improve the performance of the Tool Room and make it a effective Training Centre KELTRON is proposing to conduct various training courses in their in house Division – KELTRON Knowledge services. A detailed draft proposal is enclosed herewith.

KELTRON
A Government of Kerala Undertaking

KNOWLEDGE SERVICES GROUP (KSG) & KELTRON TOOL ROOM & TRAINING CENTRE(KTTC)- KUTTIPPURAM PROPOSAL 2017

Regd. Office: Keltron House, Vellayambalam, Thiruvananthapuram-695033

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PREFACE

Kerala State Electronics Development Corporation Ltd. (K. S. E. D. C. Ltd.) has started **KELTRON Tool Room Cum Training Centre (KTTC)** with conventional as well as CNC machines at Thangalppadi, Kuttippuram very near to **Keltron Electro Ceramics Ltd. (KECL)** Unit during 2012 using the fund of Rs.10Crores provided by the Government of Kerala. This Centre has a land area of 10 Acres and floor space of around 20,000 Sq.ft. with class rooms, workshops, labs etc. There are 6 Class Rooms around 700 Sq.ft. areas each and Computer Lab having an area of 600 Sq.ft. with 40 Computers (currently 10 Nos. are not working) and Staff Room of around 1,000 Sq.ft. area. The objective of this unit is to provide good quality training to the youth in employable skills in latest Mechanical field like **Tool & Die Engineering, Manufacturing Technology** etc. As KELTRON was unable to run the courses using their own manpower, it was decided to enter in to an agreement with NTTF (Nettur Technical Training Foundation), a pioneer institution in Technical Training in India particularly in the field of Tool & Die making during July 2012. As per the understanding between KELTRON & NTTF, NTTF will run two batches of 60 students each for the Tool & Die Making 3 year Diploma course every year. **The validity of the agreement was for 6 years and will expire in July 2018.** As per the agreement, the following are the roles & responsibilities of NTTF & KELTRON:

- **NTTF:**
  - NTTF will release 40% of the fee collected from the students to KELTRON towards the facilities provided.
  - Marketing the course, taking admission, collecting fee, conducting the course, examination, certification, arranging placement, paying remunerations to the faculties etc are the responsibilities of NTTF.
- **KELTRON:**
  - Providing Water supply, Power, Internet/Telephone, Maintenance etc are the responsibilities of KELTRON
  - Out of the 40% share released, KELTRON has to invest 1/3rd amount of this towards additional investment in infrastructure/equipments.

NTTF requested KELTRON for the additional investment like providing additional Machines and arranging Air-conditioner to the Computer Lab etc. Since utilizing the existing infrastructure NTTF/KELTRON couldn't admit more number of students by increasing the batch strength due to some technical, financial and approval constraints, it was decided by our management not to invest further under this arrangement in this regard from 2014 onwards and communicated the same to NTTF. Hence, NTTF decided for an exit plan by slicing the admission size from last year onwards. During 16-17 NTTF had taken admission for 60 students instead of 120 students committed and during 2017-18 they have not taken any admission. Presently, there are two batches of students i.e. 120 students for 3rd year and 60 students for 2nd year. **The classes of final year batch will be completed by July 2018.** Since the execution of the course with 60Nos. of students is not viable to NTTF/KELTRON, NTTF has decided to wind up the programme at Kuttippuram and to transfer the last batch to their other Centres. Hence, our management has decided not to renew the agreement with NTTF further after the expiry of the agreement and also it was decided to revive the Centre.

1. PROPOSAL PLAN FOR THE KTTC

Based on our study, we hereby propose the following Proposal Action Plan for the KTTC, Kuttippuram from August 2018 onwards:

Utilize the existing infrastructure and Lab facilities of KTTC, Kuttippuram to offer AICTE/DTE approved courses conducted by KELTRAC as an extension centre of KELTRAC, Aroor

a) Offer Sector Skill Council Approved Courses through this centre by Knowledge Services Group.

b) Offer Higher End Job-oriented Courses (Direct / Partner) through this centre by Knowledge Services Group.

1.1 Utilize the existing infrastructure and Lab facilities of KTTC, Kuttippuram to offer AICTE/DTE approved courses conducted by KELTRAC as an extension centre of KELTRAC, Aroor

As per the **All India Counsel for technical Education (AICTE)** norms KELTRON is not eligible to conduct the AICTE approved courses at KTTC Kuttippuram. As per AICTE guide lines "**Company registered as per Section 8 of Companies Act 2013 only can apply for AICTE approval, ie. Companies with Charitable Objects. In India, a non-profit organization can be registered as Trust by executing a Trust deed or as a Society under the Registrar of Societies, or as a private limited non-profit company under Section 8 Company under the Companies Act". As KELTRON will not come under this Act, we are not eligible to apply for AICTE approval and conduct the AICTE approved courses at KTTC Kuttippuram.**

KELTRAC Aroor is having almost similar infrastructure and is conducting AICTE approved 3 years Diploma courses in Tool & Die Making and Manufacturing Technology for the last few years. As an initial step, it is suggested to start the **Diploma courses in Tool & Die Making (DTDM) and Diploma in Manufacturing Technology (DMT) courses at KTTC-Kuttippuram with Technical tie up with KELTRAC Aroor.** Initiate necessary steps to get approval from **AICTE/ Directorate of Technical Education (DTE)** for conducting the courses at Kuttippuram considering the Kuttippuram Centre as an extension centre of KELTRAC Aroor, Necessary approval from the KELTRAC Board also to be taken. [NB: As per the telephonic enquiry, AICTE approval process is not yet announced and we have to look into web portal on daily basis from the information received from the AICTE staff. Kindly note that during last year, AICTE Hand Book for 2016-17 released on 30th November 2016 and the AICTE WEB Portal opened on 01/12/2016 to 31/12/2016 for uploading the application.]

Hence, it is proposed to manage the KTTC Kuttippuram Centre by **KELTRON KNOWLEDGE SERVICE GROUP (KSG)** with the support of **KELTRAC, Arror** as part of the revival plan, by offering AICTE/DTE approved courses through this centre.

1.2 Conduct short-term Sector Skill Approved Courses under Capital Goods Skill Council (CGSC) through this centre by KSG

As a second option for the revival of the centre, the following courses stipulated in **Table-1** are proposed to be conducted through this centre by KSG after getting approval from the Sector Skill Council. The Marketing of the courses, Admission Procedure, Faculty, & Course Delivery shall be done by KSG and Examination & Certification shall be done by Sector Skill Council Assessing Body.

TABLE-1: List of Sector Skill Approved Courses proposed to be offered through KTTC, Kuttippuram

Sl. No.	Sector	Qualification Pack (QP)	NSQF Level	QP Ref ID	National Hours	Base Cost of training (per candidate, per hour)	Model Curriculum Available (Yes or No)	Min. Qualification (as defined in QP)	Fees	Min. Batch Size
1	CGSC	**CNC Operator - Turning**	3	CSC/Q 0115	300	Rs. 40.50	Yes	10th Standard	**Rs.12,150/-**	**20-25 students**
2	CGSC	**CNC Programmer**	4	CSC/Q 0401	300	Rs. 40.50	Yes	Diploma in Mechanical Engg.	**Rs.12,150/-**	**20-25 students**
3	CGSC	**CNC Setter and Operator – Electro Discharge Machine (Spark Erosion)**	4	CSC/Q 0121	400	Rs. 40.50	Yes	12th Standard	**Rs.16,200/-**	**20-25 students**
4	CGSC	**Fitter – Mechanical Assembly**	3	CSC/Q 0304	500	Rs. 40.50	Yes	10th Standard	**Rs.20,250/-**	**20-25 students**

5	CGSC	**Tool and Die Maker**	5	CSC/Q 0306	700	Rs. 40.50	Yes	10th Standard	**Rs.28,350/-**	**20-25 students**

1.3 Conduct the following Higher End courses by KSG through this Centre, considering the space/free time slot availability

As part of increasing the turnover of the centre, the following courses are also proposed to be conducted through this centre by KSG directly or with the support of KSG's existing Technical Partners. The Marketing of the courses, Admission Procedure, Faculty, & Course Delivery shall be done by KSG as well as Technical Support Partners based on their respective courses and Examination & Certification shall be done by KLETRON.

- Embedded/IoT/VLSI Courses
- Interior/Architecture/Advertisement Design Courses
- Academic Projects for Electronics/ Electrical /Mechanical Students
- Internship Program for B.Tech students as per KTU/ Other University norms

In this context, we have identified various **Roles & Responsibilities** of **KTTC Kuttippuram, KELTRAC, Aroor & KSG as part of the revival plan.** These are stipulated in **Table-2** shown below:

TABLE-2: Roles & Responsibilities of KTTC Kuttippuram, KELTRAC, Aroor & KSG

Sl. No.	Items	KTTC, Kuttippuram	KELTRAC, Aroor	KSG
1.	Infrastructure	Providing existing Infrastructure, Equipments, Computer Systems, Furniture & Fixtures	NA	• Additional Capital Expenses for the extension approval of AICTE/ DTE for conducting DTDM/ DMT courses at Kuttippuram. • Additional Capital Investment towards Computer/ Equipments/ Projector/ AC/ Class Room Chairs etc.
2.	Syllabus & Course Approval; AICTE/DTE approval Fees	Support for approval of AICTE/DTE & Sector Skill Courses	• Prepare necessary Syllabus • Take approval from AICTE & DTE for conducting DTDM/DMT courses at Kuttippuram	• Syllabus for all other courses • Take approval from Capital Goods Skill Counsel (CGSC) for conducting Sector Skill approved courses come under different levels of National Skill Qualification Framework (NSQF) • **100% of AICTE/DTE Approval Fees**

3.	Marketing of the Courses & Admission Procedure	NA	Marketing & Taking admission along with KELTRAC, Aroor for AICTE/DTE approved courses. **Fees Collection for AICTE/DTE courses**	Marketing & Taking admission along with KELTRAC, Aroor for AICTE/DTE approved courses as well as Sector skill and other higher-end courses & **Fees Collection**
4.	HoC/Principal, Centre Admin & Faculties	Centre-Co-ordinator	Required Faculty including Principal (for AICTE/ DTE Approved Courses)	HoC & Required Faculty for Higher-end as well as Sector Skill Courses directly offered by KSG and Faculty support from Technical partners for other courses
5.	Course Material	NA	Course Material for AICTE/DTE approved courses	Course Material for other Courses
6.	Examination & Certification	NA	To be arranged from AICTE/DTE	By KELTRON for KSG courses and to be arranged for Sector Skill Courses
7.	Repair & Maintenance	Maintenance of existing Machinery/ System/ Diesel Generator set	NA	Maintenance of other Capital items installed by KSG
8.	Consumables	Consumables for AICTE/DTE Courses/Machines provided by KTTC	NA	Consumables for Sector Skill & other Courses
9.	Other Revenue Expenses (except RENT)	Security & Cleaning Expenses	NA	Electricity Consumption Charges, Water Charges, Telephone & Internet Charges and Imprest for Stationeries, Photostat, Courier etc.
10.	Placements	NA	Placement Assistance for AICTE/DTE Courses	Placement Support for other Courses
11.	Share for AICTE/DTE Courses	**20%**	**50%**	**30%**
12.	Share for Sector Skill as well as Higher-End Courses	**20%**	**NA**	**80%**

2. FINANCIALS

Financial viability of the Centre is worked out considering the anticipated intake in the respective courses during the first three years (2018-2019, 2019-2020, 2020-2021) based on the above Action Plans.
Based on this calculation, we expect to achieve a profit of **Rs.22.516 Lakhs** after 3 years.

2.1 Income

- Turnover for 1st year (2018-2019) : Rs.72,34,000/-
- Turnover for 2nd year (2019-2020) : Rs.1,05,34,000/-
- Turnover for 3rd year (2020-2021) : Rs.1,38,34,000/-

Total Income from the course fee for 3 years : Rs.3,16,02,000/-

2.2 Expenses

All Expenses for 3 years : **Rs.2, 93, 50,400/-**

2.3 Profit

Profit (A) – (B) : **Rs.22, 51,600 (8. 0%)**

The following criterion were also taken into consideration during the analysis for the revival of the centre with respect to each action plan items

- **Capital Expenditure**: Additional Capital Expenditure required for Computer Systems, LCD Projectors, Class Room Chairs and accessories required is Rs 7, 50,000. Depreciation of the capital items for a period of three years are also considered in the financials.

- **AICTE/DTE Approval Expenses**: Anticipated AICTE/DTE Course Approval Fees is Rs 4, 50,000.

- **Faculty Expenses**: Faculty for AICTE/DTE Courses (Action Plan Item-1) courses shall be provided by KELTRAC, Aroor and for Action Plan Item Nos. 2 & 3 courses faculties shall be engaged either directly as visiting or as consultant or through the technical support of partners in the relevant field. The additional manpower requirement in this regard is mentioned in and the faculty expenses are also considered.

- **Marketing/Advertisement Expenses**: Marketing of these courses shall also be done directly and with the support of technical partners as mentioned above. The anticipated expense in this regard comes under the Marketing Head is Rs 333333.333 per year.

- **Course Material Expenses:** New course materials need to be prepared for these courses and shall be made available as softcopies in the form of .pdf through our ERP so that students can read through their smart phones also. Anticipated expense in this regard is Rs 5, 40,000 per year.
- **Other Revenue Expenses**: Revenue expenses like Electricity, Water, Telephone, Internet Charges, Stationeries, Photostat, and Courier charges etc... Rent for the building is not applicable.
- **Consumables, Repair & Maintenance Charges**: Consumables like Metal Work Blocks, Lubricating oils for the Lathe, Milling Machines etc are to be procured as part of the practical classes given to students. Periodic Maintenance of the machines are also attracts expenditure in addition to the repair charges. Hence these are also considered for the financials.
- **Placement Support Cost**: As part of the courses, we shall provide placement support to the passed out students with the support of KSG's placement cell.

3. CONCLUSION

Utilize the existing infrastructure and Lab facilities of KTTC, Kuttippuram to offer AICTE/DTE approved courses conducted by KELTRAC as an extension centre of KELTRAC, Aroor

a) Offer Sector Skill Council Approved Courses through this centre by Knowledge Services Group.

b) Offer Higher End Job-oriented Courses (Direct / Partner) through this centre by Knowledge Services Group.

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

(Audit Report - 2014-2015)

Sl No	Audit Paragraph		Reply furnished by Government
1	2		3
1	3.1.6		The Government Industries Department included the proposed unit at Kannadi as one Of the Green field projects to be completed by end of 2009 and included Rs. 5.00 crore in the budget for 2009-10 and allowed Rs. 5.00 crore from Malabar Cements Ltd., (Rs.2.5 crore as equity and 2.5 as loan). MCL advanced Rs 1 Crore as equity to abandoned project of UEIL. Due to shortage of orders and several technical reasons the company could not start the production of meters at the unit and it was held under lock and key by UEI Ltd till now. Under the circumstances the Government directed the company to return Rs.4.00 crore kept with the Company back to Malabar Cements Ltd., and to issue shares for the balance amount of Rs. 1.00 crore to Malabar Cements Ltd. The amount was returned and 10,00,000 fully paid equity shares of Rs 10/- each was allotted and share certificate no O/242 was drawn in the name of Malabar Cements Ltd dated 26/03/2015. Thus all financial liability due to Malabar Cements were settled under this project.

1	2		3
2	3.1.12		UEIL was awarded an order of 6 lakh LCD Meters by KSEBL with a delivery schedule of 1 lakh meters monthly, UEIL decided to set up a new production unit (LCD Meter Production Unit) at Palakkad under the greenfield project of GoK during 2009-10. DPR of the project envisaged supply of meters to other State power utilities as well. Kannadi Grama Panchayat allotted one acre of land for 99 years on lease basis to construct the proposed factory for UEIL. The complete requirement of house service meters for the Government owned Kerala State Electricity Board Ltd which is the major power utility service in Kerala is catered by UEIL Ltd against an MOU (Memorandum of Understanding) signed with the KSEB. Due to the increased demand of Energy Meters the company started its second meter assembly and servicing unit at Kuzhalmannam Panchayat Community Hall in Palaghat. The Unit was inaugurated by the then Hon'ble Minister for Industries Shri.Elamarom Kareem on 19.05.2007 and the project was sanctioned by the Government vide GO(RT)No.432/2008/ID dated 24.04.2008. Later company started production of counter type Energy Meter for KSEB from this unit and was supplying meter to the Northern Districts of Kerala. The company bagged order for 6 lakhs of Multifunction LCD Meters from KSEB and wanted to produce part of the requirement in the Kuzhalmannon Unit so as to cater to the demand of meter in the Northern areas of the state. But in order to produce these meters, the infrastructure available at kuzhalmannom unit was not sufficient and so a full fledged arrangement was planned. The kannadi Grama Panchayat offered 1acres of land in the Kannadi Grama panchayat(Block 51, Survey No.78/12) to start a new unit.

1	2		3
			The Government Industries Department included the proposed unit at Kannadi as one Of the Green field projects to be completed by end of 2009 and included Rs. 5.00 crore in the budget for 2009-10 and allowed Rs. 5.00 crore from Malabar Cements Ltd., (Rs.2.5 crore as equity and 2.5 as loan). But the implementation of the project got delayed because the land allocated was not suitable for the purpose. Finally it was decided to start the unit temporarily in the Panchayat Community Hall at Kannadi which was given free of rent for one year and the same was inaugurated by Shri.Elamarom Kareem, Hon'ble Minister for Industries of the previous Ministry on 23.01.2011. Thereafter the building was suitably modified and 'the required 'machinery for production was installed there. Thereafter it was decided in the meeting held in the Hon'ble Industries Ministers Chamber on 16.09.2011, not to pursue LCD Meter production at Kuzhalmannam unit but to maintain only one unit in Palaghat for the repair and service electronic meters and to manufacture AB Switches for KSEB (.). UEIL have informed the Government that they are planning to maintain the Kannadi unit and close the activities at Kuzhalmannam. But due to insufficient orders and acute shortage of working capital the company could not start any production activities at Kannadi **<u>Winding Up of LCD meter project</u>** Thereafter, UEI Ltd was frequently receiving letters from secretaries of Kannadi and Kuzhalmannam Panchayath's to vacate the premises ( ). Based on a Board decision UEIL

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1	2		3

Company decided to write the matter to the Government . Also,UEI Ltd vide letter no. GM/2357 - 2358/2014-15 dated 12/12/2014 solicited the secretaries of Kannadi and Kuzhalmannam Panchayath's to inform whether any financial commitment incurred for them and to relinquish any duties and charges considering the poor financial position of the Company. As the company did not receive any reply on this but frequent letters were received asking us to vacate the premises. These letters were presented before the Board meeting held during 13th of March 2015, and the Board advised the management to submit the winding up plan to the Government and further to act as per the directions given from the Government on this matter. Pursuant to this, Government vide letter no. 1282/H1/2013/ID dated 16.01.2016, conveyed concurrence of Government for closing down of Palaghat units.

Details on Expenditure incurred under the project.

The total expenses incurred for the project was Rs 62 lakhs (Split up of expenditure is Annexed). All Capital Machinery items available at these units were brought back to the main branch at Pallimukku dated 21/01/2016, and the keys of Palaghat units were handed over to secretaries of Kannadi and Kuzhalmannam Panchayat.

Explanation of UEIL Ltd on Cancellation of Orders by KSEBL

Though there were field rejection in the meters supplied by UEIL later KSEBL started accepting our meters with improved software and design. As on 13th of Feb 2012, KSEBL had accepted 257000 units of meters with improved design and this was also put in service. **As per fault analysis there were only 1% of failure in**

1	2		3
			our meters offered with improved Software and design. However, all of a sudden without any notice KSEBL stopped accepting or did not deliver dispatch instructions to UEIL Ltd. There were around 32,000 meters lying as finished stock which was tested successfully and accepted by KSEBL engineers which were awaiting for field dispatch instructions as on date 131h Feb 2012. Meanwhile, UEIL had sent repeated letters vide MD/4298/2011-12 dated on 13th Feb 2012, Sales/ KSEB/229/2011-12 dated 08 Feb 2012 and Sales/KSEB/1437/2012-13 dated 31 Nov 2012, for issuing despatch instruction but no feedback was received. As a result of non issuance of delivery instructions the working capital was also blocked nor did the Company received any written communication from KSEBL on revocation of existing orders and performance rejections.

A.JAMES RAJ
Joint Secretary
Industries Department
Govt. Secretariat, Thiruvananthapuram

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

(Audit Report - 2014-2015)

Sl No	Audit Paragraph			Reply furnished by Government
1	2			3
1	3.1			**Location of the Machining Unit** The decision to commence the Machining unit at Shornur was taken by the Government of Kerala with a view to promote industrial development in an industrial backward area like Shornur. The Shornur machining unit is functioning on three shift basis and all the equipment's are working in good condition on the following areas. 1. Machining of forging dies and tools needed for forging unit, Athani. Due to this SIFL is making all the dies and tools in-house totally avoiding outsourcing as done before the commencement of the Machining Unit. 2. Machining and value addition to forging such as Titanium and Inconel jobs flight components needed for Relaunch Vehicle (both for ISRO), Missile components for BrahMos Aerospace Ltd., Aeronautical components for HAL, Bangalore etc.,. 3. Machining Unit in association with CUSAT has started a training programme called SAFE (Skill Acquisition Programme for Engineers). This training programme is intended for Engineering graduates and Diploma holders in equipping them for programming on CNC Machines with CAM/CAD applications. First batch of candidates have successfully completed the training and induction for second batch is in progress.

1	2		3

Gear Hobbing Machine lying idle

The SIFL Machining unit, setup at Shornur on January 2011 to machine the raw forgings manufactured at SIFL Athani. The original capital outlay of the project was 17.55 crore. However the Government had sanctioned the project vide G.O. (Ms) No. 145/2010/ID dated 30.06.2010 for an amount of Rs. 12 Crore with a funding pattern of a term loan of Rs. 6 Crore from KSIDC and own fund of Rs. 6 Crore. Due to the limitation of the fund sanctioned, the company was forced to curtail certain equipment's including Gear grinding machine. This was done under the premises that the balancing equipment's left out can be procured and installed in the second phase of the project. Subsequently the company in the year 2015 submitted a proposal before the subject committee for the purchase of these left out balancing equipment's including Gear grinding machine for an amount of Rs. 6 6 crore. The committee on public undertaking has recommended the proposal. In the meantime company has commenced another project with a capital outlay of Rs. 12.95 crore with the support of the Government for an amount of Rs. 9 crore. This project work is under progress and will be completed by the end of March 2018. With the completion of this project, company can initiate the procurement of Gear grinding machine and other balancing equipment's for Shornur machining unit as second phase of expansion. With the installation of this Gear grinding Machine Company can make use of the Gear Hobbing machine.

Shot-blasting Machine

SIFL has purchased a Shot-blasting Machine in March 2011 for Rs. 18 lac with a view to speedi up the fettling process of Railway items like Connecting Rod, Saddle and Main Frame Kits. During the period SIFL was having good Orders for above said items and were incurring LD due to non-supply of the items in time. In order to speed up the execution of the above Order additional fettling capacity was essential. Secondly, Athani Unit was having space

1	2		3
			constraints and sufficient space was available at Shoranur Machining Unit, Hence, Shot-blasting Machine was purchased and installed at Shoranur. Due to this the Company was able to despatch large volumes of Railway items thereby contributing to the profit of the Company. Later it was found that the dust generated during the process was adversely affecting the sophisticated machineries at Machining Unit and hence the Shot-blasting Machine was shifted to Athani Unit and is being utilised for shot-blasting purposes. Hence the Machine is productive and efficiently working at Athani Unit at present.

Actual Expenses incurred at UEIL Palakkad Branch

Capital Machinery	2,007,000
Plastic Chair	73206
Venyl Flooring, Aluminium Fabrication, Construction of Soaking Room	263300
Advertisements, Inauguration, Tender Exp.)	1053619
Remuneration to Employees Deputed	1189984
Electrification	262000
Recruitment of Manpower	698143
Cash Payment, Daily Expense & Electricity charges	652748
Working Capital Requirment	3800000
Total	**10,000,000**

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