



FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2019-2021)**

HUNDRED AND SECOND REPORT

(Presented on 13th November 2019)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2019

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2019-2021)**

HUNDRED AND SECOND REPORT

On

**The action taken by Government on the Recommendations contained in
Twenty Eighth Report of the Committee on Public Undertakings
(2016-2019) relating to Kerala Small Industries Development
Corporation Limited, based on the Report of the
Comptroller and Auditor General of India
for the year ended 31-3-2012 (Commercial)**

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**COMMITTEE ON PUBLIC UNDERTAKINGS
(2019-2021)**

COMPOSITION

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 S. V. Unnikrishnan Nair, Secretary

Shri K. Suresh Kumar, Joint Secretary

Shri Harish G., Deputy Secretary

Smt. Reji D. O., Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Hundred and Second Report on the Action Taken by Government on the recommendations contained in the Twenty Eighth Report of the Committee on Public Undertakings (2016-2019) relating to Kerala Small Industries Development Corporation Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March 2012.

The statement of Action Taken by the Government included in this Report was considered by the Committee constituted for the year (2019-2021).

This Report was considered and approved by the Committee at the meeting held on 27-8-2019.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala and Secretary to Industries Department in the examination of the statement of action taken included in this Report.

Thiruvananthapuram,
27th August, 2019.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Report

The Report deals with the Action Taken by the Government on the recommendations contained in the Twenty Eighth Report of the Committee on Public Undertakings (2016-2019) relating to Kerala Small Industries Development Corporation Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2012.

The Twenty Eighth Report of the Committee on Public Undertakings (2016-2019) was presented in the House on 9-3-2017. The Report contained 3 recommendations and Government furnished replies to all the recommendations. The Committee (2019-2021) considered the reply received from the Government at the meeting held on 15-5-2019.

The Committee accepted the replies to the recommendation numbers 12 and 14 without any remarks. These recommendations and their replies furnished by Government form chapter I of the Report.

The Committee accepted the reply to the recommendation number 13 with remarks. This recommendation, the reply furnished there on by Government and remarks of the Committee form Chapter II of the Report.

CHAPTER I

**REPLY FURNISHED BY THE GOVERNMENT ON THE
RECOMMENDATIONS OF THE COMMITTEE
WHICH HAVE BEEN ACCEPTED BY THE
COMMITTEE WITHOUT REMARKS**

Sl. No.	Para. No.	Department	Conclusions/ Recommendations	Reply furnished by Government
1	2	3	4	5
1	12	Industries	<p>The Committee is of the opinion that the overall functioning of the Company serves to defeat the very purpose of its existence. The Committee, on noticing the shift in the policy from the allotment of shed/land on lease basis to outright sale, suspects whether the policy of outright sale (ORS) is the consequence of unhealthy compulsions from the entrepreneurs to make pecuniary benefits out of the sale of land. It is highly condemnable that the company did not take due diligence in resuming the defunct/purpose deviated/unauthorisedly transferred plots in time. The Committee is forced to view suspiciously the real motive behind the Company's decision to reduce the period allowed</p>	<p>Prior to the transfer of ownership of industrial Estates in favour of SIDCO, Government had allotted land/shed to the entrepreneurs on Hire Purchase/Rental basis. After getting the ownership in favour of SIDCO they had followed the same procedure. Subsequently SIDCO framed an allotment Rule on 1996 for the allotment of shed/land on Out Right Sale (ORS) basis. As per G. O. (Ms.) No. 14/2003/ID dated 27-1-2003, G. O. (Ms.) No. 41/2005/ID dated 2-5-2005, G. O. (Ms.) No. 18/2007/ID dated 19-4-2007, G. O. (Ms.) No. 70/2009/ID dated 10-6-2009, G. O. (Ms.) No. 76/2009/ID dated 27-6-2009 and G. O. (Ms.) No. 25/2011/ID dated 24-1-2011 it was ordered to convert sheds on rental basis to ORS basis after considering the rent amount remitted by the units as the cost of shed, SIDCO had converted most of the sheds</p>

			<p>for transfer allotment from ten years to one year. It is triggering concern that in defiance of the well defined Rules of Allotment, the Company has showed undue favouritism in resuming the defunct units of property and allotting them to new entrepreneurs afresh. All these have provoked the Committee to recommend that the allotment of sheds/land should be made strictly in accordance with the rules and violations if any, shall be viewed seriously. It is also recommended that punitive action should be taken against the person who commits such violations.</p>	<p>from rent to ORS basis. Besides these SIDCO had initiated action for eviction of the sheds which were violated the Rules for the allotment of sheds. In the light of this SIDCO had evicted 40 sheds and resumed 50 cents of land since 2005 from various industrial Estates/Mini industrial Estates and which were re-allotted to eligible industrialists. Clause 16(b) of the allotment Rules of 1996 followed by SIDCO provides for the transfer of land/shed to another industrialist. There is no clause in the Rule to transfer the land/shed only after collecting the difference in rate. Even, then, initially the difference in price was collected from the units. But as the amount demanded was very high, the entrepreneurs were not interested to transfer the same which lead to the idling of industrial plots.</p> <p>The matter was taken up before the Board of Directors considering the repeated requests and complaints of investors and subsequently Director Board allowed the concession in the changes on case to case basis. When the idling of units were noted due to the death, insolvency other financial crisis or disease of</p>
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				<p>entrepreneur, these units were handed over to prospective investors to promote industries. Moreover, the transfer of units were not allowed if the land was kept idle without any construction or manufacturing activities. The transfer was allowed only to those investors, who sincerely tried to start the business by constructing building and setting up other facilities but who failed due to above referred reasons. The transfer will be allowed after confirming the eligibility of the investor and assessing whether the unit will be functioned after the transfer and also will ensure whether the product allowed as per the project report is being produced. Moreover, G. O. (Ms.) No. 70/2009/ID dated 10-6-2009 allows the transfer of unit to the prospective investors and says that the transfer can be informed to SIDCO after such transfer.</p> <p>However, SIDCO is not allowing the transfer applications of such industrialists whose allotted land was idle in nature and not started any construction to run an industry, after the allotment. The transfer is allowed only after ensuring the above mentioned facts.</p>
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1	2	3	4	5
2	14	Industries	<p>It is noted with dismay that a fair amount of confusion is prevailing over in the area of marketing supports rendered by the Company. It is vividly seen that the marketing support of the Company is minimal and mainly focussed/limited on furniture industry and to some non MSE products. The Committee also notes that the proceeds from sales has been routed to meet revenue expenses instead of using it to acquire and develop new estates for industrial growth. The Committee, therefore, recommends that the company should focus on the established objectives, redefine its activities, and diversify its area of operation by implementing new projects for industrial progress.</p>	<p>Government vide G. O. (Rt.) No. 26/2015/SPD dated 28-5-2015 have accorded sanction to Kerala Small Industries Development Corporation Limited (SIDCO) for the supply of wooden, steel and hospital furniture directly to all Government Departments/Public Sector Undertakings/Local Self Government Institutions Autonomous Bodies etc. without following tender formalities. Hence SIDCO is focussing mainly on furniture items. Moreover SIDCO is concentrating on marketing products of MSME units which are the prime motive of SIDCO.</p> <p>SIDCO is purchasing goods from MSME units and supplying goods based on the specific request/ orders from Government Departments, Autonomous bodies etc., by observing tender procedures. Moreover SIDCO is also concentrating on business other than those mentioned in the Government Order.</p>

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

Sl. No.	Para. No.	Department	Conclusions/ Recommendations	Reply furnished by Government
1	2	3	4	5
1	13	Industries	<p>The Committee observes that the raw material support rendered by the Company does not attract appreciation. It is seen that the company preferred to supply wax, one of the main sale components, mainly to trading units paving the way for them to make undue benefits. Besides, there is a huge dearth in the sale of iron and steel when compared to private vendors because of the lackadaisical attitude of the company to compete with local traders. The Committee, in this situation vents its opinion that the procurement and supply of raw materials should be</p>	<p>After entering into agreement in 2008 by SIDCO with Chennai Petroleum Corporation Limited, SIDCO has ensured time bound supply of paraffin wax to MSME units. The market requirement is around 600 MT Per month, SIDCO is supplying 360 MT average per month, the balance demand is met by imported and low quality indigenous wax. In the case of supply of wax to the three big units, these units come under the MSME sector and they are the previous direct customer of CPCL those who were getting wax directly without SIDCO's margin. At the same time the three big units always remit advance, which help them to roll the fund to arrange supply to other depots when they are in short of working capital. Regarding the discount of Rs. 400 offered, SIDCO informed that the OD interest rate charged by bank is around 16.25% and SIDCO as mentioned above utilize the fund remitted-in-advance for providing wax to the units with</p>

			<p>made assiduously and in a transparent way enabling the company to earn maximum benefits.</p>	<p>which they are able to hold them within their customer base and to prevent them from acquiring the entire market.</p> <p>Hence it is to be noted that SIDCO have not given any undue benefit to these parties. SIDCO did not give any compromise in firm's objective and aim in distributing wax to the units through SIDCO's district depot. Through distribution of paraffin wax through SIDCO proper revenue generation to state exchequer also resulted by way of VAT remittance to tune of Rs. 6.44 crore for the past six years.</p> <p>Iron and Steel</p> <p>The decline in sales of Iron and steel material intake by MSME units were mainly because of the availability of drawn wire rod in the market at lower price. The price of the material from main producers like SAIL and VSP is much higher as such the quality too. The MSME units get drawn wire rod at their units on credits basis at much cheaper rate from private steel manufactures and suppliers from Raipur. The main producers offer the product not only to SIDCO but to all the major MSME units, hence the financially sound units are now sourcing the material directly and they are providing the material on credit basis to other units. Like a private supplier stock and sales through depots are not possible</p>
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				<p>due to fluctuating price trend and minimum margin prevailing in the Iron and Steel Sector. In order to have a footing in the iron and steel sector severe competition from market by way of price slashes, SIDCO is trying their level to serve the department and institutions apart from MSME units.</p> <p>Raw material division is extending maximum service support to all the tiny and small units under MSME and still act as reliable supplier of quality material at normal rate to these units, those otherwise will be forced to act as ancillary or outsourcing units of the main financially sound, market established MSME units.</p>
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Remarks:—The Committee points out that the market at present in the state and the country as a whole is entirely different from the market which existed at the beginning of functioning of the raw material division of SIDCO. The open market division of SIDCO therefore was not being able also to compete with the open market. The Committee is strongly of the view that maintaining the raw material division as earlier is one of the reasons for the loss incurred by the Company. The Committee therefore recommends that the material division of SIDCO should be restructured without any delay.

Thiruvananthapuram,
27th August, 2019.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

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