



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)**

SEVENTY SECOND REPORT
(Presented on 23rd March, 2015)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2015**

THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

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ON
PUBLIC UNDERTAKINGS
(2014-2016)**

SEVENTY SECOND REPORT

On

**The Action Taken by Government on the Recommendations contained in
the Sixty Seventh Report of the Committee on
Public Undertakings (2008-11) relating to Transformers and
Electricals Kerala Limited based on the Report of the
Comptroller and Auditor General of India for the
years ended 31st March, 2005 & 2006
(Commercial)**

CONTENTS

	<i>Page</i>
Composition of the Committee	.. v
Introduction	.. vii
Report	.. 1

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Shri P. S. Selvarajan, 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 Seventy Second Report on the Action Taken by Government on the recommendations contained in the Sixty Seventh Report of the Committee on Public Undertakings (2008-11) on the working of the Transformers and Electricals, Kerala Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31st March, 2005 and 2006 (Commercial).

The Statement of Action Taken by the Government included in this Report was considered by the Committee constituted for the year (2014-16).

This Report was considered and approved by the Committee at the meeting held on 11-2-2015.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Statements included in this Report.

Thiruvananthapuram,
23rd March, 2015.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

REPORT

The Report deals with the action taken by Government on the recommendations contained in the Sixty Seventh Report of the Committee on Public Undertakings (2008-11) relating to Transformers and Electricals Kerala Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2005 and 2006 (Commercial).

The Sixty Seventh Report of the Committee on Public Undertakings (2008-11) was presented to the House on 25th February, 2009. The Report contained 3 recommendations and the Government furnished replies to all the recommendations. The Committee (2014-16) considered the replies received from the Government at it's meeting held on 6-8-2014 and accepted the replies without remarks. These recommendations and their replies furnished by Government are included in this Report.

REPLY FURNISHED BY GOVERNMENT WHICH HAS BEEN ACCEPTED
BY THE COMMITTEE WITHOUT REMARKS

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department concerned</i>	<i>Conclusions/ Recommendations</i>	<i>Action Taken by Government</i>
(1)	(2)	(3)	(4)	(5)
1	5	Industries	The Committee deplores the fact that no action was taken by Government on the objections raised by Audit, even after the lapse of 21 months which shows that Government does not give importance to the objections by the Comptroller and Auditor General of India in the functioning of public sector undertakings in the state.	Due importance is given to the audit observations and timely action is taken to rectify the same. Officers handling such cases are alerted and more care will be taken to avoid any lapse in this regard.
2	6	„	The Committee is shocked in observing that though the company accepted the transmission project of KSEB which was to be completed in all respects by July 2001, the company was placing orders for the GI structures needed for the project only in November 2003. The management	As pointed out in the report of the Committee on Public Undertakings, delivery schedule of 183 MTs of GI Structures were to be intimated to M/s Ferro Galva Industries, Nagpur. The GI Structures were required for execution of the ongoing works contract with M/s Kerala

(1)	(2)	(3)	(4)	(5)
			<p>would know that it would have to pay liquidated damages for the delay in completion of the work. In order to avoid incurring additional expenditure on GI structures the company should have intimated staggered delivery schedule before the end of February 2004. This carelessness on the part of the management resulted in extra expenditure of ₹ 11,000 per MT for 183 MT of the lower structure. The Committee recommends that action be taken against those responsible for the delay and steps be taken to realize the loss sustained by the company. The Committee also wish to be informed whether orders have been issued regarding the restructuring in the company and of the steps taken in this regard.</p>	<p>State Electricity Board which was already delayed for years and was in the maximum penalty zone. Also, there was great delay by M/s KSEB in releasing payments against completed portion of works contracts. Due to heavy losses of the Company in previous years and non-enhancements of limits by the Banks, the company was facing heavy financial crisis.</p> <p>On further review of records, it is understood that as pointed out by audit, the delivery schedule of the balance materials had to be informed by the Company to the supplier by the end of February, 2004. However, as per order terms, delivery of the materials was against Letter of Credit and the supplier will commence</p>

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the production only after receipt of the irrevocable Letter of Credit. In view of the financial difficulties and for achieving the targets of manufacture, the Management of the Company had taken a conscious decision to go ahead with completing the manufacturing operations with the available resources and slow down the KSEB Project, so as to spread over the cash outflow in respect of the projects to the subsequent period, on which the cash realization was considered to take more time.

Strategic measures were taken by the Company to enhance production for the year 2003-04 and was trying to have a turn around. At this juncture, the decision to give priority

(1)	(2)	(3)	(4)	(5)
				<p>for procurement of raw materials for in house production utilizing the very limited resources available to avoid LD and tap maximum cash in flow and reduce cash outflow was a strategic decision of the Company.</p>
				<p>It is to be reiterated that the Banks were very reluctant to enhance additional financial support to the Company as the Company was sick and was having an accumulated loss of ₹ 63.79 crore as on 31-3-2003. The only option before the management was to judiciously appropriate the available funds giving priority to profitable orders with less cycle time.</p>
				<p>The company decided to procure GI structures during the financial year 2004-05 when it could manage to arrange</p>

(1)	(2)	(3)	(4)	(5)
				<p>funds for the same. The requirement of M/s KSEB to source the item from KSEB approved vendors compelled the Company to place the order for the balance quantity on M/s Ferro Galva Industries Limited. Also the unexpected hike in steel prices was very abnormal during the period.</p>
				<p>It is to be appreciated that, in appropriating the very limited funds/resources, the then management of the company made a wise decision to give priority to production in the factory than outside works contracts for having more cash inflow which is inevitable for the turn around strategy of any firm. It was in that context; even the staggered delivery</p>

(1)	(2)	(3)	(4)	(5)
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schedule was not intimated to the supplier for KSEB works contract as even a small diversion of fund would have affected the operations inside the factory. It was in this context the entire resources were utilized for production to run the factory and to get maximum contribution for meeting the fixed cost for the very existence of the Company. The success in managing the sick Company aiming at a turn around is visible from the track record of the Company and it is to be reiterated that the Company has successfully turned around.

From the above facts, it may kindly be observed that the then Management of the Company had taken the best course of action within the overall constraints.

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Regarding the restructuring of the Company, it is submitted that TELK Board was reconstituted with the representatives of M/s NTPC Limited and the Government of Kerala and the BIFR Nominee. The transfer of Kerala Government shares to NTPC was effected on 18-6-2009.

The working results of the Company has improved substantially during 2007-08, 2008-09 and 2009-10 with commendable profits and the company expects the same trend in 2010-2011 also. By streamlining activities in every sphere, it is to be submitted that the Company could make substantial reduction in liquidated damages for delay in delivery of equipments to customers during 2008-09 and 2009-10.

(1)	(2)	(3)	(4)	(5)
3	8	Industries	<p>The Committee concludes that while executing the work order for the construction of substations at Varappuzha and Vadakkekara for KSEB, the company failed to make a detailed study of the technical specification which clearly stipulated that the number of units required was 27 autoreclosers and 81 sectionalisers. Due to this imprudent approach when the Company submitted the bid in 2000, it assumed the ratio of autoreclosers to sectionalisers to be 1:1 instead of 1:3. This resulted in additional expenditure of ₹ 18.53 lakh to procure 16 additional sectionalisers to supply to KSEB. The Committee views this lapse seriously and recommends that action be taken against those responsible. The Committee</p>	<p>Due to lack of experience and expertise in execution of projects which required clarifications were not taken from KSEB.</p> <p>After having examined the related files the Committee found out that:</p> <p>(a) TELK being a manufacturer of transformers, expertise in project execution was limited.</p> <p>(b) Due to market factors, there were compelling reasons to take orders for projects, which also involves sales of core area products—like power transformers.</p> <p>(c) There is no malafide intention on the part of any of the officials in the lapses which were pointed out, leading to the loss since it was a considered decision of the Management.</p>

(1)	(2)	(3)	(4)	(5)
			<p>also recommends that steps be taken to avoid such lapses in future and to inform the Committee of the measures taken in this regard.</p>	<p>(d) The company has since exited from this line of business and is concentrating only on the core area of manufacture and supply of power transformers.</p> <p>(e) Significant progress has been achieved over the last few years and the company has wiped out all its accumulated losses and with a Net Worth of over ₹ 100 crore as on 31-3-2010, its improved operations and financial health, is in a position even to declare a dividend to the shareholders for the year 2009-10.</p> <p>There had been no malafide intention on the part of any of the officials related to the tendering process which led to incurring additional expenditure for procurement of the 16 Nos. Sectionalisers. The company would</p>

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also like to add that it was in fact a team work consisting of technical and commercial personnel for finalizing the tendering process. It may be noted that as per the technical specification related to the tender, the number of units required was 27 autoreclosers and 81 Sectionalisers. However, this quantity was not relevant for the company's contract since in the price schedule, the requirement was 8 sets of autoreclosers and Sectionalisers. Since there is no specific ratio for autorecloser to Sectionalisher, the tendering team considered the ratio of Sectionalisher to autorecloser as 1:1 and finalized the tender accordingly. The tender was then submitted to KSEB for the construction of 33/11 KV

(1)	(2)	(3)	(4)	(5)
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Substation at Varappuzha and Vadakkekara. The matter was subsequently taken up with KSEB. But they insisted for 8 autoreclosers and 24 Sectionalisers for the projects which resulted in procurement of additional 16 Sectionalisers.

It would not be possible to fix the responsibility on a particular official under the circumstances explained above as there was no malafide intention behind such error. It may be treated as an inadvertent human error. The then management of TELK as a whole was responsible for the erred action occurred in the tendering process.

Thiruvananthapuram,
23rd March, 2015.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

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