



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

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

**HUNDRED AND FOURTH REPORT
(Presented on 18-2-2016)**

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2016

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HUNDRED AND FOURTH REPORT

On

**Kerala Minerals and Metals Limited based on the Report of the
Comptroller and Auditor General of India for the years
ended on 31March, 2011 and 2012 (Commercial)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2014-2016)

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Shri P. S. Selvarajan, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2014-2016) having been authorised by the Committee to present the Report on their behalf, present this Hundred and Fourth Report on Kerala Minerals and Metals Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31 March, 2011 and 2012 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended on 31st March 2011 and 2012, were laid on the Table of the House on 23-3-2012 and 18-2-2013 respectively. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the year 2014-2016.

This Report was considered and approved by the Committee at the meeting held on 17-2-2016.

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

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Kerala Minerals and Metals Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Industries and Finance Department and the officials of Kerala Minerals and Metals Limited who appeared for evidence and assisted the Committee by placing their concerned views before the Committee.

Thiruvananthapuram,
18th February, 2016.

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

REPORT
ON
KERALA MINERALS AND METALS LIMITED

AUDIT PARAGRAPH

Irregular Payment

The Company released ₹ 4.27 crore to Bhavani Erectors (P) Limited (party) during April 2006 to March 2009 towards structural and painting jobs in its Ilmenite Beneficiation Plant and Pigment Production Plant. As per the accepted terms and conditions of Work Orders [Clause 1(b)], the rates agreed to by the party were inclusive of all taxes and duties. The Company amended the work orders and paid an amount of ₹ 51.87 lakh separately towards Service Tax. This payment of Service Tax by amending the work order was irregular and resulted in passing of undue benefit of ₹ 51.87 lakh to the contractor.

Management stated (June 2011) that the rate mentioned was inclusive of Taxes and Duties. However, it was presumed that Taxes to be deducted such as Income Tax, Contract Tax etc. and Service Tax was not envisaged. Later Service Tax was paid on production of necessary documents. The contention of the Company was not correct as the work order clearly stipulated that the rates were inclusive of all Taxes and Duties and did not provide for payment of Service Tax as an extra item of expenditure reimbursable on production of necessary documents. We are of the opinion that, the Company erred by passing off the Service Tax amount of ₹ 51.87 lakh to the party beyond the agreed rates of contract.

The matter was reported to Government (May 2011); their reply was awaited (November 2011).

[Audit paragraph 4.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2011 (Commercial to).]

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

1. The Committee enquired why the company amended the work order and paid an amount of ₹ 51.87 lakh separately towards Service Tax in addition to the release of ₹ 4.27 crore to Bhavani Erectors (P) Limited in connection with the

structural and painting jobs in its Ilmenite Beneficiation Plant and Pigment Production Plant. The witness admitted that it was a lapse on the part of the company and explained that the Company had engaged a Chartered Accountant to find out the persons responsible in the matter and to fix the liability against them. To a query of the Committee the witness replied that they had tried to contact Bhavani Erectors, but as it was not functioning at present it was impossible to realise the amount from Bhavani Erectors.

2. The Committee directed to mention the name of the persons who were liable and responsible in the matter. The Secretary concerned informed that since most of the persons, who were liable in the matter were retired from the service, two years back, it was not practical to realize the loss from them and the only solution was to take action against the concerned officers who were being in service at present. The Secretary also informed that the Company had noticed the matter only when it was reported by the Accountant General.

3. The Committee remarked that it was a lapse on the part of the responsible persons to leave such serious matters unnoticed and expressed its apprehension that whether such negligence was purposely for protecting the officials who were involved in the matter. The Committee opined that it was clear that the matter was done consciously and deliberately with a malafide intention and wanted to know the details of officials who took decision to amend the work order. The witness informed that the work order was amended during 2010-11 and the decision was taken by (1) The D.G.M. (materials), (2) D.G.M. (Maintenance), (3) Manager (Internal Audit) and (4) H.O.D. (Finance) of the Company. The Committee directed to collect the details of those four persons.

4. The Committee pointed out that as the Managing Director was responsible for the actions of his subordinates, the then Managing Director was also liable in the matter. Moreover the Company had not taken any step to conduct a departmental enquiry in this regard even after it was pointed out by the Accountant General. The Committee directed to examine whether any additional financial commitment had occurred in the matter and how the order had been

implemented. The Committee also directed to fix responsibility against five persons including the Managing Director for the lapses occurred and to realise the amount from them. The Committee suggested that legal advice may be sought from the Law Department, for taking criminal case against the liable persons.

5. Then the Committee sought explanation for the delay on the part of the Government, in submitting the reply for the audit paragraphs. The Secretary informed that the reply would be furnished after taking the decision to fix liability against the concerned officers, in the next Board meeting.

Conclusions/Recommendations

6. The committee expresses strong displeasure for the decision of the company to amend the work order which resulted in the loss of ₹ 51.87 lakh. The Committee feels that there was some vested interest from the part of the officials who took such a decision by ignoring the accepted terms and conditions already prescribed in the work order. The Committee is of the opinion that the then Managing Director is liable in the matter as he is responsible for the actions of his subordinates. The Committee demands to furnish the details of persons responsible for the lapse occurred.

7. The Committee is surprising to note that the Company did not take any action against the persons responsible for the loss even after it was pointed out by the Accountant General. The Committee flays the laxity occurred on the part of the officers in leaving such serious matters unnoticed. The Committee also suspects that the negligence was deliberately done in order to protect some officials involved in the matter.

8. The Committee directs to verify whether any additional financial commitment has occurred in the matter and to furnish the details regarding how the order has been implemented. The Committee recommends to fix the responsibility upon the persons including the Managing Director for the lapses occurred and to realize the amount from them.

9. The Committee suggests to seek legal advice from the Law Department in the matter of taking criminal case and other appropriate actions against the liable persons.

10. The Committee also demands explanation for the delay occurred in submitting reply to the audit paragraphs.

AUDIT PARAGRAPH

Inappropriate Purchase

As per the Export Promotion Capital Goods Scheme (EPCG) 2004-2009 of Government of India, imports of capital equipments used in manufacture of goods was permitted at concessional rates of Duty. To avail this, the importer was to submit an installation certificate of the imported machinery within six months from the date of such import and was also under obligation to export goods worth eight times the Duty saved within eight years. Non-fulfilment of the obligations was to result in repayment of Duty saved with interest at 15 per cent per annum from the date of import.

Scrutiny of records revealed (March 2011) that the Company refunded (July 2010) concessional import duty availed under EPCG Scheme (₹ 8.04 lakh) along with interest (₹ 5.94 lakh) to the Customs authorities on submersible type Hazleton Pump imported in August 2005 proposed to be used in transfer of crude titanium tetrachloride in its factory.

The Company was using a vertical centrifugal pump for the job and as an alternative bought the submersible pump without evaluating the technical compatibility of the product to its needs. This led to non-utilization of the pump resulting in its subsequent non-installation and refund of duty saved under EPCG along with interest. Thus, the investment of ₹ 32.38 lakh on the Hazleton Pump was rendered ineffective as the pump could not be run till date though modifications were also carried out (November 2008).

Management stated (June 2011) that since the pump was of submersible type it could not be used for crude tickle pumping. But with some modification suggested by the supplier, the pump would be run on trial during the annual shutdown of the plant. The reply was not acceptable as the equipment was unsuitable for the needs as acknowledged by the Company and already annual shutdown had happened since the pump was modified but it was yet (September 2011) to be put to use even on trial basis. This proved that the purchased pump could not be used as it was unsuitable.

The matter was reported to Government in May 2011; their reply was awaited (November 2011).

[Audit Paragraph 4.7 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2011 (Commercial).]

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

11. The Committee noticed that without evaluating the technical compatibility, Company had imported a submersible type of pump in place of a vertical centrifugal pump, which the Company had used to transfer the crude titanium in the factory and as the equipment was not been utilized till, the investment of ₹ 32.28 lakh was rendered ineffective. The Committee observed that the non-utilization of pump had also resulted in the repayment of duty with interest as per the Export Promotion Capital Goods Scheme and expressed its displeasure for unavailing the concessions provided regarding the payment of duty by the Government of India. The Committee enquired the reason for purchasing a submersible type pump when vertical centrifugal pump was in use in the factory.

12. The witness informed that Technical Evaluation Committee had approved the purchase as a part of cost reduction and the Centrifugal Pump was still in a working condition. The witness also informed that the case was referred for vigilance inquiry, by the Government in 2011 and that it was still in progress and as per the direction of the Government, action had been taken to transfer the

persons associated with the case, from the concerned units. The witness continued that they had been taken a decision to install the pump during the annual shutdown of the plant to check whether it could be utilized with suitable modifications.

13. The Secretary, Industries Department explained that though the company had lost ₹ 30 lakh in the deal, it may not be considered as a serious lapse, because a professional decision taken by a group of people would occasionally be wrong and in his personal opinion instead of going for a vigilance enquiry the matter should be left to the decision of the board and further action be taken against the guilty. The Secretary also informed that a criminal intention could not be identified in the case and as the vigilance enquiry had not been completed the reply to the audit paragraphs could not be submitted to the Committee.

14. The Committee directed that the department should furnish a satisfactory reply about the whole deal containing the details regarding the persons involved in the deal along with the reason behind the decision to introduce a different system in place of the existing system, the defects if any of the existing pump with the details of its working conditions, the matters regarding the payment of duty for the purchase of the pump, the reason for the non-installation of the new pump, the reason for not conducting a higher level enquiry in the matter, and the reason for not obeying the stipulations of the Central Government in the scheme.

15. The Secretary informed that the duty concession for imported equipments could be availed only if it would be installed within six months from the date of purchase. The Committee expressed its displeasure for not availing the concessions provided by the Government of India in the matter. To a query of the Committee regarding the decision taken for the installation of the pump the witness informed that the pump could be installed only during the annual shutdown period of the plant and their earlier attempt to install the pump was unsuccessful. The Committee wanted the department to furnish the details of the engineer who was responsible in the matter and the reason why the system could not be installed successfully. The Committee directed that all the above details should be furnished to the Committee within fifteen days and after considering the details the decisions of the Committee would be finalized.

Conclusions/Recommendations

16. The Committee observes that the company had gone in for blind purchases without evaluating the technical compatibility which resulted in the loss of ₹ 32.28 lakh. The Committee remarks that lack of planning with poor technical knowledge resulted in the non-utilization of the pump which forced the Company for the repayment of duty with interest as per the Export Promotion Capital Goods Scheme. The Committee is aggrieved to observe that the Company did not avail the concessions provided by the Government of India.

17. During witness examination the Committee remarked that as the case was referred for Vigilance enquiry and the enquiry has been progressing the decision of the Committee would be finalised after getting some details from the department and wanted to furnish the details within one week. The Committee also directed the secretary to submit a satisfactory reply about the whole deal along with the following details:

- (1) The persons involved in the purchase
- (2) The Engineer who was responsible in the deal
- (3) The reason behind the decision to introduce a different system in the place of an existing system
- (4) The defects if any of the existing pump with the details of its working conditions
- (5) The details regarding the payment of duty for the purchase of the pump
- (6) The reason for the non-installation of the new pump
- (7) The reason for not conducting a higher level enquiry in the matter
- (8) The reason for disobeying the stipulation of the Central Government in the scheme.

18. But the details sought by the Committee has not been furnished by the department so far and the Committee views the attitude of the department as very serious. The Committee urges the department that the above details should be submitted within 30 days to the Committee along with the findings in the Vigilance enquiry and the action taken as per the enquiry report.

AUDIT PARAGRAPH

Financial management in four selected areas

We selected twenty Companies from six sectors based on risk analysis for assessing the effectiveness of performance in the following areas pertaining to the period 1st April, 2006 to 31st March, 2011:

- > Deployment of surplus funds
- > Disbursement of loans
- > Borrowing of funds and
- > Payment of taxes and duties.

We noticed deficiencies and were of the opinion that they required urgent attention of the Managements of respective Public Sector Undertakings (PSUs).

Deployment of Funds

Incorrect selection of financial institutions for deployment of funds, inappropriate duration of term deposits and avoidable deployment of funds in Current Accounts resulted in loss of interest of ₹ 6.57 crore, as discussed further.

Time deposits

Selection of institution

Incorrect selection of the institution for deployment of surplus funds in time deposits by the following nine PSUs ignoring the rates offered by State Treasury which were better than what they carried resulted in foregoing of possible revenue of ₹ 3.30 crore in 399 cases as tabulated in Table 1:

TABLE I

Company	No of Fixed Deposits (FDs) Instances	Period involved	Range of FDs (₹ in lakh)	Range of Period of FDs (Days)	Rate of interest (ROI) received (%)	Alternative ROI available at State Treasury (%)	Interest forgone (₹ in lakh)
TELK	31	Jan 2009 to Oct 2010	40 to 300	180 to 468	2.00 to 6.25	6.75 to 10.00	68.08
KSPIFCL	48	March 2009 to March 2011	25 to 500	365 to 730	7.00 to 8.80	7.50 to 10.00	64.35
KMML	40	Jan 2009 to March 2011	15 to 251.93	365	6.50 to 9.00	7.50 to 10.00	63.18
KSIDC	163	Nov 2007 to March 2011	1.00 to 380.14	180 to 365	6.00 to 8.00	6.75 to 10.00	55.72
TRKL	06	March 2009 to March 2011	9.50 to 556.31	365	5.00 to 8.00	7.50 to 10.00	29.50
KURDFC	49	April 2008 to March 2011	15.90 to 99.00	180 to 556	5.75 to 8.00	6.75 to 10.00	23.11
KSIE	17	Jan 2009 to Nov 2010	0.55 to 109.38	365	7.00 to 8.50	7.50 to 10.00	9.74
KELTRON	22	May 2006 to Feb 2011	5.00 to 116.55	181 to 897	4.05 to 7.70	6.50 to 10.00	8.48
KFL	23	May 2009 to Feb 2011	55.00 to 99.00	180	5.50 to 7.00	6.75 to 8.50	8.21
Total	399						330.37

Four companies namely TELK (July 2011), KSPIFCL (August 2011), KSIDC (August 2011) and KMML (August 2011), stated that restrictions imposed by Government/Treasury, operational convenience and facilities for Overdraft (OD)/Cash Credit (CC)/Letter of Credit (LC)/Working Capital Loan offered by Scheduled Commercial Banks (SCBs) etc. were the major reasons for the preference given to SCBs while depositing the funds.

The replies were not acceptable as Government/Treasury did not impose any restriction for withdrawal of Fixed Deposits (FDs) on maturity. Monetary ceiling for premature closure could be overcome by opening FDs of smaller denominations and also by adopting phased withdrawal. The State Treasury should have been preferred for investment over SCBs as it would have fetched better returns.

Current Account Deposits

Avoidable deployment of funds in Current Accounts

In nine Companies viz. KFL, TELK, KAMCO, KEPIP, TRKL, KSIE, KMML, KSIDC and KLDB heavy accumulation of balance in Current Accounts for long durations was noticed. Companies with unpredictable cash flows can resort to Flexi Fixed Deposits (FFDs) so as to avoid idling of fund in Current Accounts and also to earn interest for periods ranging from seven days onwards. FFDs offer the twin advantage of liquidity as well as operational flexibility of Current Accounts coupled with interest returns of Fixed Deposits. All the banking facilities attached to a Current Accounts like fund transfer methods viz. Real Time Gross Settlement (RTGS)/National Electronic Funds Transfer (NEFT) and Internet banking features are also available to the FFD account holders without involving any extra charge. The total amount blocked up in Current Accounts of the nine companies for various periods ranging up to 1823 days was equivalent to the idling of ₹ 54.42 crore for one year (Annexure 18). The equated annual idling of funds ranged from ₹ 0.86 crore (KLDB) to ₹ 14.52 crore (KAMCO). This resulted in foregoing of interest income. In the light of the advantages of FFD account, there was a need for these companies to consider availing of this facility.

KMML replied (August 2011) that they had requested the banks to provide FFD account facility.

Payment of Taxes & Duties And Guarantee Commission

Payment of Advance Income Tax

As per Section 234 B and C of the Income Tax (IT) Act, 1961, a corporate assessee was to pay 90 per cent of the tax in advance when the amount of Tax payable exceeds ten thousand rupees per annum. The Advance Tax was payable in four quarterly instalments between June and March of the corresponding financial year. Excess payment of Advance Tax earned an interest of 6 per cent per annum until refund was received. It was observed that refund of tax took one to two years to materialise. Similarly for failure to pay instalments of Advance Tax by specified dates, interest was chargeable at the rate of one per cent per month (Section 234 C of the Act *ibid*). However, any shortfall in payment of Advance Tax in earlier instalments could be offset by making additional payment during last instalment due on 15th March, by which time, Tax liability for the year would be certain. The duration of penalty could thus be restricted to a period not exceeding nine months.

We observed nine instances of overpayment ranging from ₹ 0.10 crore to ₹ 15.57 crore in six companies due to assessment of tax based on budgeted profit rather than working out approximate income based on income of previous 11.5 months, a methodology which had already been recommended by the committee on Public Undertakings (COPU). We worked out the associated interest loss at ₹ 3.25 crore (Annexure 21).

To estimate the profit accurately, Projected Profit and Loss Account was to be prepared on quarterly basis taking into account Purchase and Sales budgets duly revised, ratio of expenditure to total sales and sales trend during the corresponding months in the previous years, if any. Absence of proper functional budgets or periodical revisions or non-preparation of Projected Profit and Loss Account on quarterly basis led to wrong estimation of profit resulting in excess payment of Advance Tax.

KMML while admitting (August 2011) the audit observation stated that the company had changed to a daily profit monitoring system at present which reduces the chances of excess/short payments.

Payment of Income Tax

Income Tax Act does not admit all the expenses unless they comply with the provisions of the Act. Any payment of expense over and above ₹ 20,000 by way of cash rather than by bank would render those expenses inadmissible. The Act also provides for deduction of Tax at source from expenses in case of consultancies, technical fee, etc., failing which the party liable to collect the Tax at source would have to bear Tax burden. The following companies did not exercise due diligence resulting in avoidable Tax burden to the tune of ₹ 44.69 lakh as shown in Table 3:

Table 3

Name of Company	Particulars	Provisions of IT Act	Avoidable payment of Income Tax (in lakh)
KSBC	Due to non-claiming of allowable expenses such as interest/ commission/ professional fee etc. paid by the Company for which TDS was deducted	Section 40 (ia)	15.26
„	Due to payment of expenses above ₹ 20,000 in cash	Section 40 A(3)	11.99
KTDFC	Due to recognition of fictitious interest income during 2006-07	NA	14.44
KAMCO	Due to non-deduction of Tax at source from interest/commission/professional fee etc. paid by the Company	Section 40 (ia)	2.21
KMML	Due to payment of expenses above ₹ 20,000 in cash	Section 40 A(3)	0.79
	Total		44.69

KSBC, KAMCO and KMML admitted their lapses and assured to ensure avoidance of such lapses in future.

- > As per Rule 3 of the CENVAT Credit Rules, 2004, a manufacturer could utilise CENVAT credit against the payment of excess duty. But KMML did not utilise the entire CENVAT available to its credit during the period from April 2006 to February 2011 resulting in an interest loss of ₹ 44.33 lakh.

KMML replied (August 2011) that it had a dispute regarding eligibility of certain input credit with Excise Department and hence the CENVAT credit had been kept unutilised deliberately so as to avoid interest liability in the event of losing the dispute. The reply was not tenable. As per rules, interest liability existed even if the wrongly availed credit had not been utilised.

[Audit Paragraph 4.9 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2011 (Commercial).]

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

19. To a query of the Committee about the non-investment of Fixed Deposits in the treasury, the witness informed that they usually invested in Fixed Deposits accounts for one year only and the higher rate of interest would be available only if the amount was invested for three years. He added that if the amount was deposited in the treasury it would be difficult for the company to withdraw the money, whenever necessary. Meantime the Additional Secretary, Finance Department informed that, occasionally restrictions were invoked for withdrawing more than ₹ 1 crore at a time from the treasury. The Committee directed to furnish an explanation within one week regarding the non-investment of fund in the treasury.

Conclusions/Recommendations

20. The Committee expresses its dissidence at the explanation given by the witness regarding the interest rate and the restrictions for withdrawing money from the treasury. The Committee directs to furnish the details regarding the reason for non-investment of Fixed Deposit in the treasury.

Audit Paragraph

Violation of Government Orders by three state PSUS

Public Sector Undertakings (PSUs) in the State were adopting the rules and procedures laid down in Stores Purchase Manual (SPM) of the State Government following enforcement (February 1995) by a Government Order (G.O.) Paragraph 21 (a) of the SPM as revised by G.O. (December 2008) prescribed the cost of tender forms to be collected from bidders for the works and supplies at the rate of 0.20 per cent of estimated cost of item tendered for tenders up to ₹ 10 lakh and thereafter at the rate of 0.15 per cent + Value Added Tax (VAT).

Scrutiny of records of PSUs (2010-11) revealed that three PSUs in the State collected only ₹ 14.89 lakh as cost of tender forms in 29 cases of works and supplies as against ₹ 87.99 lakh to be collected as per the revised rates resulting in loss of ₹ 73.10 lakh (Annexure 22). In the process the State Government also suffered loss of Tax revenue worth ₹ 4.38 lakh (Annexure 22) since as against ₹ 5.75 lakh collectible as VAT, the Company/Corporation had collected only ₹ 1.37 lakh.

Management of KMSCL accepted (June 2011) the contention and agreed to revise the tender rates in line with Government Orders *while KMML stated (May 2011) that they had collected cost of tender forms at rates fixed in accordance with the purchase procedure approved (2001) by its Board of Directors but expressed that adoption of revised Government rates may result in small and medium scale industries, refraining from participation in tender process.* In respect of KINFRA, Government stated (June 2011) that no additional expenditure was incurred by the Company for tendering as it formed part of Architectural consultants; scope of work. The Company collected the cost of tender proportionate to the cost incurred for its preparation.

The replies of the Management of KMML and Government were not acceptable as the Government Orders were mandatory and the Government while issuing the orders had already considered the interests of all stake holders.

[Audit Paragraph 4.11 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2011 (Commercial).]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

21. The Committee remarked that violation of Purchase Manual had occurred in the Company and pointed out that as per the given explanation, it had taken place according to the decision of the board. The Committee directed to furnish an explanation in the matter within a week.

Conclusions/Recommendations

22. The Committee learns with displeasure that violation of the purchase manual had occurred in the company as per the direction of the Board. Therefore, the Committee directs to furnish an explanation regarding the dispensable act of the company for violating Government Order.

AUDIT PARAGRAPH

As per Employees Provident Fund and Miscellaneous Provisions Act, 1952 (Act) and Employees Provident Fund Scheme of 1952, for establishments engaging 20 or more persons and engaged in notified industries, employer's "contribution to Provident Fund was 12 per cent of salary (basic pay, DA, cash value of food concession and retaining allowance if any), limited to ₹ 6,500 of salary per month. For any sick industrial company", the rate of contribution was 10 per cent.

A test check (2009-2011) of the employer's contribution to the Provident Fund in case of thirteen companies revealed that these companies instead of

restricting their share of contribution to monthly salary of ₹ 6,500 had been contributing on the basis of full salary in respect of employees drawing salary more than ₹ 6,500 per month.

The excess contribution to Provident Fund thus made resulted in irregular payment of ₹ 72.93 crore (Annexure 23) in respect of the thirteen companies during the period 2007-08 to 2010-11.

Managements stated that the ceiling ₹ 6,500 under the Act was fixed years back and it remained without change whereas the wages and other benefits had increased considerably over the years. Accordingly even the lowest unskilled employees would draw in excess of ₹ 6,500 per month. They also contended that it would not be possible to recruit and retain work force if employee benefits were reduced.

The point stays that all EPF contributions should have been in consonance with existing statutory provisions.

The matter was reported to Government (July 2011); their reply was awaited (November 2011.)

[Audit Paragraph 4.12 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2011 (Commercial).]

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

23. The Committee enquired about the financial impact on providing excess contributions to the EPF Scheme and the witness explained that there was a financial impact of around ₹ 3 crore per year for providing additional amount to the EPF Scheme and added that as the pension to the employees was based on the EPF provided to them, a change in the present system may create protest from the labour unions and the EPF Scheme was being continued as a part of the benefits to the employees as provided earlier.

Conclusions/Recommendations

24. The Committee admits the explanation of the witness that the EPF Scheme was being continued as a part of the benefits to the employees as provided earlier, however it urges that existing statutory provisions should also be complied by the authorities to avoid irregular payments in future.

AUDIT PARAGRAPH

Avoidable extra expenditure

The Kerala Minerals and Metals Limited (Company), manufactures Titanium Dioxide Pigment from the raw material Ilmenite. Liquid Oxygen (LOX) with 99.5 per cent purity is used in the production process to remove impurities from Ilmenite. The estimated annual requirement of LOX is about 18000 MT. The Company has a captive plant that produces about 50 per cent (9000 MT) of the requirement. The balance 50 per cent is purchased at the rate of 750 MT per month (9000 MT annually) from private suppliers. The Company invited (August 2009) limited tenders from five suppliers for the supply of 9000 MT (6930000 SM³) of LOX for one year and four firms offered their rates. Though the lowest bidder [₹ 10.35 per SM³ (landed cost)] was Bhuruka Gases Limited, they could offer only about 387.5 MT per month (52 per cent of the monthly requirement). Hence, the Company negotiated with the other suppliers and placed (November 2009) orders with all the four firms at the rate offered by Bhuruka Gases Ltd.

Praxair India (P) Ltd. (firm), one of the four suppliers, supplied 2292112 SM³ of LOX during the period from January 2010 to January 2011 at a total price of

₹ 3.40 crore. We observed the following deficiencies in the contract/supplies made by the firm:

- Orders were placed with the firm though, according to the Company, the firm was not dependable and not even completed supplies against earlier orders.

- As per Clause 3 of the agreement, the price was fixed and firm, and not subject to any escalation till the completion of supply of the entire ordered quantity. The firm, however, demanded (January 2010) enhanced rate of ₹ 13.74 per SM³ (landed cost). The reason cited was increase in power costs. The firm supplied 40764 SM³ (53 MT) during January 2010 at the original rate. Meanwhile, the Company accepted the request and increased (1st March, 2010) the price to ₹ 13.74 per SM³ (landed cost) and reduced the total quantity to 616000 SM³ (800 MT). The other firms were, however, supplying at the original rate itself. Thus, amendment to price, contrary to the agreement, after finalisation of tender and award of contract resulted in avoidable extra expenditure to the extent of ₹ 0.11 crore in respect of 463667 SM³ of LOX supplied during March 2010 to June 2010.
- The Company, during the contract period, placed (8th July, 2010) another order with the firm for the supply of 2307000 SM³ of LOX at the mutually agreed rate of ₹ 18 per SM³ (landed cost) without inviting competitive tenders.
- Subsequently, the Company amended (20th October, 2010) the order giving it retrospective effect from 8th May, 2010 and clarified that the price applicable for supply of 150 MT in a calendar month would be ₹ 13.74 per SM³ and for supplies over and above 150 MT during the same month would be ₹ 18 per SM³. Accordingly, the firm supplied 805960.6 SM³ (150 MT per month for the period from July 2010 to January 2011) at ₹ 13.74 per SM³ and 981720.7 SM³ (quantity supplied over and above 150 MT) at ₹ 18 per SM³. This was in violation of tender stipulation that the successful tenderer should cater to any increase in requirement during the contract period. During the same period, the other two firms supplied LOX @ ₹ 12.78/12.48 per SM³. Award of a new

contract at mutually agreed higher rates during the currency of the existing contract resulted in avoidable extra expenditure of ₹ 0.44 crore. The monetary impact on the post contract modification of prices are summarised in Table 4:

Table 4

PO No.	Period of Supply	Rate per SM ³ (₹)	Quantity (SM ³)	Actual payment effected (₹)	Payment to be made (₹)		Excess Payment (₹)
					Rate	Amount	
2374/09-10 dtd. 23-11-2009	Jan. & Feb. 10	11.9	40763.8	456031	11.19	456147	Nil
3507/09-10 dtd. 3-3-2010	Mar. to June 10	13.74	463667	6338629	11.19	5188434	1150195
1153/10-11 dtd. 8-7-2010	July to Jan. 11	13.74	805960.6	10996051	12.78	10300177	695874
	May to Dec. 10	18	981720.7	16223681	12.78	12546390	3677291
	Total		2292112	34014392		25648734	5523360

Thus, the procurement was made in an ad hoc, arbitrary and non-transparent manner without satisfying the prime requirement of establishing competitiveness, fairness and transparency. The decisions for enhancement of accepted rates and placing of further orders at higher rates without inviting competitive tenders were made by the Managing Director and never placed before the Board for discussions. Post contract modification of the prices to the advantage of the supplier without analysing the financial implications and placing of orders at mutually agreed rates vitiated the objective of procurement through competitive tenders and resulted in extra expenditure of ₹ 0.55 crore to the Company.

Management stated (September 2012) that procurement of LOX at higher rates was unavoidable for uninterrupted operation since production from captive plant had come down to 30 TPD whereas the requirement for targeted production was 65 TPD.

The reply was not acceptable as the captive production envisaged for assessment of requirement was 9000 MT per annum i.e. 25 TPD only which was below the production of 30 TPD from captive plant. Further, the actual average monthly procurement for the period from March, 2010 to January 2011 was 702.41 MT (i.e. 23.41 TPD).

The matter was reported to Government in July 2012; their reply was awaited (November 2012).

[Audit Paragraph 4.3 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2012 (Commercial).]

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

25. To a query of the Committee regarding the increase in price for the supply of Liquid Oxygen, the witness replied that even though orders were given for the supply of LOX to four companies, only one among them was willing to supply it at an enhanced rate and as the non-availability of LOX would turn out to be a hindrance in the production system and the enhanced rate was accepted for its supply. The witness further explained that even though there was a loss of ₹ 55 lakh, a profit of ₹ 5 crore was also gained by company later.

26. To the opinion of the concerned Secretary about the granting of operational autonomy the committee pointed out that the Company was misusing the freedom granted to them, because as per records, along with making profits, loss, corruption and malpractice were also prevailing in the company.

Conclusions/Recommendations

27. The Committee views with serious concern that the Company is misusing its operational freedom, so that along with making profit, loss, corruption and malpractice are prevailing in the Company. Therefore, the Committee recommends that the higher officials of the Company should be more vigilant to avoid the recurrence of such instances in future.

Thiruvananthapuram,
18th February, 2016.

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

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department concerned	Conclusions/Recommendations
1	2	3	4
1	6	Industries	The Committee expresses strong displeasure for the decision of the company to amend the work order which resulted in the loss of ₹ 51.87 lakh. The Committee feels that there was some vested interest from the part of the officials who took such a decision by ignoring the accepted terms and conditions already prescribed in the work order. The Committee is of the opinion that the then Managing Director is liable in the matter as he is responsible for the actions of his subordinates. The Committee demands to furnish the details of persons responsible for the lapse occurred.
2	7	„	The Committee is surprising to note that the Company did not take any action against the persons responsible for the loss even after it was pointed out by the Accountant General. The Committee flays the laxity occurred on the part of the officers in leaving such serious matters unnoticed. The Committee also suspects that the negligence was deliberately done in order to protect some officials involved in the matter.

1	2	3	4
3	8	Industries	The Committee directs to verify whether any additional financial commitment has occurred in the matter and to furnish the details regarding how the order has been implemented. The Committee recommends to fix the responsibility upon the persons including the Managing Director for the lapses occurred and to realize the amount from them.
4	9	..	The Committee suggests to seek legal advice from the Law Department in the matter of taking criminal case and other appropriate actions against the liable persons.
5	10	..	The Committee also demands explanation for the delay occurred in submitting reply to the audit paragraphs.
6	16	..	The Committee observes that the company had gone in for blind purchases without evaluating the technical compatibility which resulted in the loss of ₹ 32.28 lakh. The Committee remarks that lack of planning with poor technical knowledge resulted in the non-utilization of the pump which forced the Company for the repayment of duty with interest as per the Export Promotion Capital Goods Scheme. The Committee is aggrieved to observe that the Company did not avail the concessions provided by the Government of India.

1	2	3	4
7	17	Industries	<p>During witness examination the Committee remarked that as the case was referred for Vigilance enquiry and the enquiry has been progressing the decision of the Committee would be finalised after getting some details from the department and wanted to furnish the details within one week. The Committee also directed the secretary to submit a satisfactory reply about the whole deal along with the following details:</p> <ol style="list-style-type: none"> 1. The persons involved in the purchase 2. The Engineer who was responsible in the deal 3. The reason behind the decision to introduce a different system in the place of an existing system 4. The defects if any of the existing pump with the details of its working conditions 5. The details regarding the payment of duty for the purchase of the pump 6. The reason for the non-installation of the new pump 7. The reason for not conducting a higher level enquiry in the matter 8. The reason for disobeying the stipulation of the Central Government in the scheme.
8	18	"	<p>But the details sought by the Committee has not been furnished by the department so far and the Committee views the attitude of the department as very serious. The committee</p>

1	2	3	4
			urges the department that the above details should be submitted within 30 days to the Committee along with the findings in the Vigilance enquiry and the action taken as per the enquiry report.
9	20	Industries	The Committee expresses its dissidence at the explanation given by the witness regarding the interest rate and the restrictions for withdrawing money from the treasury. The Committee directs to furnish the details regarding the reason for non investment of Fixed Deposit in the treasury
10	22	„	The Committee learns with displeasure that violation of the purchase manual had occurred in the company as per the direction of the Board. Therefore, the Committee directs to furnish an explanation regarding the dispensable act of the company for violating Government order
11	24	„	The Committee admits the explanation of the witness that the EPF Scheme was being continued as a part of the benefits to the employees as provided earlier, however it urges that existing statutory provisions should also be complied by the authorities to avoid irregular payments in future
12	27		The Committee views with serious concern that the Company is misusing its operational freedom, so that along with making profit, loss, corruption and malpractice are prevailing in the Company. Therefore, the Committee recommends that the higher officials of the Company should be more vigilant to avoid the recurrence of such instances in future.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Serial No.	Audit Paragraph	Reply furnished by Government
1	2	3
1	4.6 (2010-11)	<p>The Matter was enquired through an external agency, M/s RGN Price & Co., Chartered Accountants and they have submitted a report. Efforts are made to recover the money from the M/s Bhawani Erectors Pvt. Ltd., Raichur, Karnataka. Some of the Officers during the time were already retired. The matter was discussed on KMML's Board Meeting held on 1st October, 2014 and it has been directed to present the full facts to the Board. The decision of the Board will be intimated shortly, Government issued directions to the Managing Director, KMML to take disciplinary action against the officials responsible for the irregular payment of Service Tax.</p>
2	4.7 (2010-11)	<p>The Procurement of the Hazleton pump for crude Titanium Tetrachloride (TiCl₄) transfer was part of a development work for finding alternate suppliers to the existing crude TiCl₄ transfer pump for cost reduction. Before placing the purchase order, the elaborate discussions and clarifications were made for the search of an alternate supplier of two pumps namely crude TiCl₄ transfer pump and condensing column circulating pump.</p> <p>It may kindly be noted that this was done as per the vendor development initiative done by the company as part of the cost of reduction programme. During the year 2003-04 the company could be able to add</p>

1	2	3
		<p>more than 400 vendors for various items. Substantial cost reduction has been effected in the procurement of certain items which have been considered as proprietary. This was mentioned as part of Directors Report in the annual report for the year 2003-04. The procurement of Hazleton pump was initiated as a replacement of costly Lawrence Pump which was a proprietary item. The pump is a critical item as far as Titanium pigment plant is concerned without which plant cannot be operated. Since this is a single vendor supplied item, it is essential to develop alternate vendors to circumvent the eventuality. Hence, this was only trial procurement.</p> <p>After sending enquiries to the then known reputed pump manufactures both national and international, only M/s Hazleton had responded positively. And after verifying credentials of the supplier, it was decided to procure one pump on trial basis instead of the planned two.</p> <p>Price reductions over the existing pump were also made clear. Further, the clients to whom M/s Hazleton had supplied similar pumps are reputed companies like M/s Millennium Inorganic, M/s SCM Chemicals and leading manufactures of Titanium Dioxide in the world through the chloride route and handling $TiCl_4$.</p>

1	2	3
		<p>The Lawrence pump supplied by the previous supplier cost Rs. 43,45,615 (Rupees Forty three Lakh Forty Five Thousand Six Hundred and Fifteen only) and that of the Hazleton pump after availing all concessions came cost Rs. 43,45,615 (Rupees Forty three Lakh Forty Five Thousand Six Hundred and Fifteen only) and that of the Hazleton pump after availing all concessions came to Rs. 30,98,345 (Rupees Thirty Lakh Ninety Eight Thousand Three Hundred and Forty Five only). As the company could not install the pump the concessional The Lawrence pump supplied by the previous supplier cost Rs. 43,45,615 (Rupees Forty three Lakh Forty Five Thousand Six Hundred and Fifteen only) and that of the Hazleton pump after availing all concessions came to Rs. 30,98,345 (Rupees Thirty Lakh Ninety Eight Thousand Three Hundred and Forty Five only). As the company could not install the pump the concessional duty along with interest was also paid.</p> <p>On receipt of the pump at the factory site, it was observed that the pump is of submersible type and hence cannot be used for crude TiC14 transfer pump service. The matter was taken up with the supplier, who in return suggested some modification and sent two casings. One casing was fitted and the trial can be made as and when the plant is taken for annual shut down in place of the crude TiC14 transfer pump. The performance of the pump will be informed. The company intent to use it for the same purpose of crude tickle pumping.</p> <p>Further, this is being investigated by the Vigilance and Anti Corruption Bureau from November 2011 onwards.</p>
3	4.9 (2010-11)s	<p>FINANCIAL MANAGEMENT Time Deposit-Selection of institution</p> <p>KMML is not getting any budgetary support from Government and managing its funds requirement from its own resources. Fixed Deposits are made for maximum period of one year in bank, so that it gets The maximum return within one year as well as can withdraw the money on requirement of KMML.</p>

1	2	3
		<p>Moreover, KMML has been depositing its funds only in scheduled Banks, which has been given the competitive interest rates which are quarterly cumulative as against simple interest given by treasury. If the Company has fixed deposits in banks, temporary loans can be easily availed where as this facility is not available in treasury deposits.</p> <p>The Audit has taken an interest rate of 7.5% to 10% for Treasury deposit for the period January 2009 to March 2011 which is not correct. It may kindly be noted that the rate of 10% was for a period of three years and above and that too was revised to 8% w.e.f. 1-10-2009 vide G.O. (P) 419/09/FIN. dated 30-9-2009. This was subsequently revised to 8.5% w.e.f. 7-4-2010 vide G.O. No. (P) 228/10/FIN. dated 8-4-2010. The deposit rate in treasury for one year was 7.5% to 8% only during the audit period.</p> <p>During the period 2010-11 for procurement etc. the need of fund was high. Hence it was more convenient and financially remunerative to deposit in banks. KMML had also experienced difficulty in retrieving money from the treasury deposit.</p> <p>A Manufacturing organization like KMML should be given freedom to invest its resources economically for the better operations.</p> <p><i>Deployment of funds in Current Account</i> The company already have arrangements with ICICI Bank and SBI for transferring the balance in</p>

1	2	3
		<p>Current Account to Flexi Fixed Deposits automatically leaving a minimum balance in the current account. Now, the company is not operating Current Account with SBT. Hence, the question of parking funds in current accounts of SBT does not arise.</p> <p><i>Payment of Advance Income Tax</i></p> <p>At present the company has a much more accurate system of profit estimation based on daily profit monitoring and there by the chances of excess/short payment are comparatively less.</p> <p><i>Payment of Excise Duty/Service Tax</i></p> <p>The Company has availed CENVAT credit of around Rs. 100 lakh with respect to the cement and steel items consumed in connection with the construction of a pond for storing iron oxide waste. The Department has challenged this specifying that credit is not available as pond is an immovable property. The company has contested this stating that the pond is pollution control equipment and hence credit is available. The issue is still under litigation. To avoid interest, the company has kept sufficient amount as balance in the MODVAT credit account to prove that the company has not utilized this amount as the issue is under proceeding. This was required under the Central Excise Rules until it was modified by Department. The Company's stand was concurred by Punjab and Hyderabad High Court in the case of <i>Ind-Swift labs. V/s UOI 2009 (240) ELT 328 (P&H)</i>. The apex court has set aside the above decisions vide its judgment dated 21-2-2011. The apex</p>

1	2	3
		<p>Court has decided that interest shall be recoverable when credit has been wrongly 'taken', even if it has not been utilized. Accordingly the company has utilized the amount available in the MODVAT credit account.</p> <p>Currently, reasonable care is taken to ensure that credit is utilized in full and only a nominal amount is kept in the MODVAT credit account.</p>
4	4.11 (2010-11)	<p>After it has been pointed out by the Audit, the tender cost is being collected as per the Govt. Order from October 2011. Currently, KMML has switched over to e-tender. The purchase procedure is also being reviewed.</p>
5	4.12 (2010-11)	<p>The matter was placed before the Board of Directors of the Company. The Board approved full contribution without limiting the pay to Rs.6,500 (now revised to ₹ 15,000) and forwarded to Government for approval and Government have directed the Managing Director if an employee desires to contribute an amount exceeding 12% he may be allowed to contribute subject to the conditions that the employer shall not be under any obligation to pay any contribution over and above the statutory rate and the circular instructions issued vide circular No.71/11/Fin. dated 20-10-2011 should be observed scrupulously.</p>
6	4.3 (2011-12)	<p>The company had a requirement of 9000 MT (6930000 SM³) of Liquid Oxygen (LOX) for 2009-10 and accordingly tender had been floated to the following five proven suppliers:</p>

1	2	3
		1.0 M/s Bhuruka Gases Limited 2.0 M/s BOC India Limited 3.0 M/s Inox Air Products Limited 4.0 M/s National Oxygen Limited 5.0 M/s Praxair India Private Limited
		All the above parties except M/s. BOC have participated in the tender and initially the landed costs offered by the suppliers were as follows: M/s Bhuruka Gases Limited .. ₹ 10.40 M/s Praxair India Private Limited .. ₹ 11.16 M/s Inox Air Products Limited .. ₹ 11.17 M/s National Oxygen Limited .. ₹ 12.52
		After negotiation with L1 (M/s Bhuruka Gases Limited) all the parties agreed to match and supply at the negotiated rate viz. landed cost of ₹ 10.35 per SM ³ and the quantity had been allocated as follows M/s Bhuruka Gases Limited .. 4500 TPA M/s Praxair India Private Limited .. 1800 TPA M/s Inox Air Products Limited .. 1800 TPA M/s National Oxygen Limited .. 900 TPA
		All the above suppliers except M/s Praxair had supplied the material. Though KMML had repeatedly requested M/s Praxair to start their suppliers, they informed that due to severe power crisis (force majeure condition) they are unable to run their run their plant

1	2	3
s		<p>on EB power run their and they are forced to run on captive power using HFO. They had also informed that their break even price of LOX will be ₹ 12.25 per SM³ plus taxes and duties. In reply, company had requested them vide their letters TP/MTL/LOX dated 5-1-2010, TP/MTL/LOX dated 12-1-2010 by PLO and AGM(Mtls) respectively to arrange immediate dispatch of LOX @ 1 load per day. KMML also informed them that in case they failed to supply LOX immediately, KMML would be constrained to arrange suppliers from other sources at their risk and cost. Subsequently, Executive Director, KMML had also, vide letter TP/MTL/LOX dated 12-1-2010 to their CEO Mr. Atul Nagarkar, requested his personal intervention and arrange immediate dispatch of LOX as per the delivery schedule given to them.</p> <p>In the meantime, supplies from M/s Inox Air products Limited and M/s National Oxygen Limited also became inconsistent due to severe power crisis in Pondicherry and Karnataka States and the only reliable supplier was M/s Bhuruka Gases Limited. So, KMML have requested them to review the quantity and accordingly confirmed their willingness to supply additional quantity of 1000 MT against the existing order at the same price, terms and conditions. However, they have informed that they are going for a shutdown of their plant for 3 days and they will not be in a position to cater the company's requirement from 24th January to 26th January, 2010. Meanwhile, the requirement of LOX had gone up to 32 TPD due to fall in generation from the company's plant. Hence, KMML were forced</p>

1	2	3
		<p>to approach M/s Praxair India Private Limited and asked them to supply at least 150 MT Considering the situation, M/s Praxair India Private Limited has agreed to supply 50 MT under protest at the ordered price @ 5 TPD and requested to confirm the company's acceptance of increased price before 27-1-2010. Since there was every possibility for achieving targeted production during the month by ensuring uninterrupted LOX supply, the company have given clearance for this 50 MT and assured them that we will put up their request to the consideration of the management.</p> <p>Simultaneously, company have requested other suppliers viz. M/s Inox Air products Limited and M/s National Oxygen Limited to enhance supplies to overcome the critical situation. M/s Inox Air Products Limited offered supplies from their Bellari Plant also which is around 800 KM away from Bangalore provided the company's confirm a landed cost of ₹ 12.69 per SM³. Taking in to account of the critical situation, KMML have given clearance for supplies from Bellari Plant also at the price sought by them and maintained uninterrupted supply of LOX. In this connection it may be noted that the KMML could achieve the record production during the month due to the earnest efforts taken for maintaining the uninterrupted supply of LOX. Considering the hand to mouth situation that prevailed in the case of LOX supply and also in view of the inability of other suppliers to meet the company's enhanced requirement, the company had decided to consider the request of M/s Praxair India Private Limited. Accordingly, company have issued purchase order amendment accepting their revised price for a</p>

1	2	3
		<p>quantity of 745 MT as they had already supplied 55 MT as per the previous order and a quantity of 1000 MT had already been appropriated to the account of M/s Bhuruka Gases Limited.</p> <p>During March 2010 it has been reported that the output of our captive plant has come down and the requirement of outsourced LOX has to be increased to 40 TPD. It was requested to make necessary arrangements for outsourcing LOX @ 40 TPD vide note AGMPP/OX/14 dated 8th March 2010. Simultaneously, it has been decided to invite experts from M/s Air Liquid and examine the possibility of increasing the output from the Oxygen Plant. It was indicated that stoppage of plant for a minimum of 10 days is required for the above work. In this context, the possibility of operating the Pigment Production Plant during the above period by outsourcing required quantity of Liquid Oxygen was discussed in the production meeting held on 2nd March 2010 and decided to explore the possibility of providing an additional storage facility of 50 KL LOX capacity on lease basis. Accordingly, enquiry has been given to all existing suppliers and the following parties had submitted their offers.</p> <ol style="list-style-type: none"> 1. M/s Praxair India Pvt. Limited 2. M/s Inox Air Products Limited 3. M/s National Oxygen Limited

1	2	3
		<p>Out of the above, M/s Praxair India Pvt. Limited has agreed to supply additional Quantity of LOX @ 25 TPD. M/s Inox Air Products Limited and M/s National Oxygen have offered to supply only @ 6.67 TPD and 6.90 TPD respectively. However, the proposal for providing additional storage facility could not be processed due to the high cost involved. In the meantime, an emergency meeting was held in the chamber of MD on 7th March, 2010 along with ED, GM (F), DGM (Production) and HOD (Mtls.) and in the meeting DGM (Production) reported that plant is being stopped intermittently due to the non availability of LOX and incurring heavy revenue loss. So, for the uninterrupted operation of the plant and to avoid revenue loss it has been decided to outsource the required quantity of LOX immediately without further delay. It was also decided to release order on M/s Praxair India Pvt. Limited and M/s Inox Air Products Limited for an additional quantity of 10 TPD each for the next one year as per the terms and conditions of their offer submitted against our enquiry for providing additional storage facility. In this connection, it may be noted that M/s Praxair India Pvt. Limited had offered a basic price of ₹ 6.0 per SM³ and M/s Inox Air Products have offered the same basic price as per their existing order. Accordingly, a new order has been issued to M/s Praxair India Pvt. Limited vide P.O.No. TP/MTL/LOX/1153/2010-11 dated 8-7-2010 for a quantity of 2307000 SM³ (3000 MT) and a purchase order amendment TP/MTL/ LOX/ 1414/2010-11 dated 28-7-2010 has been issued to M/s Inox Air Products Limited by enhancing the quantity by another 3000 MT for a period of one year from 8-5-2010.</p>

1	2	3
		<p>From the above, it can be seen that the procurement of LOX from M/s Praxair India Pvt. Limited at higher rate was unavoidable for the uninterrupted operation of the plants due to the following reasons:</p> <p>For achieving the targeted production, the requirement of Oxygen is in the range of 63-65 TPD. Loss of profit would have been very huge if the production quantity could not achieve due to non availability of Oxygen.</p> <p>There was record production of Titanium Dioxide during the year 2010-11. Even though the requirement of oxygen has gone up, the output from the company's captive Oxygen Plant has come down to 30 TPD due to some technical problems and hence the company were constrained to outsource LOX in the range of 33-35 TPD.</p> <p>The supplies from M/s Inox Air Products Limited and M/s National Oxygen Limited became inconsistent due to severe power crisis in Pondicherry and Karnataka States.</p> <p>The only reliable supplier M/s Bhuruka Gases Limited has expressed their inability to supply additional quantity of LOX 16178. Inviting two part competitive offers is time consuming. It would have taken minimum 3 months for finalizing the new tender which would have resulted in huge production loss.</p> <p>It may kindly be noted that had the oxygen been not procured from M/s Prax Air as 16178 mentioned</p>

1	2	3
		<p>above, the production would have been severely affected. The contribution received from the production is much higher than the additional marginal increase in amount incurred for procuring the required quantity of oxygen. This helped the company to achieve the whole time record production of 36879 MT of Titanium Dioxide and higher profitability during the year 2010-11. It may kindly be noted that the procurement action was initiated in the best interest of the company.</p>

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