



**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2011-2014)**

**FOURTH REPORT**  
(Presented on 21-6-2012)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2012

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**FOURTH REPORT**

**On**

**Kerala Garments Limited based on the Report of the  
Comptroller and Auditor General of India for the  
year ended 31-3-2006 (Commercial)**

## CONTENTS

		<i>Page</i>
Composition of the Committee	..	v
Introduction	..	vii
Report	..	1
Appendix I : Summary of main Conclusions/ Recommendations	..	4
Appendix II : Notes furnished by Government on the Audit Paragraph	..	6

COMMITTEE ON PUBLIC UNDERTAKINGS (2011-2014)

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„ R. Radhakrishnan Nair, Joint Secretary

„ K. Priyadarsanan, Deputy Secretary

Smt. Lima Francis, Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2011-14), having been authorised by the Committee to present the Report on their behalf, present this Fourth Report on Kerala Garments Limited based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March 2006 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31-3-2006 (Commercial), was laid on the Table of the House on 28-3-2007. 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 2008-2011.

This Report was considered and approved by the Committee at the meeting held on 1-2-2012.

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 Paragraph included in this Report.

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Kerala Garments 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 Department and Finance Department and the officials of Kerala Garments Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

K. N. A. KHADER,

*Chairman,*

*Committee on Public Undertakings.*

Thiruvananthapuram,  
21st June 2012.

## REPORT

### KERALA GARMENTS LIMITED

#### AUDIT PARAGRAPH

The Company, engaged in the manufacture of readymade garments and having an accumulated loss of ₹ 2.45 crore as on 31st March 1999, was implementing a revival-cum-modernisation project at a cost of ₹ 1.67 crore with funds from Kerala Industrial Revitalisation Fund Board (KIRFB). As per the revival package, the Company intended to produce readymade garments on its own. The company simultaneously entered (August 1999) into a Memorandum of Understanding (MOU) with Eagle Stationery Est. UAE (ESE) under which the former had to manufacture 'Hanstyle' readymade shirts for marketing by ESE in the Gulf countries. The MOU was for a period of one year from the date of execution (August 1999) and renewal was to be decided on mutual consent. Stipulations as to the quantity to be produced, price, schedules of delivery, etc., were neither incorporated in the MOU nor confirmed through a valid contract. Audit noticed that the MOU itself did not contain the official seal of the firm and the document also did not bear the signatures of witnesses. Thus, the MOU would not serve the purpose of a legally binding document.

Relying on the MOU, the Company utilised the spare capacity and produced 29129 shirts during the period from Decemeber 1999 to March 2001. The stock of the shirts was kept ready expecting that ESE would lift at least 5000 shirts per month. The Company, however, did not receive any order from ESE.

Subsequently ESE backed out from the MOU on account of the marketing difficulties in the Gulf region. As a result, the company had no option but to sell the shirts in the domestic market. The company, however, could not dispose of the entire quantity and stock worth ₹ 48.76 lakh was lying unsold until September 2006. Considering the degree of deterioration in stock the value was discounted by 50 per cent and the net value worked out to ₹ 24.38 lakh.

Thus, the injudicious decision of the Company to produce readymade garments without confirmed orders resulted in avoidable loss of ₹ 24.38 lakh.

The Government admitted (August 2006) that ESE, which backed out from the MOU, did not purchase a single shirt and they could not be sued as no formal agreement was entered into with them. It was further stated if the stock of shirts after providing for 50 per cent discount could be sold for ₹ 24.38 lakh

there would be marginal profit. The reply is not tenable since the Company took the imprudent decision to manufacture readymade shirts without any formal agreement with ESE and the realisability of any amount for readymade garments manufactured six years back, is doubtful.

(Audit Paragraph 4.11 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2006).

The note furnished by Government on the audit paragraph is given in appendix II.

1. The Committee sought explanation on the imprudent decision of the company to implement the scheme to produce and sell Hanstyle Shirts' without confirmed orders. The witness replied that though the loss of the company on account of the deal, as reported before, was ₹ 24.38 lakh, the same figure has decreased to ₹ 19.31 lakh after audit. After sale of shirts for a value of ₹ 12.95 lakh the balance stock that remained was 3500 shirts worth ₹ 6.36 lakh. The Committee could not be convinced with the explanation for making an MOU with Eagle Stationary Enterprises (ESE) to market shirts, without making the MOU a legally binding document. The witness explained that the project was funded by Kerala Industrial Revitalisation Fund Board (KIRFB) and that Eagle Stationary Enterprises (ESE) expressed their willingness to market the product in gulf countries without giving any confirmed orders. The Committee strongly disagreed with the reply of the witness that the shirts manufactured were part of regular production and were not specifically made for Gulf region. The Committee asked if the brand name 'Hanstyle' was not specifically given for exporting to Gulf. The Committee opined that ESE backed out from MOU and did not buy the 'Hanstyle' brand shirt made specifically for them. The witness clarified that the ESE had agreed to sell these shirts in the brand name 'Hanstyle' and admitted the opinion of the Committee. The Committee expressed displeasure that the company injudiciously jumped into the deal without even having a legally binding MOU and later when the ESE backed out from the deal it decided to make discounted sale. The Committee strongly criticised that the company being a Government undertaking should not have made the specific brand shirts without even getting a confirmed order. The Committee also added that when making an MOU with a foreign firm strong conditions regarding the quantity to be produced, price, schedules of delivery etc. should have been incorporated in it. If such formalities were fulfilled the firm could not have backed out from the deal so easily. The Principal Secretary accepted the Committee's finding that the public sector undertaking had committed production on the basis of an MOU which did not bear both office seal and signature of witness.

2. However the Principal Secretary clarified that the company being a public sector undertaking, with lack of flexibility in operation, would find it

difficult to withstand in highly competitive fields like shirt manufacturing. The company is now in its winding up process.

3. The Committee strongly disapproved the company's stand to proceed with the deal despite the limitations. The Principal Secretary however justified the company's attempts to exploit chances to make commercial entry and added that shirt being a common product, it could be sold anywhere. The Committee then commented that the shirts were made and price fixed with a view to sell them in foreign market and later on they were forced to sell them at 50% discount. Principal Secretary admitted that it was a loss generating deal. The Committee opined that the company should have been more practical and vigilant in executing orders.

#### **Conclusions/Recommendations**

4. **The decision of the company to produce shirts in a deal based on an invalid MOU which did not contain the official seal of ESE was injudicious. The company should have taken steps to make the MOU a legally binding document before proceeding to production of 'Hanstyle' shirts and insisted for a valid contract to support the same. It is surprising to see that the company did not care to see whether the required stipulations as to quality, price, schedule of delivery etc. were incorporated in the MOU.**

5. **The Committee is of the opinion that lack of flexibility in operation with regard to public sector undertakings should have been foreseen before making such an attempt. The company recognised shirt manufacturing and marketing it in a highly competitive field only after leaping into the deal and thereby suffered loss.**

6. **The company ought to have been more vigilant in its endeavour to exploit the commercial opportunity, especially when a revival-cum-modernisation project was being implemented to patch up its huge accumulated loss. The company being in its winding up process, the Department should hereafter give strict direction to all public sector undertakings to handle such deals with utmost care and vigilance to avoid loss.**

7. **The Committee concludes that the huge accumulated loss of Kerala Garments Ltd. must have been the outcome of several such imprudent decisions in the past which should not have been allowed to get repeated.**

K. N. A. KHADER,

*Chairman,*

*Committee on Public Undertakings.*

Thiruvananthapuram,  
21st June 2012.



## APPENDIX I

**Summary of Main Conclusions/Recommendations**

<i>Sl. No.</i>	<i>Report Para No.</i>	<i>Department concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	4	Industries	The decision of the company to produce shirts in a deal based on an invalid MOU which did not contain the official seal of ESE was injudicious. The company should have taken steps to make the MOU a legally binding document before proceeding to production of 'Hanstyle' shirts and insisted for a valid contract to support the same. It is surprising to see that the company did not care to see whether the required stipulations as to quality, price, schedule of delivery etc. were incorporated in the MOU.
2	5	„	The Committee is of the opinion that lack of flexibility in operation with regard to public sector undertakings should have been foreseen before making such an attempt. The company recognised shirt manufacturing and marketing it in a highly competitive field only after leaping into the deal and thereby suffered loss.
3	6	„	The company ought to have been more vigilant in its endeavour to exploit the commercial opportunity, especially when a revival-cum-modernisation project was being implemented to patch up its huge accumulated loss. The company being in its winding up process, the Department should hereafter give strict direction to all public sector undertakings to handle such deals with utmost care and vigilance to avoid loss.

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(1)	(2)	(3)	(4)
4	7	Industries	The Committee concludes that the huge accumulated loss of Kerala Garments Ltd. must have been the outcome of several such imprudent decisions in the past which should not have been allowed to get repeated.

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APPENDIX II

Notes furnished by Government on the Audit Paragraphs

ക്രമ നമ്പർ	ചെറുപ്പം നമ്പർ	സീകരിച്ച നടപടി
(1)	(2)	(3)
1	4.11	<p>കേരള ഗാർമെന്റ്സ് 1978-ലാണ് പ്രവർത്തനം ആരംഭിച്ചത്. വേണ്ടത്ര ജോബ് വർക്ക് ഓർഡർ ലഭിക്കാത്തതിനാൽ പ്രസ്തുത സ്ഥാപനം നഷ്ടത്തിലാണ് പ്രവർത്തിച്ചുവന്നിരുന്നത്. മാത്രമല്ല ഈ സ്ഥാപനത്തിൽ തൊഴിലാളികൾക്ക് ദിവസവേതനമാണ് നൽകിവന്നിരുന്നത്. ഉൽപ്പാദനക്ഷമത കുറഞ്ഞതിനാലും കൺവേർഷൻ ചെലവ് താരതമ്യേന കൂടുതലായതിനാലും പൊതുവേയുള്ള മാർക്കറ്റ് റേറ്റിൽ കൂടുതൽ കൺവേർഷൻ ചാർജ്ജ് ലഭിക്കാൻ പ്രായോഗികമായി ബുദ്ധിമുട്ടുണ്ട്. അതിനാലാണ് ജോബ് വർക്ക് വേണ്ടത്രയില്ലാത്ത അവസരങ്ങളിൽ കമ്പനിയുടെ ഉൽപ്പാദനശേഷി വിനിയോഗിക്കുന്നതിനും പ്രവർത്തനം മെച്ചപ്പെടുത്തുന്നതിനും സ്വന്തമായി ഷർട്ടുകൾ ഉൽപ്പാദിപ്പിച്ച് വിപണനം നടത്താനുള്ള പദ്ധതി കമ്പനി നടപ്പിൽ വരുത്തിയത്. ഈയവസരത്തിലാണ് അബുദാബിയിലുള്ള ഈഗിൾ സ്റ്റേഷനറി എസ്റ്റാബ്ലിഷ്മെന്റ് എന്ന സ്ഥാപനവുമായി ഗൾഫ് മേഖലയിൽ കമ്പനിയുടെ ഷർട്ടുകൾ വിപണനം നടത്തുന്നത് സംബന്ധിച്ച 12-8-1999-ന് ധാരണാപത്രം ഒപ്പിട്ടത്. ധാരണാപത്രത്തിലെ നിബന്ധനകളിൽ ഇരുകക്ഷികൾക്കും തർക്കമില്ലാത്തതിനാൽ ധാരണാ പത്രത്തിൽ പ്രസ്തുത കക്ഷികളുടെ ഓഫീസിൽ പതിക്കാത്തതുകൊണ്ടോ സാക്ഷികൾ ഒപ്പിടാത്തതുകൊണ്ടോ നിയമസാധ്യത ഇല്ലാതാകുന്നില്ല.</p> <p>കൂടാതെ കമ്പനിക്ക് ജോബ് വർക്ക് ഓർഡർ വേണ്ടത്ര ഇല്ലാത്തതിനാൽ കമ്പനിയുടെ മിച്ചമുള്ള ഉൽപ്പാദനശേഷി വിനിയോഗിക്കുന്നതിന് ഹാൻഡ്സ്റ്റാൽ ഷർട്ടുകൾ ഉൽപ്പാദിപ്പിക്കുകയുണ്ടായി. മാത്രമല്ല തൊഴിലാളികൾക്ക് ദിവസവേതനമായതിനാൽ ഉൽപ്പാദനം നടത്തിയാലും ഇല്ലെങ്കിലും വേതനവും മറ്റു ഫിക്സഡ് ചെലവുകളും കമ്പനിക്ക് വന്നു ചേരുന്നതാണ്. ആയതിനാൽ പ്രസ്തുത ഷർട്ടുകൾ കൂടുതൽ ഉൽപ്പാദിപ്പിച്ചതിനാൽ നഷ്ടമുണ്ടായിട്ടില്ല. ഈ സ്ഥാപനത്തിന്റെ ഉല്പാദന പ്രവർത്തനം 2000 വർഷത്തിൽ തന്നെ നിലയ്ക്കുകയും എന്നാൽ നേരത്തെ ഉൽപ്പാദിപ്പിച്ചിരുന്ന ഷർട്ടുകളിൽ 50% കിഴിവ് കഴിയാൽ ഏകദേശം 11 ലക്ഷം രൂപയ്ക്കുള്ള 6500 എണ്ണം മാത്രമാണ് കമ്പനി സ്റ്റോക്കിൽ ഉള്ളത്. അവ വിറ്റഴിക്കുന്നതിന് കമ്പനി നടപടി എടുത്തുവരുന്നുണ്ട്. ഹാൻഡ്സ്റ്റാൽ ഷർട്ടുകളുടെ ഉൽപ്പാദന ചെലവിൽ നിന്ന് വേതനം, പലിശ, തേയ്മാനം തുടങ്ങിയ ഫിക്സഡ് ചാർജ്ജുകൾ ഒഴിവാക്കിയാൽ സ്ഥാപനത്തിന് നഷ്ടം വന്നിട്ടില്ല എന്നു കാണാവുന്നതാണ്.</p>