



**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

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

25

**SIXTY SEVENTH REPORT**  
(Presented on 11th December, 2014)

**SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM**

2014

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

**SIXTY SEVENTH REPORT**

**On**

**Kerala Minerals and Metals Limited based on the Report of the  
Comptroller and Auditor General of India for the year ended  
on 31st March, 2009 & 2010**

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## 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 Sixty Seventh Report on Kerala Minerals and Metals Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2009 & 2010 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended on 31st March, 2009 & 2010 were laid on the Table of the House on 28-6-2011 & 23-3-2012 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 years 2011-14.

This Report was considered and approved by the Committee at the meeting held on 19-11-2014.

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 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 considered views before the Committee.

Thiruvananthapuram,  
11th December, 2014.

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

## REPORT

### KERALA MINERALS AND METALS LIMITED

#### AUDIT PARAGRAPH

#### **Wasteful Expenditure due to Lack of Due Professional Care**

The Company is engaged in the production and sale of Titanium Dioxide Pigment (TDP). As envisaged in the corporate plan for expansion and modernisation (June 2003), the Company took up (2004-2007) implementation of expansion scheme for enhancement in production capacity for TDP from twenty two thousand MT to one lakh MT per annum in three phases (eight projects). The estimated cost of the projects was ₹ 760 crore, proposed for funding from own resources. This was based on the projection that Company had equity and reserve fund of ₹ 327 crore, fixed deposit of ₹187 crore and was making profit since 1999-2000, which was expected to continue in future also. The technical consultancy for carrying out the expansion project was entrusted (January 2004) to MECON, Ranchi, on total responsibility basis, which included preparation of Detailed Project Report (DPR) also.

Audit observed (January 2009) that the Company, even before the submission of DPR, which was essential for taking any investment decisions, issued (January 2005-July 2006) orders for machinery/erection valuing ₹ 431.19 crore. According to the DPR submitted (June 2006) by MECON the estimated cost of the project on completion was projected at ₹ 1,115 crore against the originally estimated cost of ₹ 760 crore, an escalation of 47 per cent.

In view of enormous escalation in cost, the Board of Directors constituted (July 2006) a sub-committee to review the project and to submit recommendations. The sub-committee recommended (December 2006) to implement the expansion scheme after re-considering the financial situation, profit expectations and growth, debt servicing, stagnancy in the market situation, development, vigilance and legal implications.

The Board of Directors after considering the recommendations decided (February 2007) to abandon four projects involving capital cost of ₹ 500 crore (Mineral Separation Plant-₹ 120 crore, Synthetic Rutile Plant-₹ 250 crore, Oxygen Plant-₹ 90 crore and Desalination Plant- ₹ 40 crore) subject to Government approval. The Government of Kerala accorded (January 2008) approval for the abandonment of these projects considering the financial position of the Company. The Board of Directors decided (March 2008) to abandon the remaining four projects also,

involving a capital cost of ₹ 260 crore subject to Government approval which was awaited (September 2009). However, the cancellation of purchase orders did not take place so far (September 2009).

As a result of abandonment of the project, the purchase orders for machinery/erection valuing ₹ 431.19 crore issued (January 2005 to July 2006) became unnecessary and amount of ₹ 58.57 crore (including consultancy fee of ₹ 18.62 crore) towards Desalination Plant, Oxygen Plant, Dredge and Wet Contraction Plant etc., incurred became wasteful expenditure.

Management stated (January 2009) that despite increase in production of TDP (2001-2008) the profitability had decreased drastically due to reduction in customs duty, appreciation of Rupee against US Dollar, lack of market demand etc., and expansion in production capacity of TDP to one lakh MT per annum was not desirable without expansion of supplies of raw material (ilmenite, synthetic rutile etc.) and utilities (oxygen, nitrogen etc.).

Audit observed that the Management had taken up (2003) implementation of the expansion project involving investment of ₹ 760 crore by taking into consideration the reserve fund and equity and fixed deposit of ₹ 514 crore and anticipated profits in future years, while ignoring the fact that the Company was selling TDP at reduced prices from 2001-02 itself due to stiff competition from Multi National Companies (MNCs). The market share of the Company in 2003-04 was only 46.80 per cent for local demand and 29.30 per cent for domestic demand, due to poor quality of the product as compared to that of MNCs. The profit of ₹ 111.48 crore in 1999-2000, had declined to ₹ 49.65 crore in 2003-04 and to ₹ 17.82 crore in 2005-06 due to unfavourable market situation, when the company issued (January 2005-July 2006) purchase orders for machinery/erection valuing ₹ 431.19 crore. Moreover, the decisions were not taken based on the DPR or any other investment plan. However, the decision to abandon the project was based on the receipt of DPR (during June 2006).

Audit concludes that it is a case of deficient planning. The Company was overambitious in estimating its capabilities to ensure source of finance for the project, but ignored to assess the market situation and failed to exercise due professional care resulting in issue of purchase orders for machinery/erection. Thus, payment of advance of ₹ 58.57 crore for purchase orders became wasteful, due to subsequent abandonment of projects and the amount otherwise available for meeting working capital requirements, had eroded due to wasteful investment. The Company had also invited future liability towards consequential losses due to cancellation of purchase orders and litigation. The Company should ensure the viability before embarking upon such major expansion projects in future.

Management stated (April 2009) that the finance for the expansion project was to be sourced from internal generation and external borrowings. As the profitability was down, the expansion schemes earlier envisaged in the corporate plan were found to be unfeasible and therefore, abandoned, with the approval of the Government. The reply is not acceptable as deficient planning without ensuring source of funding coupled with hasty decision to place purchase orders for machinery resulted in wasteful expenditure of ₹ 58.57 crore on abandonment of the projects.

The matter was reported to Government in March 2009; their reply was awaited (September 2009).

[Audit paragraph 4.1 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March, 2009.]

Notes furnished by Government on audit paragraph is given in Appendix II.

1. The Committee sought explanation for the audit objection on wasteful expenditure of ₹ 58.57 crore which included the consultancy fee of ₹ 18.4 crore and the loss sustained to the company by not decreasing the contract demand for power from 16 MVA to 12.5 MVA subsequent to the abandonment of expansion programme. The witness replied that the Company took up implementation of an expansion project, with an estimated cost of ₹ 760 crore. The technical consultancy for carrying out the expansion project was entrusted to MECON by inviting tender. According to the DPR submitted by MECON, the estimated cost of the project on completion was projected at ₹ 1,115 crore as against the originally estimated cost of ₹ 760 crore—An escalation of 47%. The project was abandoned due to the lack of technical viability.

2. When the Committee enquired about the source of fund for the proposed expansion project, the witness disclosed that the Company envisaged to fund the expansion project from the accumulating profit and using its own internal resources. As there was a drastic reduction in the profit due to stiff competition from Multi National Companies and other related reasons the project was abandoned.

3. The Committee sought explanation regarding the appointment of sub-committee to study the technical feasibility, market competition and environmental factors, even before preparing the expansion plan. The witness replied that the technical consultancy for carrying out the expansion project was entrusted to MECON which was selected by inviting tenders. The witness also pointed out that MECON was preferred, as the technical know how at the time of initial installation of the Company was entrusted to MECON. The expansion project was



abandoned based on the report submitted by the sub-committee. The Committee opined that sub-committee should have been constituted prior to commencement of the expansion project.

4. The Committee sought explanation regarding the Government approval of the proposed expansion project. The witness explained that during the year 2000 an original proposal for a project at the cost of ₹ 782 was approved by the Government. For the installation of Bagging Machine and Pressure Filter, ₹ 22 crore was invested. The Company had drawn out a Corporate Plan during the year 2003 with modification in the project envisaged earlier and submitted to the Government. Even though that plan was approved, the Government approval for a project cost of ₹ 760 crore was obtained in the year 2004. The updated DPR submitted during the year 2006 had a cost escalation factor. The Committee pointed out that the mistake on the part of the Company was that the project envisaged during the year 2000 was not revised accordingly and the witness admitted it.

5. The Committee sought explanation regarding the placing of purchase order prior to the finalisation of DPR. The witness did not give any reliable and satisfactory answer.

6. The Committee observed that when an agreement for purchase is made, there should be provisions regarding the cancellation of purchase order and fixed time limit for the completion of purchase. If the company had cancelled the purchase order within the prescribed time limit, a loss of ₹ 2.2 crore could have been avoided. The Committee recommended that liability should be fixed against those officials who were responsible for ordering the machinery prior to the finalisation of DPR.

The Additional Chief Secretary, Industries Department agreed to furnish a detailed report before the Committee so that the responsibility might be fixed by the Committee thereafter.

7. The Committee enquired about the suppliers who were supplying machinery and about the arbitration procedures. The witness explained that there were various suppliers for supplying machinery and they were selected by inviting tenders and that the arbitration procedures were still pending in all cases.

#### **Conclusions/Recommendations**

8. The Committee is irked to note that an investment decision involving crore of rupees has been initiated by the Company in the absence of a Detailed Project Report (DPR) and/or any other investment plan. The Committee finds it paradoxical to note that the Company's decision to abandon the project has

been taken on the basis of DPR. The Committee opines that the decision of the Company to place purchase order prior to the approval of DPR has resulted in the wasteful expenditure of ₹ 58.57 crore consequent to the abandonment of the project. Further more, the Committee observes that the Company is functioning in a topsy-turvy manner like constituting a sub-committee to review DPR prior to abandonment of the project. The Committee concludes that wilful negligence committed by the management in taking crucial investment decisions deterred the Company from channelising the much needed resources for funding other viable projects.

9. The Committee recommends that before venturing into expansion projects the preparation of DPR should be entrusted to an experienced firm acquainted with this field. An expert Committee of the Company should thoroughly scrutinize the technical feasibility, viability, market conditions and environmental factors before finalising the DPR. The Committee reiterated that purchase order should never be placed, before the approval of DPR. The Committee suggests that, should there be a time lag in implementing the project, the DPR should be revised accordingly and that there should be a provision for cancellation of purchase order. The Committee also observed that the Additional Chief Secretary, Industries Department had orally agreed to furnish a detailed report before the Committee but it has not been complied with till date. The Committee recommends that liability should be fixed on the officers responsible for placing the purchase order of machinery prior to the finalisation of DPR.

#### **Avoidable Expenditure**

The Company had (2003-04) an installed capacity of 30000 MT per annum (July 2003) for the production of Synthetic Rutile (SR) also known as beneficiated ilmenite which is the input for production of TDP. At the same time, the synthetic rutile plant had six Rotary Globe Digesters (Digesters) and four balancing equipments (Calciners, Roasters etc.) rendering two digesters excess. The wasteful expenditure of ₹ 2.62 crore on these two redundant digesters was commented in the Report of the Comptroller and Auditor General of India (Commercial) for 2003-04 (Paragraph 2.1.30).

In July 2003 the Company also had an approved project proposal for increasing the annual production for SR from 30000 to 55000 MT by installing

two more digesters, one calciner and one roaster and other related equipments, with a capital outlay of ₹ 40 crore. The work order for supply/installation of two digesters was placed (May 2004) at a contract price of ₹ 1.60 crore with period of completion as February 2005. Despite knowing that, the digesters would not be operational without other balancing equipments such as calciner, roaster etc., the Company did not initiate action to purchase balancing equipments (July 2003-May 2004).

In February 2005, because of serious problems in disposal of waste, the proposal for increasing the capacity for SR production from 30000 to 55000 MT was dropped. According to the Management (June 2007) in the absence of adequate capacity for production of SR, the Company had to purchase SR from outside sources incurring additional expenditure of ₹ 10,000 per MT. The Company had already created surplus capacity for digesters for 20000 MT, which ensure annual savings of about ₹ 16.87 crore, provided balancing equipments (Calciner, Roaster etc.) involving an amount of ₹ 27.98 crore were purchased/installed.

The two digesters received (March 2005) were commissioned (November 2007, January 2008) at the cost of ₹ 3.65 crore of which ₹ 3.12 crore was paid as of March 2006. However these digesters could not be put to use for want of balancing equipments.

After the commissioning (January 2008) of two more digesters, the Company had eight digesters resulting in excess capacity, which could not be fully utilised for want of balancing equipments. In the absence of matching capacity, the Company had to purchase 20043 MT of SR at prices higher than the variable cost of SR produced by the Company, during the two years 2006-2008 resulting in avoidable expenditure of ₹ 18.55 crore.

Thus, the defective and deficient planning in assessing the capacity for SRs envisaging savings and failure to safeguard the financial interest of the Company resulted in cash loss of ₹ 18.55 crore on purchase (2006-2008) of 20043 MT of SR from outside sources at higher prices. Further an investment of ₹ 3.12 crore on the two digesters had also remained (April 2006-March 2008) idle which resulted in loss of interest of ₹ 56.16 lakh (calculated @ 9 per cent per annum).

The matter was reported to Government/ Management in May 2009; their reply was awaited (September 2009).

[Audit paragraph 4.2 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March, 2009.]

Notes furnished by Government on audit paragraph is given in Appendix II.

10. The Committee enquired about the reason for not purchasing the balancing equipments along with Rotary Globe Digesters which had resulted in wasteful expenditure of ₹ 2.62 crore. The witness explained that Rotary Globe digesters involved heavy maintenance. Even when there were 6 digesters, all of them were not in use as 2 units were meant to serve as spare units. To reap the benefit of the technical break through achieved by the company, it conceived a project to enhance the capacity of synthetic rutile production to 55000 MT from 30000 MT. This necessitated installation of 2 more digesters together with balancing equipments; purchase orders had been issued for the purchase of two Digesters. Issues were raised against the company by various agencies regarding the pollution caused by the plant. At the instance of Supreme Court intervention the Company dropped the order to purchase balancing equipments, which had to be placed along with the purchase order of digesters. The Company resorted to produce Synthetic rutile through Becher Process where the pollutant produced would be neutralized automatically. Becher Process failed to materialize as the expansion project had been dropped midway. For producing Synthetic Rutile the company had to revert to its initial production method. Production with additional 2 digesters and balancing equipments became operational from 2010. Even though there were 8 digesters, the company could not produce adequate Synthetic Rutile necessary to meet its entire requirements. The witness attributed the reason for this to the time taken for the maintenance of digesters as it would take almost an year for overall maintenance of a single digester. The witness added that maintenance works were done by the suppliers. To a query of the Committee the witness answered that with regard to Synthetic Rutile the Company was self-reliant and the Company was running on profit.

#### **Payment of inadmissible overtime wages**

The Company has two plants, Mineral Separation Plant and Titanium Dioxide Pigment (TDP) unit. The Company had been paying overtime wages to workers engaged in the TDP unit other than office staff for duty in excess of nine hours a day or forty eight hours a week in line with the provisions of Factories Act, 1948. Overtime wage was double the ordinary rate wages.

The Company paid (April 2006 to March 2009) overtime wages amounting to ₹ 12.27 crore to workers employed in manufacturing process.

Audit noticed (March 2009) that for working out the hourly rate of wages in a month, the Company had reckoned 180 hours (24 days X 7.5 hours) as the standard whereas as per the Factories Act, the effective hours per month was 240 hours (30 days X 8 hours) even though there was no specific provision for this in the wage settlement with the workers. As a result of this erroneous calculation of hourly wage, the company had paid excess overtime wages of ₹ 2.92 crore to workers employed in the TDP unit during April 2006 to March 2009.

Thus, erroneous calculation of hourly rate of overtime wages resulted in excess payment of overtime wages amounting to ₹ 2.92 crore.

Government stated (July 2009) that, on being pointed out by Audit, the Company modified the method of calculation of overtime wages reckoning monthly working time as 240 hours. The Company, however, had to restore the earlier method owing to objections of trade unions.

It is suggested that the Company shall, in absence of any wage settlement agreement to the contrary, comply with the relevant provisions of the Factories Act on payment of overtime wages in order to obviate inadmissible overtime wages.

[Audit paragraph 4.3 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March, 2009.]

Notes furnished by Government on audit paragraph is given in Appendix II.

11. The Committee enquired about the loss of ₹ 2.92 crore sustained due to the payment of inadmissible overtime wages and the present method of calculating the same. The witness answered that for working out the hourly rate of wages in a month the company had reckoned 180 hours (24 days X 7.5 hours) as standard whereas as per the Factories Act the effective hours per month was 240 hours (30 days X 8 hours) and that there was no specific provisions for this in the wage settlement with the workers. The management had taken the initiative to rectify the same, when the matter was pointed out by the C & AG. But the action to rectify the same had to be dropped following the stiff resistance from workers. The joint meetings convened in the presence of Minister for Labour, Minister for Industries and Trade Union Leaders to find an amicable solution failed to be fruitful and that Government had entrusted State Labour Commission to have a final settlement in this matter.

12. The Committee was not satisfied with the reply and was of the view that in the absence of any wage settlement agreement to the contrary, it was mandatory for the labourers to abide by the provision contained in the Factories Act and asked to furnish a final report in the regard. The Additional Chief Secretary, Industries Department said that the report would be furnished before the Committee within 10 days.

### **Conclusions/Recommendations**

13. **The Committee observes that the erroneous calculation of overtime wages resulted in the excess payment of overtime wages amounting to ₹ 2.92 crore. The Committee remarks that this action of the Company is an affront to the Factories Act.**

14. **The Committee reiterates that in the absence of any wage settlement to the contrary, it is mandatory for the labourers to abide by the provisions contained in the Factories Act. The Committee desires to be furnished with the final report of the State Labour Commissioner in this regard.**

### **Avoidable Expenditure**

The Company is engaged in production and sale of Titanium Dioxide Pigment (TDP). With a view to enhance the annual production capacity of TDP from 22000 MT to 100000 MT, the Company took up (2004-2007) implementation of an expansion scheme involving eight projects (in three phases) at a cost of ₹ 760 crore. The expansion project increased future power requirement and in order to meet this, the Company enhanced (August 2004) the contract demand for power from 12500 KVA (12.5 MVA) to 16000 KVA (16 MVA). An agreement (August 2004) to draw energy at a voltage of 110 KV was also executed with Kerala State Electricity Board (KSEB). According to agreement, the Company had to pay for energy supplied at the EHT tariff for 110 KV consumers at prevailing schedule of tariff issued (November 2007) by Kerala State Electricity Regulatory Commission, the demand charge payable for supply of power at 110 KV was ₹ 245 per KVA on the highest of recorded maximum demand or 75 per cent of the contract demand.

In the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31st March, 2009 it was reported (paragraph 4.1) that the Company had shelved (February 2007, March 2008) the expansion project due to enormous escalation in cost and had incurred a wasteful expenditure of ₹ 58.57 crore consequent thereto.

Even though the expansion project was abandoned by March 2008, the Company continued to draw power with a contract demand of 16000 KVA (16 MVA) instead of reverting to 12500 KVA (12.5 MVA). The recorded maximum demand of the Company ranged between 8671 KVA to 11273 KVA during July 2008 – August 2010 and as a result the Company had been paying demand charges for 75 per cent of the contract demand. Consequently, the Company had to incur avoidable expenditure of ₹ 1.19 crore from July 2008 to August 2010 (Annexure 25).

We noticed (February 2010) that as per the provisions of the agreement with KSEB, the Company was entitled to decrease the contract demand by giving three month's notice. Despite this, the Company did not reduce the contract demand from 16000 KVA (16 MVA) to 12500 KVA (12.5 MVA), the contract demand prevalent before conceptualisation of the expansion scheme.

This inaction of two years to reduce contract demand for power, following the abandonment of expansion project resulted in avoidable expenditure of ₹ 1.19 crore.

Management stated (June 2010) that although the Company had requested (April 2010) KSEB for reducing the contract demand to 12.5 MVA, action is yet to be taken by KSEB to reduce the contracted demand. The fact remained that the Company initiated action to reduce the contract demand only at the instance of Audit. No further progress was noticed in getting the contracted demand reduced (September 2010) by the Company.

The matter was reported to Government (May 2010); its reply is awaited (October 2010).

[Audit paragraph 4.4 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March, 2010.]

Notes furnished by Government on audit paragraph is given in Appendix II.

15. With regard to para 4.4 the witness stated that in order to cater to the need for increased demand for power as envisaged in the expansion project the Company had enhanced the contract demand for power from 12.5 MVA to 16 MVA. The witness added that there was inordinate administrative/procedural delay on the part of KSEB in reducing/subsequently reinstating the contract demand. Even though the expansion project was abandoned, the Company continued to draw power with a contract demand of 16 MVA instead of reverting to 12.5 MVA. The witness admitted this as a serious lapse on the part of the Company.

**Conclusions/Recommendations**

16. The Committee criticizes the inexplicable attitude of the Company in not taking timely action to revert to its original contract demand for power, post the abandonment of the expansion project. The Committee adduces this inaction of the Company as a classic example of the laxity of its officials in taking timely action which paved the way for an avoidable loss of ₹ 1.19 crore on electricity charges.

17. The Committee recommends that all those officials of the Company identified as responsible for the lapse should be booked and liability be fixed on them.

Thiruvananthapuram,  
11th December, 2014.

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



## APPENDIX I

## SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	8	Industries	The Committee is irked to note that an investment decision involving crores of rupees has been initiated by the Company in the absence of a Detailed Project Report (DPR) and/or any other investment plan. The Committee finds it paradoxical to note that the Company's decision to abandon the project has been taken on the basis of DPR. The Committee opines that the decision of the Company to place purchase order prior to the approval of DPR has resulted in the wasteful expenditure of ₹ 58.57 crore consequent to the abandonment of the project. Further more, the Committee observes that the Company is functioning in a topsy-turvy manner like constituting a sub-committee to review DPR prior to abandonment of the project. The Committee concludes that wilful negligence committed by the management in taking crucial investment decisions deterred the Company from channelising the much needed resources for funding other viable projects.
2	9	„	The Committee recommends that before venturing into expansion projects the preparation of DPR should be entrusted to an experienced firm acquainted with this field. An expert Committee of the Company should thoroughly scrutinize the technical feasibility, viability, market conditions and environmental factors before finalising the DPR. The Committee reiterated that purchase order should never be placed, before the approval of DPR. The Committee suggests that, should there be a time lag

(1)	(2)	(3)	(4)
			in implementing the project, the DPR should be revised accordingly and that there should be a provision for cancellation of purchase order. The Committee also observed that the Additional Chief Secretary, Industries Department had orally agreed to furnish a detailed report before the Committee but it has not been complied with till date. The Committee recommends that liability should be fixed on the officers responsible for placing the purchase order of machinery prior to the finalisation of DPR.
3	13	Industries	The Committee observes that the erroneous calculation of overtime wages resulted in the excess payment of overtime wages amounting to ₹ 2.92 crore. The Committee remarks that this action of the Company is an affront to the Factories Act.
4	14	„	The Committee reiterates that in the absence of any wage settlement to the contrary, it is mandatory for the labourers to abide by the provisions contained in the Factories Act. The Committee desires to be furnished with the final report of the State Labour Commissioner in this regard.
5	16	„	The Committee criticizes the inexplicable attitude of the Company in not taking timely action to revert to its original contract demand for power, post the abandonment of the expansion project. The Committee adduces this inaction of the Company as a classic example of the laxity of its officials in taking timely action which paved the way for an avoidable loss of ₹ 1.19 crore on electricity charges.
6	17	„	The Committee recommends that all those officials of the Company identified as responsible for the lapse should be booked and liability be fixed on them.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

<i>Sl. No.</i>	<i>Audit Paragraph</i>	<i>Reply furnished by Government</i>
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(1)	(2)	(3)
1	4.1 (2008-2009)	<p>The Company had drawn out a corporate plan during June 2003 envisaging an investment of Rs. 760 crore. As per the plan, the pigment production capacity will be enhanced from then 22000 TPA to 1 lakh TPA. It was a time when the markets were good and the profitability was high. Moreover, the company was holding sufficient resources to fund the proposed investments. The corporate plan was approved by the Board of Directors and subsequently by the Government.</p>

The project activities were then initiated and MECON was appointed as engineering consultants for the expansion projects. Based on approvals obtained from the Board and Government, MECON/KMML commenced procurement activities. The details are as follows:

(1)	<i>Pigment Plant</i>	<i>SR Plant</i>	<i>MS Plant</i>	<i>Utilities</i>	<i>Consultancy</i>
(1)	(2)	(3)	(4)	(5)	(6)
Original Estimate (Rs. lakh)	15000	25000	12000	21000	3000

No. of orders placed	46	2	3	2	1
Order value for plant and machinery (Rs. lakh)	11047			7071	
Order value for civil works (Rs. lakh)	138			510	
Total value of orders placed (Rs. lakh)	11185	13770	11572	7581	2484
Amount paid for plant and machinery (Rs. lakh)	602		840	2243	
Amount paid for civil works (Rs. lakh)	120			190	
Total amount paid (Rs. lakh)	722	0	840	2433	1862
Estimated value of plant and machinery received (Rs. lakh)	443	0	0	1388	
Estimated value of civil works completed (Rs. lakh)	120			178	

---

(1)

(2)

(3)

MECON prepared the Detailed Project Report (DPR) in 2006 which estimated the project cost as Rs. 1115 crore. There was an escalation of 47% within a period of 3 years. This led to a second review by the Board of Directors which during 2007 decided not to proceed with the expansion plans. The recommendations of the Board in this regard were approved by the Government and therefore the project activities initiated based on the corporate plan was abandoned.

**Further Action Taken by the Company is as follows:**

- (1) Out of a total spending of Rs. 3685 lakh for plant and machinery, KMML has received materials worth Rs. 1831 lakh. Out of this, material worth Rs. 443 lakh is for the pigment production plant. These can be utilized in the existing plant thereby saving revenue expenditure.
- (2) The possibility of utilizing the remaining materials worth Rs. 1388 lakh supplied for Desalination Plant can be explored once the ongoing arbitration proceedings with M/s Doshi Ion are complete.
- (3) The possibility of utilizing the Civil works worth Rs. 178 lakh done for Desalination Plant can be explored once the ongoing arbitration proceedings with M/s Doshi Ion are complete.
- (4) Out of a contract value of Rs. 2484 lakh for MECON towards consultancy job, KMML has paid Rs. 1862 lakh. Out of this Rs. 372.6 lakh paid as advance carries a valid bank guarantee.
- (5) KMML is holding valid bank guarantee worth Rs. 1414.34 lakh including Rs. 372.6 lakh from MECON towards payments made.

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(6) Arbitration/litigation proceedings in the case of Simplex, Doshi Ion, Goyal Gases, Shriram EPC, Coen Bharat, Frick India, GMM pfaudler and Kosortium Process Minerale are under various stages. The Company has put up claims to a total of Rs. 3325 lakh.

4.2  
(2008-09)

The Company commenced commercial production in 1984 with 4 digesters in its Synthetic Rutile (Beneficiated Ilmenite) plant. During initial operation, both Synthetic Rutile (Beneficiated Ilmenite) plant and pigment production plant had several bottle necks. The problems with pigment production plant were solved relatively in a faster pace but the problems with the digesters continued to be a lacuna. It was then decided to add two more digesters so that adequate number of digesters will be available for operation to feed the pigment production plant. These digesters were meant to serve as spare units and not as excess capacity. The addition of two digesters facilitated reaching the installed capacity (30000 TPA) of the Synthetic Rutile (Beneficiated Ilmenite) plant.

The problems with digesters were solved gradually. At the same time the company achieved a break through in technological front by installing the supported combustion in pigment plant. The pigment plant then could be operated at higher capacities. This called for additional feed stock for the pigment plant and hence the company commenced efforts to install two more digesters (total 8) together with balancing equipment (one set of roaster and calciner). This project (year 2003) aimed to enhance the capacity of SR production to 55000 TPA was estimated to cost around Rs. 4000 lakh.

(1)

(2)

(3)

Procurement action for equipment and civil works commenced almost simultaneously. It was a time when concerns were raised at the national level about various pollution issues. Various agencies including the Supreme Court, State Pollution Control Board etc. made serious deliberations on the issue. The Supreme Court Monitoring Committee visited KMML. Orders were released for digesters but orders were kept in abeyance in the case of roaster and calciner. Unfortunately, the plan to put up a plant with Becher process did not materialize. Therefore the company revived the proposal to install the roaster and calciner (this was cleared by the Government) and the same commissioned on 23-11-2010.

4.3  
(2008-09)

The method of calculation of daily wages for the purpose of overtime payment was based on 24 days work and 7½ hrs. daily working hours right from the introduction of overtime wages in Pigment Unit. However when it was pointed out by C & AG's audit that the same clause is not in conformity with the provisions of the Factories Act steps were initiated for modification. However, in view of objection from the trade unions the same could not be implemented.

C & AG had pointed out the discrepancy in the calculation of overtime wages and accordingly vide Order No. TP/PD/IR-72/09 dated 15-5-2009 Company had modified method of calculation of overtime by reckoning 30 working days with 8 hours work (240 hours). Overtime payment in respect of May, 2009 was thus calculated based on the revised calculation.

All the trade unions representing workmen of the Pigment Unit objected to the modifications on the plea that the Customary benefit available to the workers could not be unilaterally modified by the Management and they demanded withdrawal of the modifications and restoration of earlier practice.

Since the management did not accede to the demand the unions observed a token strike on 8-6-2009 due to which the plant operations had to be closed down. The Hon'ble Minister for Labour had convened a discussion of management and trade unions on 10-6-2009 at Government Secretariat, Thiruvananthapuram in the presence of Hon'ble Minister for Industries. In the discussions it was decided to freeze the Circular issued by the Company Vide TP/PD/IR-72/09 dated 15-5-2009 and to maintain the statusquo as existing prior to 16-5-2009 with respect to calculation of overtime. In view of the above decision the earlier method of overtime calculation i.e. dividing monthly wages by 24 and 7½ hours of work per day has been re-instated. While freezing the instructions amending the overtime calculation it was also decided that State Labour Commissioner will be convening further discussions to have a final settlement of the matter. However no meeting has been convened by the Labour Commissioner so far.

As stated above the modification of method of calculation of overtime wages introduced by the company had been freezed as per decision taken in the meeting convened by Hon'ble Minister for Labour and Hon'ble Minister for Industries taking into account the industrial relations position that had developed in the company involving all the trade unions both recognized and non recognized.

4.4  
(2008-09)

The Company has signed an agreement with KSEB in August 2004, to enhance the contract demand from 12.5 MVA to 16 MVA to cater the power demand of capacity expansion projects. However, the Government has abandoned the capacity expansion project in January 2008.



(1)

(2)

(3)

The average maximum demand for the last one year is 11.8 MVA including the requirement for one compressor motor of 0.868 MVA online at any time to meet the emergency demand in the plant. Moreover, the Titanium Sponge Project (TPS) having a power demand of 5.4 MVA, approved by the Government in November 2005 was supposed to commission in December 2008. Further, two cost reduction projects, viz., augmentation of Synthetic Rutile plant and fuel conversion system having a power requirement of around 1 MVA, approved by the Government in October 2008 was also to be commissioned by December 2009. Based on the company's past experience there is inordinate administrative/procedural delay on the part of KSEB in reducing/subsequently reinstating the contract demand. If company reduces the contract demand, and the actual maximum demand exceeds the contract demand, company have to pay additional cost to KSEB. Earlier when company approached KSEB. Earlier when company approached KSEB for enhancing the contract demand from 7.5 MVA to 10 MVA in 1985-86, it took several years and company got the sanction only on 13-11-2000 resulting in additional payment as the actual maximum demand exceeded the contract demand of 7.5 MVA during this period. Again, company's application dated 13-11-2000 for enhancing the contract demand from 10 MVA to 12.5 MVA based on the company's increased requirement was sanctioned only on 8-7-2003. From the above, it can be seen that though as per the agreement with KSEB, contract demand can be increased by giving six months notice; actually it is not happening due to the administrative/procedural delay on the part of KSEB resulting in additional payment. Hence the company did not take any action to reduce the contract demand based on the past experience from KSEB and expecting that the TPS would be commissioned in December 2008 itself. However the commissioning of the TSP was prolonged due to various reasons. The KSEB has reduced the contract demand from 16 MVA to 12.5 MVA w.e.f. 16-4-2010. Further, a refund of ₹ 23.19 lakh is adjusted in the monthly bill of December 2010 towards arrears of excess amount collected by KSEB.

**STATEMENT SHOWING AVOIDABLE EXPENDITURE BY THE KERALA MINERALS AND METALS LIMITED DUE TO NON-REDUCTION OF CONTRACT DEMAND**

*(Referred to in paragraph 4.4)*

<i>Month</i>	<i>Contract demand</i>	<i>Recorded maximum demand</i>	<i>Billing demand (75% of CD)</i>	<i>Excess billing</i>	<i>Excess payment (₹)</i>
(1)	(2)	(3)	(4)	(5)	(6)
			<i>(In KVA)</i>		
July '08	16000	11273	12000	727	1,78,115
Aug. '08	16000	10289	12000	1711	4,19,195
Sept. '08	16000	10096	12000	1904	4,66,480
Oct. '08	16000	10217	12000	1783	4,36,835
Nov. '08	16000	10138	12000	1862	4,56,190
Dec. '08	16000	8671	12000	3329	8,15,605
Jan. '09	16000	9785	12000	2215	5,42,675
Feb. '09	16000	10072	12000	1928	4,72,360

(1)	(2)	(3)				(6)
(1)	(2)	(3)	(4)	(5)	(6)	
Mar. '09	16000	9965	12000	2035	4,98,575	
April '09	16000	10498	12000	1502	3,67,990	
May '09	16000	10939	12000	1061	2,59,945	
June '09	16000	10050	12000	1950	4,77,750	
July '09	16000	10576	12000	1424	3,48,880	
Aug. '09	16000	10472	12000	1528	3,74,360	
Sept.'09	16000	10188	12000	1812	4,43,940	
Oct. '09	16000	10367	12000	1633	4,00,085	
Nov. '09	16000	9021	12000	2979	7,29,855	
Dec. '09	16000	9879	12000	2121	5,19,645	
Jan. '10	16000	9985	12000	2015	4,93,675	
Feb. '10	16000	10357	12000	1643	4,02,535	
Mar. '10	16000	9829	12000	2172	5,32,140	

April '10	16000	9833	12000	2167	5,30,915
May '10	16000	9973	12000	2027	4,96,615
June '10	16000	10903	12000	1097	2,68,765
July '10	16000	10119	12000	1881	4,60,845
Aug. '10	16000	10080	12000	1920	4,70,400
				Total	1,18,64,370