



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

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

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

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2015

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SEVENTY NINTH REPORT

On

**The Action Taken by Government on the Recommendations contained in the
Seventy First Report of the Committee on Public Undertakings (2008-11)
relating to Malabar Cements Limited based on the Report of the
Comptroller and Auditor General of India for the years ended
31st March, 2005, 2006, 2007 (Commercial)**

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Shri P. S. Selvarajan, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Seventy Ninth Report on the Action Taken by Government on the recommendations contained in the Seventy First Report of the Committee on Public Undertakings (2008-11) on the working of the Malabar Cements Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31st March, 2005, 2006, 2007 (Commercial).

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

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

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

Thiruvananthapuram,
23rd March, 2015.

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

REPORT

The Report deals with the action taken by Government on the recommendations contained in the Seventy First Report of the Committee on Public Undertakings (2008-11) relating to Malabar Cements Limited based on the report of the Comptroller and Auditor General of India for the years ended 31st March, 2005, 2006 and 2007 (Commercial).

The Seventy First Report of the Committee on Public Undertakings (2008-11) was presented to the house on 30th June, 2009.

The Report contained 5 recommendations and the Government furnished replies to all the recommendations. The Committee (2014-16) considered the replies received from Government at its meeting held on 12-11-2014. The Committee accepted the replies without any remark. These recommendations and their replies are included in the report.

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

Sl. No.	Para No.	Department concerned	Recommendations/Conclusions	Action Taken by the Government
(1)	(2)	(3)	(4)	(5)
1	7	Industries	<p>The Committee finds that the company included an overlapping provision for payment of bonus at ₹ 23 per MT for every percentage decrease in ash content of the coal received and paid bonus amounting to ₹ 60.32 lakh to the liaison agent M/s Naresh Kumar & Co. Limited in order to ensure quality of coal in spite of the fact that Singareni Collieries Company was to ensure that quality of coal and grade as per Fuel Supply Agreement which provided for guarantee charges at 5% of the basic price of coal. The Committee points out that as per agreement SCCL is bound to supply the coal of required grade without paying any extra charges. The Committee wanted to have the data to prove that the payment of bonus was</p>	<p>For manufacturing good quality cement, the company need clinker with the following specification.</p> <p>CaO .. 65.00% SiO₃ .. 21.50% Al₂O₃ .. 06.50% Fe₂O₃ .. 04.00%</p> <p>The Silica and clinker plays an important role in quality. The Company will get silica along with limestone as mineral and from the coal ash for making clinker. In the coal ash around 60% will be in the form of silica. This silica will also get combined in clinker while burning. During the above said period, the company used to consume 40% of imported coal and 60% linkage coal to get the required quality of coal for burning.</p>

profitable to the company, as claimed by the witness. The Committee finds that in spite of defending the payment of bonus claiming that it was profitable, the company dispensed with the service of the agent instead of justifying the payment with proof.

Case I: In case, the company get indigenuous coal of ash 25.00% and imported coal of 13% the average coal ash is 20.20%. The coal consumption is 19%. The coal absorption will be 3.80% with silica contribution of 02.28%. The balance silica has to be controlled by various grades of limestone. For producing 1 ton of clinker, the company need 1.55 ton of limestone. Hence the silica requirement will be 19.20% i.e. 12.40% for kiln feed. Whereas the silica present in MCL limestone is 15.50%. To bring down the silica to 12.40%, the company used to add sweetener limestone. To get above silica requirement, the company has to use 22.00% sweetener limestone.

Case II: If the linkage coal ash is reduced to 23.00% by the above mentioned calculation the resultant ash will be 19.00% ash absorption 03.20% and silica contribution will be 01.92%. The resultant kiln feed silica requirement will be 12.63%. To get the above composition sweetener consumption will be 20.00%.

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In 2003-04, the coal consumption was 16.70%. For producing 1 ton of clinker coal requirement is 0.167 ton. In this linkage coal contribution is 60% i.e. 0.100 ton. The incentive paid for 23% coal is ₹ 46. So, the incentive part comes to ₹ 4.60. The advantage gained from 2% deduction in sweetener consumption will be as follows:

1.55 tons of limestone is needed for producing 1 ton of clinker. The saving portion of sweetener limestone consumption is 0.031 ton. Thus cost of saving is ₹ 12.1 based on the cost of limestone.

Based on the above data's it may be seen that reduction in coal ash will lead to reduction in coal consumption as well as sweetener consumption, in addition to further improvement of quality in clinker. It is therefore submitted that the incentive scheme given to agencies was reasonable and company has benefited from it.

2 8 Industries The Committee finds that even now, though the Company is paying for

The Company is getting coal from M/s Singareni Collieries Company Limited

'C' grade coal from Singareni Collieries Company Limited the company is getting coal of grade E or of grades below it. The Committee therefore recommends that action be taken to ensure the grade of coal for which payment is made as per the terms and conditions of the agreement.

(SCCL), as per the Fuel Supply Agreement (FSA) entered into with them by MCL. As per the FSA, SCCL has to supply "C" and above grade coal to Cement Industries.

The FSA was being entered into by the company with SCCL every year up to 2005-06. Afterwards, the period of the FSA was modified to 2 years.

There was a **Joint Sampling Clause** in the FSA up to 2005-06. MCL used to get indigenous coal from SCCL more or less in line with the specifications given in the FSA when joint sampling clause was in force. Whenever there was deviation in the Grade as specified in FSA, it was possible to take up the matter with SCCL, in the light of the joint sampling clause, and the company used to lodge claim with SCCL for pecuniary compensation in the event any quality variation takes place.

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From 2006-07 onwards, the above Clause was withdrawn from the FSA. With that, the company was not able to lodge any claim with SCCL for monetary compensation in the event of any quality variation.

However, whenever there was quality deterioration/variation, MCL used to take up the matter with SCCL then and there. But there was no response from their side. As such, at present MCL is not able to get coal from SCCL, as specified in the FSA. Whereas, MCL has to make advance payment for the quantity allotted within three days of loading of the material at the colliery.

The Capital Subcommittee of the Board of MCL has, at its meeting held on 16-4-2010, recommended to take steps for getting good quality indigenous coal by proper liaisoning.

Steps are being taken to get improved quality of indigenous coal from SCCL by proper liaisoning.

The Committee finds that as per purchase order if silica content in the Cement Grade Limestone exceeds 16% the material was to be rejected outright and no payment need be made towards the cost of material and transportation, and the quality of the materials was to be determined by drawing truck-wise sample on daily average basis. The Committee further noticed that the acceptance of the material without ensuring the prescribed quality parameters led to unwarranted payment of ₹ 10.90 lakh. The Committee also finds that 15 days average instead of daily average system for rejection of materials which have more than 16% of silica content was adopted in order to help the supplier rather than protecting the interest of the company. The Committee understands that the Company has not rejected even a single load which had excess silica content.

As limestone is mined, the quality of samples drawn from each truck may not be uniform. Due to this fact MCL had followed the procedure of checking quality parameters on a daily basis and payment were released on weighted average of 15 days supply. However as per the recommendations of PUC, company has modified the relevant clause in the subsequent tender and purchase order as "if the TC content in the daily average report is less than the specified limit (80.5%) such material will be rejected outright". Hence the quality of silica content is strictly maintained now.

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4 15 Industries

The Committee therefore recommends to take action against those who tried to safeguard the interest of suppliers rather than that of the company by violating the terms of the purchase order. The Committee further recommends that Government should see that the terms and conditions of agreements regarding purchase are not violated causing loss to the public sector undertakings. The Committee further wants to be informed of whether there was any lapse and if it was purposeful.

As per the purchase order the specification of the lime stone is as follows:

- (a) (i) T.C. Content .. 80% minimum
- (ii) Silica .. 13% maximum
(Acceptable up to 16% with penalty)
- (iii) MgCO₃ .. 2% maximum
- (iv) Size .. 12" maximum
- (v) Moisture .. 10% maximum
(Acceptable up to 15% with prorata reduction in quantity).

(b) If in any supply of the material the T.C. Content is seen less than 80%, Silica content exceeds 16%, Magnesium Carbonate is more than 2%, Moisture content exceeds 15% or size exceeds 12" such material will be rejected outright and no payment will be made towards cost of material and transportation charges and rejected material will not be returned to the firm also as it is practically not possible to do so.

(c) If the Silica content is between 13 to 16% penalty will be levied prorata for the actual

percentage increase and the moisture content is between 10 to 15% prorata reduction will be done in quantity.

Clause 5 of the purchase order mentions about testing. Clause 5 is as follows:

“The quality of the material supplied will be tested truck-wise on daily average basis as per ISO procedure at the company’s laboratory. However for the purpose of making payment weighted average of 15 day’s supply will be considered. Sampling, analysis and quality determination done by the company will be final and binding on the firm”.

Ongoing through the analysis register of material supplied by the parties it is found that there are instances of silica content exceeded 16.0% on day average basis. Since the officers who had signed the quality reports retired or resigned from the service of the company, the company could not initiate any action against them. Also, it is worth to mention here that the company is taking day’s average presently for rejection and payment as per the recommendation of the PUC.

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Basic problem which led to acceptance of the rejected material were the contradictory terms with contract with the following parties:

- (1) M/s Indiana Minerals and Allied Industries
- (2) M/s Jyothi Mines
- (3) M/s D. V. Minerals
- (4) M/s Tan India Mines and Mineral Limited
- (5) M/s Sakthi Mining Company

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The following officers in MCL were instrumental for framing the contract. They are responsible for the faulty certification:

- (1) Sri P. Hariharan—Manager—Materials
- (2) Sri K. Sridhar—DGM—prdh. i/c
- (3) Sri George Thomas—GM—Commercial
- (4) Sri T. V. Ananthkrishnan—Manager
(Finance)
- (5) Sri S. S. Moni—Managing Director.

All the above are not in the rolls of MCL at present.

The reported quality reports were signed by:—

	Date of joining	Date of resignation
Sri Sridhar	24-4-1997	7-8-2004
Sri Anandakumar	22-10-1990	15-2-2008
	DGMP i/c	DM (PQC) i/c

Sri K. Sridhar, DGM (Prdn.)/i/c. Figures in both formulation of the contract and as well as certifying the quality reports. Presently he is in the Middle East. Sri Anandakumar, DM (PQ and C) was the subordinate officer to Sri K. Sridhar, who had also certified the quality reports.

5 17 Industries The Committee finds that even though clause 14 (a) of the service connection agreement provided the Company with the option of increasing/decreasing the contract demand by giving six months' notice no action was taken by the Company to reduce the contract demand from 1500 KVA to 900 KVA, which

As per the recommendations of the PUC, the company has instituted an enquiry into the matter for which an enquiry officer was appointed. The enquiry officer submitted his enquiry findings stating that the Chief Engineer (Elec.) who was holding the above charge have resigned from the company on 12-6-2006. The subsequent Chief Engineer had initiated action to reduce the contract

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resulted in a loss of ₹ 43.74 lakh as payment for electricity not used during the three years up to 2006-07. The Committee opines that this happened due to the negligence of the officials of the company. The Committee deprecate over the delay on the part of the Company in taking timely action which entailed the loss and recommends that responsibility be fixed and action taken against those responsible to avoid such lapses in future.

demand and reduced the same with effect from May 2007. It will be ensured that such lapses do not occur in future.

Thiruvananthapuram,
23rd March, 2015.

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

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