



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

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

NINETY FOURTH REPORT

(Presented on 27-7-2015)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2015**

THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

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

NINETY FOURTH REPORT

On

**Kerala State Textile Corporation Limited based on the Report of the
Comptroller and Auditor General of India for the year ended 31st March
2011 (Commercial)**

CONTENTS

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

COMMITTEE ON PUBLIC UNDERTAKINGS (2014-2016)

Chairman:

Shri. K. N. A. Khader

Members:

Shri. Abdurahiman Randathani

Shri. A. A. Azeez

Shri. P. K. Gurudasan

Dr. N. Jayaraj

Shri. Elamaram Kareem

Shri. T. N. Prathapan

Shri. Palode Ravi

Shri. S. Sarma

Shri. P. Thilothaman

Shri. P. C. Vishnunadh

Legislature Secretariat:

Shri. P. D. Sarangadharan, Secretary.

Smt. P. K. Girija, Additional Secretary.

Smt. M. R. Maheswari, Deputy Secretary.

Shri. P. S. Selvarajan, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2014-16) having been authorised by the Committee to present the Report on their behalf, present this Ninety Fourth Report on Kerala State Textile Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March 2011 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended on 31-3-2011 was laid on the Table of the House on 23-3-2012. The consideration of the audit paragraphs included in this Report and the examination of the department witness in connection thereto was made by the Committee on Public Undertakings constituted for the period 2014-2016.

This Report was considered and approved by the Committee at the meeting held on 20-7-2015.

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.

The Committee wish to express their thanks to the officials of the Industries department of the Secretariat and Kerala State Textile Corporation 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 State Textile Corporation Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,
27 -7-2015.

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

REPORT ON
KERALA STATE TEXTILE CORPORATION LIMITED

AUDIT PARAGRAPH

Deficiencies in procurement of equipments

Government of Kerala approved (April 2010) the project proposal of the Company for revival of two spinning and weaving mills and formation of two new spinning and weaving mills. The projects were due for completion by December 2010. For the implementation of the four projects, the Company issued (June/July 2010) purchase orders for equipments worth ₹ 54.42 crore.

In examination of the procurement of equipments, we noticed that as per the Notice Inviting Tenders (NIT) a two-part bidding (Technical and Price bids) was envisaged. Established norms of fairness and transparency in evaluation of bids demanded that pre-qualification criteria, performance criteria and evaluation criteria are incorporated in the bid documents in clear and unambiguous manner. Price bids of only those tenderers who qualified technically were to be opened. In six cases it was observed that after opening the price bids, L1 parties were denied the supply order. Recorded reason for rejection of L1 offers was technical non-acceptance. This post tender rejection of bids of L1 parties was objectionable as price bids of those who were technically qualified were to be opened. The extra expenditure incurred by the Company due to non acceptance of the lowest offers was ₹ 5.23 crore **(Annexure 16)**

Management replied (October 2011) that in all the cases the orders were placed giving more importance to quality and performance of the machines.

The reply was not tenable in view of the fact that the tender opening and evaluation process was vitiated when the price bids of all tenderers were opened instead of opening price bids of only those tenderers who were qualified technically on evaluation of technical bids.

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

Annexure – 16

**Statement showing extra expenditure in purchase of machinery in Kerala State Textile Corporation Limited
(Referred to in paragraph 4.4)**

Sl. No.	Machinery	Name of Supplier (OEM on whom order placed)	No. of units ordered	PO Cost/Unit	Total Cost	LI Cost/Unit	Total Cost (LI)	Extra expenditure	Reasons for rejection
1	Double Winder	Peass Industrial Engineers	2*63 spindles (Komalapuram)	65236.60 Per spindles	9247783	63319.98	8976086	271697	Higher loom shed efficiency of L2
			2*72 spindles (Pinarayi)	64837.50 Per spindles	10586179	63319.98	10258384	327795	
2	Two for one	ATE Enterprises (Oerlikon Saurer)	10*192 spindles (Komalapuram)	9933 Per spindle ¹⁹	19071360	6879.90 Per spindle	16511760 ²⁰	2559600	Verification from tender specification
			11*192 Spindles (Pinarayi)	9933 Per spindle	20978496	6879.90 Per spindle	18162936 ²¹	2815560	
3	Sectional Warping	ATE Enterprises (Karl Mayer)	2(Komalapuram & Pinarayi)	12452000	24904000	6497833	12995666	11908344	Technical feature not specified in tender (Beaming speed) higher.
4	Air Jet Loom	ITEMA (Asia)	30 (Komalapuram)	2306222	69186660	1615705	48471150	20715510	L.1 Machines were of Chinese make. Make not specified in tender
		Picanol India	36 (Pinarayi)	1869903	67316508	1615705	58165380	9151128	
5	Autoconer	Itama (Asia)Ltd.	2 (Kozhikode)	8716411	17432822	8048700	16097400	1335422	L2 considered to have better performance
6	Yarn Evenness Tester	Premier Evolvics Private Ltd.	1 (Trivandrum)	4815257	4815257	1601400	1601400	3214457	Rejected stating that the bidder is new entrant despite having prescribed experience.
TOTAL								52298413	

(Audit Paragraph 4.4 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2011)

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

1. The Committee sought clarification on the audit objections regarding the post tender rejection of bids of L1 parties, non acceptance of the lowest offers and procurement of poor quality machineries. The witness replied that the Corporation had purchased only good quality machineries as per the conditions specified in the tender. While enquiring about the technical know how of the Sub Committee members, the witness replied that the Managing Director is technically qualified and he had a B-tech degree in Textile Technology. To the query of the Committee about the completion of projects and machineries, the witness responded that a case was pending before the Hon'ble High Court regarding the appointment of employees and hence the Corporation could not appoint even a provisional employee for operating the machinery. He also added that the projects could be fulfilled only when the required number of employees were appointed to operate the machineries.

2. To a query of the Committee, regarding the specification of machinery and about the loss of ₹ 5.23 crore sustained to the Corporation in the purchase of machinery, the Managing Director (incharge) replied that in the tender notice it was specified that the machineries should be in new generation technology and the orders were placed accordingly. The witness further informed that a vigilance enquiry has been conducted and the Managing Director during that period was also suspended. The Committee pointed out that as the case was under vigilance enquiry, the Committee would wait for the findings of the Vigilance enquiry.

3. With respect to Committees query regarding the procurement of machinery the witness did not give clear explanation. Expressing dissatisfaction on the reply the Committee directed to furnish the following details within one month. (1) Name and qualification of the Sub Committee member who have technical knowledge about the machinery.

(2) The terms and conditions specified in the tender notice, the number of offers received and the details of offers that satisfy the terms and conditions.

(3) The details of vigilance enquiry against the Managing Director during the time and its present position.

Conclusions/Recommendations

4. The Committee finds that the Company sustained a loss of ₹ 5.23 crore owing to the non acceptance of lowest offer. The Committee commented that the Corporation violated the entire tender procedures by the opening of price bids without evaluating the prescribed technical feasibility. The Committee suspects whether any malafide intention was there from the part of the officials of the Company to open the price bids of all tenderers instead of opening the price bids of only those who were technically qualified. The Committee points out that if specification of machinery was incorporated in the tender form itself, loss of ₹ 5.23 crore could have been avoided.

5. The Committee grieved to know that machineries purchased for the implementation of a scheme for the revival and the formation of spinning and weaving mills was not fruitfully used by the Company and hence the project was not implemented as envisioned. The committee suggested that as vigilance enquiry in this regard is already in

process, the Committee would wait for the findings of the Vigilance enquiry and like to get a detailed report on the following.

- (1) Name and qualification of the Subcommittee member who had technical knowledge about the machinery.
- (2) Terms and conditions specified in the tender notice, the number of offers received and the details of offers that satisfy the terms and conditions.
- (3) The details of Vigilance enquiry against the Managing Director during the time and its present position.

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

Thiruvananthapuram,
27-7-2015.

APPENDIX ISUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
1	4	Industries	The Committee finds that the Company sustained a loss of ₹ 5.23 crore owing to the non acceptance of lowest offer. The Committee commented that the Corporation violated the entire tender procedures by the opening of price bids without evaluating the prescribed technical feasibility. The Committee suspects whether any malafide intention was there from the part of the officials of the Company to open the price bids of all tenderers instead of opening the price bids of only those who were technically qualified. The Committee points out that if specification of machinery was incorporated in the tender form itself, loss of ₹ 5.23 crore could have been avoided.
2	5	Industries	The Committee grieved to know that machineries purchased for the implementation of a scheme for the revival and the formation of spinning and weaving mills was not fruitfully used by the Company and hence the project was not implemented as envisioned. The committee suggested that as vigilance enquiry in this regard is already in process, the Committee would wait for the findings of the Vigilance enquiry and like to get a detailed report on the following. (1) Name and qualification of the Subcommittee member who had technical knowledge about the machinery. (2) Terms and conditions specified in the tender notice, the number of offers received and the details of offers that satisfy the terms and conditions. (3) The details of Vigilance enquiry against the Managing Director during the time and its present position.

APPENDIX – II**NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS**

Serial No.	Paragraph No.	Reply furnished by Government
1	2	3
1	4.4 (2010-11)	<p>As per G.O.(Ms) No.103/2010/ID dated 30-4-2010 approved the scheme for implementation of eleven projects (eight Greenfield projects and three expansion projects) and entrusted implementation of the following five projects with Kerala State Textile Corporation Ltd.</p> <ol style="list-style-type: none"> 1. Komalapuram Spinning & Weaving Mill – 36.00 crore 2. Hi-Tech Weaving Mills, Pinarayi – 20.00 crore 3. New Textile Mills, Uduma – 16.00 crore 4. Malabar Spinning & Weaving Mills (Expansion) – 15.00 crore 5. Trivandrum Spinning Mills Ltd (Expansion) – 5.00 crore <p>Subsequently, the Government vide G.O.s dated 1-7-2010 approved the funding pattern for implementation of the above projects. While sanctioning implementation of the projects, the Government of Kerala has given the deadline of December 2010 as the targeted period for completing the implementation of the projects. After getting the Corporation invited tenders on 26.05.2010 for purchase of machinery for the projects. The Corporation invite tenders under two-bid system, i.e. the tenderers are required to submit Price Bid and Technical Bid separately. The tender condition (clause 3.6) stipulates that sealed envelope (Envelope 2 – Price Bid) containing this part shall contain only prices and no conditions whatsoever. However, most of the tenderers have stipulated several conditions including price variation, change of delivery period and change of technical specification etc. in the Price Bid, making the Corporation to reject the Price Bid on technical grounds.</p>

The CVC guidelines pre-qualification criteria, performance criteria and evaluation criteria were incorporated in the bid documents in clear and unambiguous manner to facilitate evaluation of tenders in transparent manner. Accordingly, the Sub Committee of the Board of Directors of the Corporation evaluated the Technical Bids at the first instance and having satisfied with the required technical parameters, the Price Bids were opened. However, the Price Bid contained so many terms and conditions, including price variation, change of delivery period and change of technical specifications etc., making the Corporation to reject the Price Bid on technical grounds. Therefore, the Sub Committee of the Board of Directors of the Corporation was forced to reject Price Bids on Technical Grounds, as the Price Bids contained so many conditions, which is against the declared terms and conditions of the tender.

Regarding the loss sustained to the Corporation on rejection of bids of L1 parties, the following are the broad parameters under which the tenders are evaluated by the Sub Committee of the Board of Directors of the Corporation, apart from the price of the machines;

- Conforming to the Spin Plan and Weaving Plan as per the Detailed Project Report and as specified in the tender.
- The machines should be of latest/2nd latest technology as specified in the tender.
- The machines should be manufactured by reputed manufacturers in the field with availability of spares and accessories as specified in the tender.
- Committed delivery schedule in line with the tender condition to supply the machines in October and November 2010 and to commission /start trial run of the machines in December 2010.
- The change in technology absorption in textile sector being very

rapid and the width and depth of technology spectrum is more, the following parameters were also considered by the Sub Committee on evaluation of the tenders:

- Balancing/synchronization of machines between the departments
- Availability of after sales service which is of paramount importance, especially in Kerala where trained technicians/personnel are not available due to absence of similar units.
- Machines with low maintenance cost.
- Machines which are energy efficient.
- Machines which are less polluting

In this connection, the summarized position of loss reported in audit as to incurring extra expenditure of INR 5.23 Crore in the procurement of machinery and equipment, is as follows:

(table is enclosed for the specific)

The remarks of the Government on the above are furnished as under:

1. Loss due to placing orders with Peass Industrial Engineers for 4 Nos of Doubler Winder (2 Nos for Komalapuram and 2 Nos for Pinarayi)

In the case of loss due to rejection of lowest offer of M/s Veejay Lekshmi Engineering Works and placing orders with M/s Peass Industrial Engineers for 4 Nos. of Double Winder (2 Nos for Komalapuram and 2 Nos for Pinarayi) amounting to INR 0.06 crore, it may kindly be noted that Doubler Winding is one of the preparatory processes of weaving where the number of spindles of given machinery is important in respect

of balancing of spindles per machine. The Corporation aims at 95% efficiency in weaving process, for which the production process requires precision winder for Doubler Winding and that the much needed precision winding technology is not available with the machine of M/s Veejay Lakshmi Engineering Works. Therefore, the Sub Committee of the Board of Directors of the Corporation has not accepted the offers of M/s Veejay Lakshmi Engineering Works and decided to place orders with M/s Peass Industrial Engineers, by giving more importance to quality and performance of the machines.

2. Loss due to placing orders with M/s ATE Enterprises (Oerlicon Saurer) for 21 Nos of Two For One Twister (10 Nos for Komalapuram and 11 Nos for Pinarayi)

In the case of loss due to rejection of lowest offer of M/s Veejay Lakshmi Engineering Works and placing orders with M/s ATE Enterprises (Oerlicon Saurer) for 21 Nos of Two For One Twister (10 Nos for Komalapuram and 11 Nos for Pinarayi) amounting to INR 0.54 Crore, it may kindly be noted that the TFO machines require the quality parameters such as variation of twist, uniform density etc., and improved performance parameters such as less end breakage rate, increased spindle speed etc., which are not available with the machine of M/s Veejay Lakshmi Engineering Works. Therefore, the Sub Committee of the Board of Directors of the Corporation has not accepted the offers of M/s Veejay Lakshmi Engineering Works and decided to place orders with M/s ATE Enterprises (Oerlicon Saurer), by giving more importance to quality and performance of the machines.

3. Loss due to placing orders with M/s ATE Enterprises (Karl

		<p>Mayor) for 2 Nos of Sectional Warper (1 No. each for Komalapuram and Pinarayi)</p> <p>In the case of loss due to rejection of lowest offer of M/s Prashanth Gamatex Pvt. Ltd. and placing orders with M/s ATE Enterprises (Karl Mayor) for 2 Nos of Sectional Warper (1 No. each for Komalapuram and Pinarayi) amounting to 1.19 Crore, it may kindly be noted that the quality of the fabric produced at the Mills should be of export quality since both the Mills are having an obligation to export, on account of availing the benefit of export promotion on Capital Goods Scheme. Further, Sectional Warping Machines required for Komalapuram Spinning & Weaving Mill and Hi Tech Weaving Mill is one each and the machine is very vital and critical in converting the TFO twister cones to weaving beams, which is the input to the looms. Any stoppage of Sectional Warping Machine will force the Mill to stop a portion of the looms which will lead to production loss of the end product and ultimately affect the overall performance of the Mill. Therefore, the Sub Committee of the Board of Directors of the Corporation has not accepted the Offers of M/s Prashanth Gamatex Pvt. Ltd. and decided to place orders with M/s ATE Enterprises (Karl Mayor), by giving more importance to quality and performance of the machines.</p> <p>4. (i) Loss due to placing orders with M/s Iteama Asia Limited for 30 Nos of Air Jet Looms for Komalapuram.</p> <p>In the case of loss due to rejection of lowest offer of M/s Voltas Ltd. (Selling Agent of RIFA Looms manufactured in the Republic of China) and placing orders with M/s Iteama Asia Limited for 30 Nos of Air Jet Looms for Komalapuram Spinning & Weaving Mills amounting to INR 2.07 Crore, it may please be noted that the mill requires Air-Jet Looms</p>
--	--	---

conforming to the latest technology in textiles, the specialty of which is that its pick insertion rate and production per unit of time are very high compared to other high speed looms and powerlooms. The Corporation being going for production of fabric for the first time, the Corporation wanted to market the fabric with high quality, which would give an edge in selling the fabric to quality conscious customers in a sustained way with improved sales realization, which can be possible only with Air-Jet Looms. Therefore, the Sub Committee of the Board of Directors of the Corporation has not accepted the offer of M/s Voltas Ltd. and accepted the offer of M/s Iteema Asia Ltd., by giving more importance to quality and performance of the machines.

(ii) Loss due to placing orders with M/s Piconal India Ltd for 36 Nos of Air Jet Looms for Pinarayi Hi Tech Weaving Mills

In the case of loss due to rejection of lowest offer of M/s Voltas Ltd. (Selling Agent of RIFA Looms Manufactured in the Republic of China) and placing orders with M/s Picanol India Ltd, for 36 Nos of Air Jet Looms for Pinarayi Hi Tech Weaving Mills amounting to INR 0.92 Corore, it may please be noted that the mill requires Air-Jet Looms conforming to the latest technology in textiles, the specialty of which is that its pick insertion rate and production per unit of time are very high compared to other high speed looms and power looms. The Corporation being going for production of fabric for the first time, the Corporation wanted to market the fabric with high quality, which would give an edge in selling the fabric to quality conscious customers in an sustained way with improved sales realization, which can be possible only with Air-Jet Looms. Therefore, the Sub Committee of the Board of Directors of the Corporation has not accepted the offer of M/s Voltas Ltd, and accepted the offer of M/s Picanol India Ltd, by giving more importance to quality

and performance of the machines.

5. Loss due to placing orders with M/s Iteama Asia Ltd (Savio India Ltd) for 2 Nos of Auto Corner for Malabar Spinning & Weaving Mills

In the case of loss due to rejection of lowest offer of M/s Veejay Lakshmi Engineering Works and placing orders with Iteama Asia Ltd. (Savio India Ltd) for 2 Nos of Auto Coner for Malabar Spinning & Weaving Mills amounting of INR 0.13 Crore, it may be noted that machine offered by M/s Iteama Asia Ltd (Savio India Ltd.) is electronically much advanced to give better performance with respect to cone density and winding performance of the cone. In addition, Autoconer is the machine meant for cone winding department which is the last part of the spinning mill, means the product of this machine goes straight away to the customer. This means a machine of higher reliability coefficient is warranted. Further, M/s Veejay Lakshmi Engineering works Limited which was having technical collaboration with M/s Savio India Ltd, earlier has now come out of the technical collaboration. It is now producing the then start up model of Savio India Limited with the permission from Savio India Limited. From this, one can infer that even though M/s Veejay Lakshmi Engineering Works Limited has qualified through technical bid process, the machine produced by them is relatively inferior with respect to machine reliability and end product quality consistency. Therefore, the Sub Committee of the Board of Directors of the Corporation has not accepted the offer of M/s. Veejay Lakshmi Engineering Works Ltd. and placed orders with M/s Iteama Asia Ltd. (Savio India Ltd.) by giving more importance to quality of product and performance of the machine, than the marginal price difference.

6. Loss due to placing orders with M/s Premier Evolvics Pvt Ltd for

		<p style="text-align: center;">1 No of Yarn Evenness Tester for CARDT</p> <p>In the case of loss due to rejection of lowest offers of M/s Statex Electronics and placing orders with M/s Premier Evolvics Pvt. Ltd., for 1 No of Yarn Evenness Tester amounting to INR 0.32 Crore, the following may be noted:</p> <p>a) Yarn Evenness Tester is an instrument which is very critical and important for the Testing Laboratory for testing of the following.</p> <ul style="list-style-type: none"> ➤ Uster % ➤ Imperfections ➤ Spectrogram analysis ➤ VL curve analysis ➤ Frequency distribution analysis ➤ Hairiness analysis ➤ Yarn black board simulation analysis ➤ Fabric simulation analysis ➤ Exception simulation analysis, etc both for fibre intermediates (silver and roving) and yarn. <p>b) By testing fibre intermediates and yarn in this instrument, the spinning mills would be effecting important process parameter changes which would have production, quality and commercial implications.</p> <p>c) The testing of the above said parameters gets carried out in the Yarn Evenness Tester through high-end electronic means. The numerical data so obtained need to have consistency in practicability and comparability as the same has to be used for</p>
--	--	--

		<p>inter and intra mills comparisons and bench marking thereon. Such high degree of instrument reliability and comparisons and bench marking thereon. Such high degree of instrument reliability and sustainability is expected from this instrument.</p> <p>d) Globally M/s Zellweger Uster is the market leader in manufacture and supply of Yarn Evenness Tester (they have even created uster statistics/standards as a global bench mark). M/s. Premier Evolvics Pvt. Ltd in line with the Global leader Uster (their then technical collaborator) has also developed Premier statistics/standards. In India M/s Premier Evolvics Pvt. Ltd., (then Premier Polytonics Pvt. Ltd.,) was having technical collaboration with Zellweger Uster, and is the market leader for the supply of Yarn Evenness Tester.</p> <p>e) Centre for Applied Research and Development in Textiles, the unit of the Corporation where the Yarn Evenness Tester has to be installed is proposed to get accreditation from NABL (National Accreditation Board for Testing and Calibration Laboratories), which has to be equipped with better instruments for getting NABL accreditation. This is also one of the reasons for opting for the supply from M/s. Premier Evolvics Pvt. Ltd.</p> <p>f) The lowest bidders are new entrants in this facet. In addition, in the year 2006, the Corporation while purchasing the semi-automatic High Volume Instrument for fibre testing has rejected the offer of M/s. Statex Electronics citing the non-conformance of quality specifications prescribed by the corporation.</p> <p>g) Since the Corporation added three more mills to its fold and</p>
--	--	--

		<p>quality of each process materials is given emphasis and the corporation also expects new member mills for testing because of NABL certification to the Laboratory, the Sub-committee of the Board of Directors of the Corporation felt that the selection of iQ2-DX should be apt for non-linear increase in the frequency and the sample size of Yarn Evenness Testing.</p> <p>In view of the above, the Sub Committee of the Board of Directors of the Corporation has not accepted the offer of M/s. Statex Electronics and placed orders with M/s. Premier Evolvics Pvt. Ltd., by giving more importance to quality of product and performance of the machine. In this regard Government may inform that the observation and remarks of the Accountant General contained in the Audit report for the year ended 31 March 2011 are noted for future guidance and that Kerala State Textile Corporation will strictly comply with the direction and suggestions of the Accountant General in future, so as to avoid such kind of lapses.</p>
--	--	---