THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)

NINETY FIFTH REPORT

(Presented on 27-7-2015)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2015

FCB II/kp/puc/Report

THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)

NINETY FIFTH REPORT

On

Kerala Automobiles Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31st March 2011 (Commercial)

FCB II/kp/puc/Report

CONTENTS

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 Fifth Report on Kerala Automobiles 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 Reports 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 Automobiles 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 Automobiles 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,
27-7-2015.

REPORT ON
KERALA AUTOMOBILES LIMITED

AUDIT PARAGRAPH

Wasteful expenditure

The Company, engaged in the manufacture of three wheelers powered with diesel engines has its main markets in the northern States of the Country. Following the ban (2004) on running of diesel powered public transport in National Capital Territory of Delhi, the Company decided to go in for compressed natural gas (CNG) powered vehicles, fitted with LGA 340 engine supplied by Lombardini India Pvt. Ltd. (LIPL). The Company procured three engines from LIPL on trial basis which were approved by Automobile Research Association of India (ARAI) in the development test conducted as Bharat Stage II (BS II) complaint. Consequently, orders were placed (May 2006-March 2007) on LIPL for supply of 344 numbers LGA 340 engines at a total cost of ₹ 64.64 lakh to be fitted on to three wheelers sold in Delhi, after obtaining approval from the certifying body ARAI. The vehicles fitted with engines from first lot of purchases reported (September 2006) engine problems after their sale. The Company could sell only 89 vehicles of the total 230 produced. The balance engines and vehicles remained unsold.

We noticed (January 2011) the following lapses in procurement of the CNG engines:

- LIPL being a single source identified for CNG powered engines, the company had procured 3 engines from LIPL on trial basis initially. The vehicles fitted with these engines though approved (December 2005) by ARAI on BS II emission norms, reported engine problems and were replaced by LIPL. Disregarding this, the Company decided (June 2006) to procure 110 engines in the initial phase itself without adequate assessment of their suitability. The company further continued to place orders and procured (November 2006-March 2007) additional 234 engines.

- To ensure proper application and good performance, LIPL was to provide warranty for engines for six months against manufacturing defects and support to the Company in the form of after sale service. However, no formal agreement was entered into with LIPL to guarantee performance of the engines which ultimately led to the Company bearing the additional expenditure for rectification of defects. This poor after sales service coupled with non-availability and high cost of spares further dampened the marketability of the vehicles. Consequently, 141 engines already fitted to three-wheelers and 114 others procured from LIPL remained unutilized as of March 2011. The Company could sell only 89 vehicles.
- Efforts of the Company to rectify the defects using upgradation kits procured from LIPL at a cost of ₹ 2.25 lakh also did not yield the desired results.

Thus, procurement of CNG (LGA 340) engines disregarding the poor performance of the initial lot led to production of 141 vehicles worth ₹ 1.07 crore for which there were no sales in addition to idling of 114 engines worth ₹ 21.42 lakh.

Management stated (March 2011) that the CNG engines were procured with the intention of maintaining and boosting the sales of vehicles in areas where diesel engine powered public transport were banned. But certain defects such as engine overheating, HT coil failure and starting problems seriously affected the sales of these vehicles. Efforts of the Company to rectify these defects with upgradation kits were also not successful. The Management reply did not hold good as the initial procurement of 110 engines and additional quantity of 234 engines were made without considering the road performance of first lot of engines procured on trial basis. Moreover, sale of vehicles powered with these Bharat Stage (BS) II compliant engines became impossible since BS III emission norms had been made mandatory from October 2010 whereas LGA 340 engines were only BS II compliant.

Thus, the company was saddled with the unsold inventory worth ₹ 1.28 crore which it could not sell.

We suggest that the Company should enter a new business line only after a thorough market research about acceptability of its products.
The matter was reported to Government in April 2011; their reply was awaited (November 2011)

[Audit Paragraph 4.8 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 observed that the Company had decided to procure more engines even after knowing the fact that 3 engines already procured were failed in test running and wanted to know why the Company did not enter into an agreement with Lombardini India Private Limited and why the Company decided to procure 110 engines and an additional 234 engines despite knowing the fact that 3 engines already procured were failed in test running. When the witness replied that there was general warranty, the Committee criticised the passive attitude of the officials who were in charge of the Company at that time and opined that the Company had gone in for blind purchases without observing the situation and quality of the engines. The Committee observed that lack of proper planning while dealing Govt. money resulted in an avoidable loss to the Company.

2. The Committee however appreciated the action of the present Managing Director for his efforts to getback the money which had lost by the Company by returning the unused engines to Lombardini Company itself. To a query of the Committee the witness informed that the then Officers of the company were retired from service.

3. The Committee expressed its displeasure for the failure of the Company in providing better service to its customers by supplying poor quality of engines. The

Committee surprisingly noted that the Company had not taken necessary steps even when engine problems were reported after sale. The Committee points out that this is a classic example of improper monitoring and mismanagement prevailing in the Company.

4. The Committee directed that responsibility should be fixed against the responsible officers for such serious lapses. The Committee also directed to submit a report detailing the present functioning of the Company. The Committee then directed that the following details should also be furnished to it within one month. (1) Whether there was any agreement with KAL and Lombardini India Private Limited in connection with the supply of LGA 340 engines. If not, state the reason and if there was an agreement what were the conditions prescribed (2) Whether any disciplinary action was initiated against the then Managing Director, for procuring more engines while failure was noticed in the engines already purchased. If not, what was the reason. (3) The action taken by the Company to realise the amount lost, the amount to be realised and the steps to be taken to get back that amount.

Conclusions/Recommendations

5. The Committee disagrees with the argument of the witness that the Lombardini India Private Limited had provided general warranty for the procurement of engines and observes that the lack of a formal agreement between the Company and Lombardini India Private Limited was one of the main reasons for the revenue loss to the Company. The Committee views seriously the irresponsible attitude of the officials of the Company for not taking any step to return the unsold engines to Lombardini Company when defects were reported after the sale of the first 89 engines and recommends to fix liability against the responsible officers for the lapse. The committee directs to submit a report on the present functioning of the Company.

6. The Committee also wants to have a detailed report from the Government on the following points.

1. Whether there was any agreement with KAL and Lombardini India Pvt Ltd in connection with supply of LGA 340 engines. If not, state the reason and if there

was an agreement what were the conditions prescribed in it.

2. Whether any disciplinary action was initiated against the then M.D for procuring more engines while failure was noticed in engines already purchased and if not what was the reason.
3. Whether any action had been taken by the Company to realise the amount lost, how much amount to be realised and what are the steps to be taken to get back that amount.

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

Thiruvananthapuram,
27 -7-2015.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para. No.	Department Concerned	Conclusions/Reccomendations
1	5	INDUSTRIES	The Committee disagrees with the argument of the witness that the Lombardini India Private Limited had provided general warranty for the procurement of engines and observes that the lack of a formal agreement between the Company and Lombardini India Private Limited was one of the main reasons for the revenue loss to the Company. The Committee views seriously the irresponsible attitude of the officials of the Company for not taking any step to return the unsold engines to Lombardini Company when defects were reported after the sale of the first 89 engines and recommends to fix liability against the responsible officers for the lapse. The committee directs to submit a report on the present functioning of the Company.
2	6	INDUSTRIES	The Committee also wants to have a detailed report from the Government on the following points. 1. Whether there was any agreement with KAL and Lombardini India Pvt Ltd in connection with supply of LGA 340 engines. If not, state the reason and if there was an agreement what were the

			conditions prescribed in it. 2. Whether any disciplinary action was initiated against the then M.D for procuring more engines while failure was noticed in engines already purchased and if not what was the reason. 3. Whether any action had been taken by the Company to realise the amount lost, how much amount to be realised and what are the steps to be taken to get back that amount.

APPENDIX II
NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Sl. No.	Audit Paragraph	Reply furnished by Government
(1)	(2)	(3)
1	4.8 (2010-11)	Kerala Automobiles Limited was manufacturing diesel vehicles from 1990. Since 2003 the diesel fitted vehicles were banned by Government of India in the National Capital Territory areas. In order to survive in the market, the company had no option other than going in for gasoline engine fitted vehicles in these areas. The last purchase of LGA 340 engines made during 2007 where as the company continued to sell vehicles, fitted with LGA 340 engines for more than 1 year after that. During the initial period, teething troubles were rectified to the full satisfaction of customers by deputing service engineers from Lombardini and KAL. The company expected that it would not affect the market in future. The procurement of materials, vehicles manufacturing, marketing and servicing are continuous process; the Company can not stop all the process all on a sudden which may reflect in the over all performance of the company. After receiving the first engines, there were no major set backs reported from the market. Keeping in mind all the factors and market trend, the Company decided to purchase further lot of LGA 340 engines, in addition to the first lot of engines. In order to sort out the issue the Company continuously followed up the matter with M/s Lombardini India Private Limited (Kohler group) and a settlement made to take back unsold LGA 340 engines including those fitted with vehicles. As part of settlement agreement an amount of 18,55,350/- has been received on 27-2-2012 and 6,24,150/- on 2-6-2012 (from M/s. LIPL (total amount 24,79,500/-)

(1)	(2)	(3)
		From the above, it reveals that the Company had taken earnest effort to recover the substantial amount from M/s LIPL without legal expenditure against the loss incurred. Strict instruction has been given to the Company that they should enter new business line only after a thorough market research about acceptability of Company's products.