



FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

**PUBLIC UNDERTAKINGS
(2023-26)**

FORTIETH REPORT

(Presented on 11th February, 2025)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM

2025

FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

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**PUBLIC UNDERTAKINGS
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FORTIETH REPORT

On

Corporate Social Responsibility of PSUs

(Malabar Cements Limited, Kerala Minerals and Metals Limited, Kerala State Industrial Development Corporation Limited, Kerala State Civil Supplies Corporation Limited and other 12 PSUs)

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2016)

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**COMMITTEE ON PUBLIC UNDERTAKINGS
(2023-26)**

COMPOSITION

Chairperson:

Shri E. Chandrasekharan

Members:

Shri A.P. Anilkumar

Shri Anwar Sadath

Shri Ahammad Devarkovil

Shri T. V. Ibrahim

Shri P. Mammikutty

Shri K. P. Mohanan

Shri D. K. Murali

Shri P. Nandakumar

Shri Kadakampally Surendran

Shri P. Ubaidulla

Legislature Secretariat:

Dr. N.Krishna Kumar, Secretary

Shri Venugopal R, Joint Secretary

Shri Anil Kumar B, Deputy Secretary

Shri Mohanan. O, Under Secretary

INTRODUCTION

I, the Chairperson, Committee on Public Undertakings (2023-26) having been authorised by the Committee to present the Report on its behalf, present this 40th Report on Corporate Social Responsibility Of PSUs (Malabar Cements Limited, Kerala Minerals and Metals Limited, Kerala State Industrial Development Corporation Limited, Kerala State Civil Supplies Corporation Limited and other 12 PSUs) based on the report of the Comptroller and Auditor General of India for the year ended 31st March, 2016 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Report of the Comptroller and Auditor General of India was laid on the Table of the House on 23-05-2017. The consideration of the audit paragraphs included in this report and examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings (2021-2023) at its meetings held on 19.01.2022, 06.10.2022, 21.10.2022 and 06.12.2023 and Committee on Public Undertakings (2023-2026) at its meeting held on 20.03.2024.

This Report was considered and approved by the Committee (2023-26) at its meeting held on 29.01.2025.

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

The Committee wishes to express thanks to the officials of the Industries Department, and Food and Civil Supplies Department of the Secretariat and the Malabar Cements Ltd, Kerala Minerals and Metals Limited, Kerala State Industrial Development Corporation Limited, Kerala State Civil Supplies Corporation Limited, Rehabilitation Plantation Limited, Transformers and Electricals Limited, Kerala Agro Machinery Corporation Limited, Kerala State Beverages (M&M) Corporation Limited, Kerala Forest Development Corporation Limited, Kerala State Backward Classes Development Corporation Limited, Kerala Urban & Rural Development Finance Corporation Limited, Kerala State Electronics Development Corporation Limited, Pharmaceutical Corporation (Indian Medicines) Ltd (Oushadhi), State Farming Corporation of Kerala Ltd, Kerala State Industrial Enterprises Limited and Kerala State Power & Infrastructure Finance Corporation Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government, Industries Department, Food and Civil Supplies Department and Finance Department and the officials of Malabar Cements Ltd, Kerala Minerals and Metals Limited, Kerala State Industrial Development Corporation Limited and Kerala State Civil Supplies Corporation Limited who appeared for evidence and assisted the Committee by placing their views before the Committee.

Thiruvananthapuram,
11th February, 2025.

E. CHANDRASEKHARAN,
Chairperson,
Committee on Public Undertakings.

REPORT NO.3
ON
CORPORATE SOCIAL RESPONSIBILITY OF PSUs.

(Malabar Cements Limited, Kerala Minerals and Metals Limited, Kerala State Industrial Development Corporation Limited, Kerala State Civil Supplies Corporation Limited and other 12 PSUs¹)

Audit Para 3.3(2015-16)

Corporate Social Responsibility of PSUs

Introduction

3.3.1 Corporate Social Responsibility (CSR) refers to operating business in a manner that accounts for the social and environmental impact created by the business. Through CSR, companies give something back to society. CSR means and includes projects or programmes on eradication of hunger, poverty and malnutrition, promoting gender equality, promoting education, empowerment of women, ensuring environmental sustainability, protection of national heritage, etc. CSR is governed by provisions of the Companies Act, 2013 (Act) and Companies (Corporate Social Responsibility Policy) Rules, 2014 (CSR Rules).

According to section 135 of the Act, companies with annual turnover of ₹1,000 crore or more or net worth of ₹500 crore or more or profit (before tax) of ₹5 crore or more in any of the three preceding financial years² have to spend at least two *per cent* of average profit³ of such preceding financial years on CSR activities from 2014- 15 onwards, giving preference to areas around their operation.

1 (1) Rehabilitation Plantation Limited, (2) Transformers and Electricals Limited, (3) Kerala Agro Machinery Corporation Limited, (4) Kerala State Beverages (M&M) Corporation Limited, (5) Kerala Forest Development Corporation Limited, (6) Kerala State Backward Classes Development Corporation Limited, (7) Kerala Urban & Rural Development Finance Corporation Limited, (8) Kerala State Electronics Development Corporation Limited (KELTRON), (9) Pharmaceutical Corporation (Indian Medicines) Ltd (Oushadhi), (10) State Farming Corporation of Kerala Ltd, (11) Kerala State Industrial Enterprises Limited, (12) Kerala State Power & Infrastructure Finance Corporation Limited.

2 Vide Circular No: 21/2014 dated 18/06/2014 of Ministry of Corporate Affairs, Government of India.

3 Average of profit made by them during the three immediately preceding financial years.

As of June 2016, 23 Public Sector Undertakings (PSUs) in Kerala came under the purview of CSR during 2014-15 to 2015-16. We assessed compliance of these PSUs with the provisions of the Act/ CSR Rules/ orders and notifications issued by Ministry of Corporate Affairs (MCA), Government of India (Gol), on CSR. Audit findings are discussed in the succeeding paragraphs.

Audit Findings

Formulation of CSR Policy and CSR spending

Non-constitution of CSR Committee and non-spending on CSR

3.3.2 As per Section 135(1) of the Act, each of the 23 PSUs was to constitute a CSR Committee consisting of three or more directors, out of which at least one director shall be an independent director. The CSR Committee was to formulate and recommend a CSR Policy and the amount of CSR expenditure to Board of Directors (BoD) and monitor the CSR Policy of the Company.

We noticed that out of the 23 PSUs, 13 PSUs (**Appendix 13**) did not constitute the CSR Committee or formulate the CSR Policy (as of June 2016). Among these 13 PSUs, three PSUs had negative average net profit during the three preceding financial years and hence, were not required to spend on CSR while balance 10 PSUs were required to spend on CSR.

Oil Palm India Limited and Kerala Agro Machinery Corporation Limited, though coming under the purview of CSR law, spent ₹0.33 crore (against the minimum requirement of ₹0.50 crore) for CSR activities without constituting a CSR Committee or formulating a CSR Policy. As the amount was spent without constituting CSR Committee or formulating a CSR Policy, the CSR spending of these two PSUs was irregular.

Similarly, eight PSUs were required to spend at least ₹7.93 crore on CSR during 2014-15 and 2015-16 as detailed in **Appendix 14**. But, they did not spend any amount on CSR during the above period.

GoK replied (October 2016) that Kerala State Power and Infrastructure Finance Corporation Limited (KSPIFC) had spent ₹0.25 crore in 2014-15 on a project for development of woman and child ward at Government Taluk Head Quarter Hospital, Nilambur and was eligible for including the same as CSR. The reply was not tenable as ₹0.25 crore spent during 2014-15 was part of ₹0.50 crore donation given to Government Taluk Head Quarter Hospital, Nilambur as per Government Order dated 27 July 2013 and not the amount earmarked for CSR during 2014-15.

State Farming Corporation of Kerala Limited replied (June 2016) that their profit before tax during 2014-15 was less than ₹5 crore and hence, they were not liable to spend on CSR. The reply was not acceptable as its annual profit before tax exceeded ₹5 crore during the preceding three years. Transformers and Electricals Kerala Limited replied (February 2017) that BoD decided not to spend for CSR activities since the Company was continuing in huge losses. Other five PSUs accepted the audit finding and assured compliance with CSR laws.

Non/ incorrect reporting on CSR activities

3.3.3 According to Section 135 (5) of the Act, in case of failure of a company to spend minimum 2 *per cent* of average profit on CSR, the BoD shall in its report⁴ include the reasons for non-spending.

⁴ Report attached to the financial statements laid before a company in general meeting as per Section 134 (O) (3) of the Act.

Out of the ten PSUs which did not spend the required minimum amount on CSR, three PSUs⁵ did not report the reason for non-spending and three PSUs⁶ wrongly reported that CSR Rules were not applicable to them. The remaining four PSUs were yet to publish their Annual Report as of June 2016.

KSPIFC replied (June 2016) that non-spending was not reported in the Directors' Report due to oversight and necessary disclosures would be made in the next year's report. Two PSUs⁷ accepted the audit finding while Kerala Forest Development Corporation Limited replied (July 2016) that they were not aware of the circular dated 18 June 2014 of MCA and assured that the audit finding will be brought to the notice of BoD.

State Farming Corporation of Kerala Limited replied (June 2016) that the matter was reported correctly in the Annual Report 2014-15. The reply was not tenable as profit for the period 2011-12 and 2013-14 exceeded ₹5 crore and thus, the Company came under the purview of CSR law.

Deficiencies in spending on CSR

3.3.4 Ten out of the 23 PSUs covered in audit had constituted CSR committee as well as formulated a CSR policy and spent ₹10.74 crore (**Appendix 15**) on CSR activities during 2014-15 and 2015-16. The following deficiencies were noticed in the CSR expenditure incurred by these 10 PSUs.

Non-spending on CSR

3.3.4.1 Two PSUs⁸ did not spend any amount on CSR during 2015-16 though they had to spend ₹0.67 crore as per the Act.

⁵ Kerala State Power and Infrastructure Finance Corporation Limited, Transformers and Electricals Kerala Limited and Oil Palm India Limited.

⁶ The State Farming Corporation of Kerala Limited, Kerala Forest Development Corporation Limited and Kerala Agro Machinery Corporation Limited.

⁷ Kerala Agro Machinery Corporation Limited and Transformers and Electricals Kerala Limited.

⁸ Rehabilitation Plantations Limited and Kerala Transport Development Finance Corporation Limited.

Rehabilitation Plantation Limited replied (July 2016) that they would spend the amount earmarked for CSR during 2016-17.

Non-display of CSR Policy in website

3.3.4.2 Section 135(4) (a) of the Act and Rule 9 of CSR Rules specify that the approved CSR Policy shall be displayed on the company's website. Four PSUs⁹ did approved CSR Policy shall be displayed on the company's website. Four PSUs¹⁰ did not display the CSR Policy on their website.

At our instance, three PSUs¹¹ agreed to display their CSR Policy on their websites, while Malabar Cements Limited replied (August 2016) that they had displayed the Schemes of assistance on their website. The reply is not tenable as this amounts to violation of Section 135(4) (a) of the Act and Rule 9 of CSR Rules.

Inclusion of activities in the CSR Policy undertaken in pursuance of normal course of business.

3.3.4.3 According to CSR Rules, a company shall undertake CSR activities as per its stated CSR policy. Activities undertaken in pursuance of normal course of business of a company shall not be treated as part of CSR.

We observed that the CSR Policy (Item number- 1) of Kerala state Backward Classes Development Corporation Limited (KSBCDC) (engaged in the upliftment of backward classes and minority communities by rendering financial assistance) states that where loanees are unable to repay loan due to fatal disease, accident, death etc. After ascertaining the position of the family, the principal, interest and compound interest would be partially or completely waived by including them under the Loanees Distress Relief Fund (LDRF) scheme. The LDRF is a fund set up to meet any future contingencies that may

9 Kerala State Backward Classes Development Corporation Limited (KSBCDC), Kerala Transport Development Finance Corporation Limited (KTDFC), The Pharmaceutical Corporation (Indian Medicines), Kerala Limited (TPCKL) and Malabar Cements Limited (MCL).

10 Kerala State Backward Classes Development Corporation Limited (KSBCDC), Kerala Transport Development Finance Corporation Limited (KTDFC), The Pharmaceutical Corporation (Indian Medicines), Kerala Limited (TPCKL) and Malabar Cements Limited (MCL).

11 Kerala State Backward Classes Development Corporation Limited (June 2016), Kerala Transport Development Financial Corporation Limited (May 2016) and The Pharmaceutical Corporation (Indian Medicines) Kerala Limited (July 2016).

arise out of death or accidental disablement of the loanees. This is directly related to the business activity of KSBDC and hence, item number-1 does not come under the purview of CSR.

GoK replied (January 2017) that if the LDRF scheme of the Company could not be counted under the ambit of CSR activity, necessary corrective action would be taken in future.

CSR spending on inadmissible activities

3.3.4.4 Ministry of Corporate Affairs (MCA), GoI stipulated¹² that expenses incurred by companies for the fulfillment of any Act/Statute or Regulations would not count as CSR expenditure under the Act. The Kerala Minerals and Metals Limited had spent an amount of ₹1.09 crore as part CSR activity during 2014-15 and 2015-16, out of which ₹0.45 crore was spent as part of a legal obligation and financial assistance to Panmana Panchayath for budget presentation etc., which do not fall within the purview of the Act. Hence, the same could not be counted as CSR expenditure.

The company replied (July 2016) that amount shown as CSR for the year 2014-15 and 2015-16 would be reviewed.

Contribution in kind for CSR activities

3.3.4.5 Section 135(5) of the Act specifies that the BoD of every company shall ensure that the company spends, in every financial year, the required amount in pursuance of its CSR Policy. MCA reiterated (January 2016) that contribution in kind cannot be monetised to be shown as CSR expenditure.

During 2014-15 and 2015-16, Malabar Cements Limited (MCL) distributed cement in kind valuing ₹0.08 crore while the Pharmaceutical Corporation (Indian Medicines) Kerala Limited (TPCKL) distributed medicines valuing ₹0.19 crore and accounted for them as CSR activities.

¹² Vide Circular No. 21/2014 dated 18/06/2014.

TPCKL replied (August 2016) that they would take into consideration the audit findings when formulating a new CSR policy after the reconstitution of the BoD. MCL replied (August 2016) that cement was distributed after booking the expenses for CSR expenditure.

Contribution to State Government fund

Absence of monitoring

3.3.4.7 Rule 5(2) specifies that CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR Projects or programmes or activities undertaken by the company. We noticed instances of absence of monitoring of CSR as shown in *Appendix 16*.

Conclusion

Adherence of companies to the provisions of CSR was not satisfactory as 13 out of 23 companies did not constitute CSR Committee/Policy. There were instances of non-spending and spending on inadmissible activities. GoK may, therefore, formulate appropriate monitoring mechanism for strict adherence to CSR laws.

[The Audit paragraph 3.3 contained in the report of the C &AG for the year ended 31 March 2016.]

The notes furnished by the Government on the audit paragraph are given in Appendix II

Discussion and findings of the Committee

1. Malabar Cements Limited

Audit para 3.3.4.2 – Non-display of CSR policy in website

To the query regarding the audit observation, the witness informed that now the CSR policy is being displayed in MCL's website.

The Committee accepted the reply.

Audit Para 3.3.4.5 – Contribution in kind for CSR activities

The Committee sought explanation for the non-adherence of section 135 (5) of the Companies Act, 2013 which restricted that the Company must spend the funds in accordance with the CSR policy.

The witness admitted the audit observations and informed that the Company had withdrawn such practices after the audit findings. He admitted that it was an erroneous action from the part of the Company.

Then the Committee observed that the reply furnished by Government was not satisfactory and opined that Government should have furnished a reply after careful consideration of the explanation from the part of the Company.

Audit Para 3.3.4.7 – Absence of monitoring

The Committee enquired about the measures taken to rectify the lapse pointed out in audit observation regarding the absence of the transparent monitoring mechanism for implementation of the CSR projects in the Company.

The witness informed that a sub committee had been constituted for the purpose.

The Committee commented that those who availed the tri-scooters were not eligible beneficiaries and that it substantiates the lack of clear monitoring as pointed out by the Audit.

The Committee directed to furnish a detailed report regarding the functioning of the Monitoring Committee.

Conclusions and Recommendations

1) The Committee expresses its strong displeasure on the reply furnished by Government regarding the non-adherence of the section 135 (5) of the Companies Act, 2013 which restricted contribution in kind for CSR activities and observes that the reply furnished was evasive and was trying to justify the mistake though it is evident that the Company violated the concerned provisions. On the other hand the officials from MCL accepted the fault before the Committee. The Committee observes that the disparity in the replies was due to the lack of proper communication between the concerned Administrative Department and the Company. So the Committee directs that in future, the replies to the Committee should be furnished with careful consideration by the Department.

2) The Committee observes that the distribution of tri-scooter to ineligible beneficiaries was due to the absence of independent monitoring mechanism in the Company as specified in the audit. The Committee understands that now the Company has a monitoring mechanism for the implementation of the CSR. So the Committee directs the Government to furnish a detailed report regarding the functioning of the Monitoring Committee.

2. Kerala Minerals and Metals Limited.

3.3.4.4 CSR spending on inadmissible activities.

Regarding the CSR spending for the activities which did not come under the purview of CSR, the Managing Director informed that the amount was spent for providing drinking water in Panmana Panchayat in 2014 and for giving financial assistance for the budget presentation of the same Panchayat, which was accounted under CSR activities with the perception that as the amount was

utilised for public purposes, it may come under CSR activity. The witness further informed that after the AG's observation, the Company spent CSR Funds only for admissible purposes and at present there has been a four-member committee to monitor CSR activities.

To the query about the limit in providing medical care to individuals through CSR funds, the witness informed that those suffering from diseases like cancer were being given medical assistance through CSR funds. The Company was providing 8 lakh litres of drinking water for a day in Panmana panchayat and that the Company was also providing medical assistance to the people of six wards around the company.

The Committee accepted the reply.

Hence, offer no remarks.

3. Kerala State Industrial Development Corporation Limited

Para 3.3.4- Deficiencies in spending on CSR

The Committee enquired about the amount spent on CSR activities during the period from 2016-17 to 2021-22. The Chief Financial Officer, KSIDC informed that the Company normally spend about Rs ₹50-60 lakh per year on CSR activities and the amount for the period 2016-17 to 2021-22 had been fully spent and ₹63 lakh for the period 2021-22 has been set apart to spend this year.

The Committee noted that there was only a general reference in the audit report regarding the expenditure of CSR funds and the Committee enquired whether a Monitoring Committee has been constituted for CSR activities. The Chief Financial Officer, KSIDC replied that a Monitoring Committee chaired by the Principal Secretary has been constituted to take a decision on the utilisation of CSR funds.

The Committee accepted the Government's reply on the matter.

Hence, offer no remarks.

4. Kerala State Civil Supplies Corporation Limited

Para 3.3.2 -Non Constitution of CSR Committee and non-spending on CSR

The Committee enquired about the current status of the formulation of CSR policy. The Managing Director replied that a CSR policy has been formulated and approved by the Board of Directors and published in the website. He added that Supplyco being non profitable they could not carry out CSR activities.

The Committee accepted the reply.

Hence, offer no remarks.

The Committee considered and accepted the Government reply to the audit observations of the following PSUs regarding Audit Para 3.3 for the financial year 2015-2016.

1. Rehabilitation Plantation Limited:

Audit Para – 3.3.4.1 – Non-spending on CSR

2. Transformers and Electricals Limited:

Audit Para – 3.3.2 – Non constitution of CSR Committee and
consequent non spending on CSR

Audit Para 3.3.3 – Non/incorrect reporting on CSR activities

3. Kerala Agro Machinery Corporation Limited:

Audit Para – 3.3.2 – Non constitution of CSR Committee and
consequent non spending on CSR

4. Kerala State Beverages (M&M) Corporation Limited:

Audit Para – 3.3.2 – Non constitution of CSR Committee and
consequent non spending on CSR

5. Kerala Forest Development Corporation Limited:

Audit Para – 3.3.2 – Non constitution of CSR Committee and consequent non spending on CSR

6. Kerala State Backward Classes Development Corporation Limited:

Audit Para – 3.3.2 – Non constitution of CSR Committee and consequent non spending on CSR

Audit Para – 3.3.4.2 – Non-display of CSR policy in website

Audit Para – 3.3.4.3 – Inclusion of activities in the CSR Policy undertaken in pursuance of normal course of business.

Audit Para – 3.3.4.7 – Absence of monitoring

7. Kerala Urban & Rural Development Finance Corporation Limited:

Audit Para – 3.3.2 - Non constitution of CSR Committee and consequent non spending on CSR

8. Kerala State Electronics Development Corporation Limited

(KELTRON):

Audit Para – 3.3.4 – Deficiencies in spending on CSR

9. Pharmaceutical Corporation (Indian Medicines) Ltd (Oushadhi):

Audit Para – 3.3.4.2 – Non-display of CSR policy in website

Audit Para – 3.3.4.5 - Contribution in kind for CSR activities

10. State Farming Corporation of Kerala Ltd:

Audit Para – 3.3.2 – Non constitution of CSR Committee and consequent non spending on CSR

Audit Para – 3.3.3 – Non/incorrect reporting on CSR activities

11. Kerala State Industrial Enterprises Limited:

Audit Para – 3.3.2 - Non constitution of CSR Committee and
consequent non spending on CSR

12. Kerala State Power & Infrastructure Finance Corporation Limited:

Audit Para – 3.3.2 - Non constitution of CSR Committee and
consequent non spending on CSR

Thiruvananthapuram,
11th February, 2025.

E.Chandrasekharan,
Chairperson,
Committee on Public Undertakings.

APPENDIX-I
SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl No.	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	1	Industries Department	The Committee expresses its strong displeasure on the reply furnished by Government regarding the non-adherence of the section 135 (5) of the Companies Act, 2013 which restricted contribution in kind for CSR activities and observes that the reply furnished was evasive and was trying to justify the mistake though it is evident that the Company violated the concerned provisions. On the other hand the officials from MCL accepted the fault before the Committee. The Committee observes that the disparity in the replies was due to the lack of proper communication between the concerned Administrative Department and the Company. So the Committee directs that in future, the replies to the Committee should be furnished with careful consideration by the Department.
2	2	Industries Department	The Committee observes that the distribution of tri-scooter to ineligible beneficiaries was due to the absence of independent monitoring mechanism in the Company as specified in the audit. The Committee understands that now the Company has a monitoring mechanism for the implementation of the CSR. So the Committee directs the Government to furnish a detailed report regarding the functioning of the Monitoring Committee.