



FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

**PUBLIC UNDERTAKINGS
(2023-26)**

FIFTIETH REPORT

(Presented on 21st March 2025)

SECRETARIAT OF THE KERALA LEGISLATURE

THIRUVANANTHAPURAM

2025

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**Kerala Automobiles Limited
&
Forest Industries Travancore Limited**

**(Based on the Reports of the Comptroller and Auditor General of India for
the years ended 31st March 2016, 2017)**

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

(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 50th Report on Kerala Automobiles Limited & Forest Industries Travancore Limited based on the reports of the Comptroller and Auditor General of India for the years ended 31st March 2016 and 2017 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Reports of the Comptroller and Auditor General of India was laid on the Table of the House on 23.05.2017 and 19.06.2018 respectively. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings (2023-2026) at its meetings held on 20.03.2024.

This Report was considered and approved by the Committee (2023-2026) at its meeting held on 18.03.2025.

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 of the Secretariat, Kerala Automobiles Limited and Forest Industries Travancore 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 and Finance Department and the officials of the Kerala Automobile Limited who appeared for evidence and assisted the Committee by placing their views before the Committee.

Thiruvananthapuram,
21st March 2025.

E. CHANDRASEKHARAN
Chairperson,
Committee on Public Undertakings.

**REPORT
ON
KERALA AUTOMOBILES LIMITED &
FOREST INDUSTRIES TRAVANCORE LIMITED**

I. Kerala Auto Mobiles Limited

Audit Report (2016-2017)

4.9 - Absence of agreement leading to idling of rear engines

Absence of agreement with the support partner while transferring rear engines for conversion into three-wheelers resulted in 176 rear engines worth ₹52 lakh lying idle with the support partner.

As per Article 51 of Kerala Financial Code, contracts for the execution of works should be made as far as possible only after inviting open tenders. Further, as per Article 181 of Kerala Financial Code, no work, which is to be executed under a contract, should be started until the contractor has signed a formal written agreement.

Kerala Automobiles Limited (Company) engaged in the manufacture of three-wheelers with diesel engines, procured (March - April 2013) 335 Electric Start BS III Rear Engines for ₹98.99 lakh (unit price¹ of ₹29,550) from Greaves Cotton Limited, Ranipet, for manufacture of rear engine vehicles. Out of the 335 engines procured, 86 engines were utilised for manufacture of rear engine vehicles, which were sold in 2013-14. As the vehicles sold developed service complaints, the Company stopped manufacture of rear engine vehicles. As a result, the remaining 249 engines were not utilised.

Considering the financial and technical constraints faced by the Company in developing and establishing rear engine three-wheelers in the market, the Company invited (September 2014) Expression of Interest (EoI) for manufacture and supply of rear engine three-wheelers to the Company as a support partner and selected Continental Engines Limited (CEL) out of the two qualified bidders. Agreement was executed (August 2015) between CEL and the Company.

¹ Excluding taxes and freight.

Meanwhile, the Company informed (December 2014) CEL that it had 249 Greaves-make rear engines and was willing to transfer those engines to CEL and CEL in turn should supply fully built three-wheelers fitted with those engines to the Company. As CEL agreed with the proposal, the Company decided (January 2015) to transfer the 249 engines to CEL at cost price of ₹73.58 lakh² for subsequent fitting into the vehicles supplied to the Company. The Company despatched (January/February 2015) 249 engines to CEL against a purchase order issued by CEL. Out of these, 73 engines were fitted by CEL in vehicles supplied (2016-17) by them. The remaining 176 engines valuing ₹52 lakh³ were lying with CEL till date (August 2017).

Audit observed that the Company while inviting EoI for selection of support partner did not include the aspect of transferring 249 greaves-make rear engines, which were lying idle for fitting in the three wheelers to be supplied by them. Further, no formal written agreement specifying rate of conversion and date of completion was executed between the Company and CEL for the conversion work. Due to these lapses, 176 rear engines valuing ₹52 lakh were yet to be converted into rear engines vehicles and returned to the Company.

Audit further observed that the Hon'ble Supreme Court of India (March 2017) ordered that no manufacturer or dealer shall sell any vehicle whether two wheeler, three wheeler, four wheeler or commercial vehicles, which were not BS IV compliant⁴ in India with effect from April 2017. Since the engines transferred to CEL were non-BS IV compliant, it would not be possible to sell vehicles fitted with these engines in India.

GoK replied (February 2018) that the transaction helped the Company for partial liquidation of engine stock and mobilisation of dead funds. GoK further stated that purchase order received from CEL may be treated as agreement between CEL and the Company for conversion of rear-engines.

² Excluding applicable taxes and duties.

³ 176 X ₹29,550.

⁴ Bharat Stage (BS) norms are emission control standards. The BS IV norms were introduced with effect from 01 April 2017.

The reply was not acceptable as the Company did not include the aspect of transfer of the 249 idle engines to the support partner for fitting in the three wheelers to be supplied by them while inviting EoI. Further, though the Company was aware (January 2015) about the withdrawal of BS III engines within one to two years, the Company did not include clauses for timely conversion of these engines to three wheelers in the purchase order. Moreover, the purchase order cannot be a substitute for an agreement as it did not contain conversion time, time of return of vehicles, and other such terms and conditions. Moreover, the fact remains that 176 engines worth ₹52 lakh were yet to be returned by CEL to the Company after fitting them in auto rickshaws.

Thus, due to absence of agreement with the support partner while transferring rear engines for conversion into three-wheelers, 176 rear engines worth ₹52 lakh remained idle with the support partner.

[Audit Paragraph 4.9 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2017]

(The notes furnished by the Government on the audit paragraphs are given in Appendix II)

Discussion and Findings of the Committee

The audit observation was that the Company and Continental Engines Limited (CEL) did not have a formal written agreement detailing the conversion rate and completion date, leading to 176 rear engines worth ₹52 lakh lying idle with CEL. The Committee enquired whether CEL had returned the rear engines or vehicles fitted with these engines and also the current status in this case.

The Managing Director, Kerala Automobiles Limited (KAL) replied that the Company is a manufacturer of front-engine diesel auto-rickshaws since 1984 but as the market of these vehicles declined and the rear engines became more popular, the company decided to manufacture such type of vehicles and purchased 335 engines from Greaves Cotton Limited, of which

86 were used to manufacture rear engine vehicles. However, due to some technical issues, the manufacturing of these vehicles was stopped and it was decided to buy engine-fitted auto-rickshaws directly from the manufacturers. Consequently, CEL was chosen from the two bidders who were invited to submit an expression of interest, and as per the terms of the agreement, it was decided to purchase 1000 auto-rickshaws for ₹1.38 lakh each within seven months. But, because of marketing and quality issues, only 212 auto-rickshaws were bought before the deadline, and only 73 of them utilized the old engines while the rest 176 engines became idle. After 2016, the Supreme Court prohibited the usage of BS-III rear engines as well. He added that though KAL was informed to take 176 unused engines from CEL at its own risk and cost the company has not been able to take them back so far.

The Committee enquired whether there was any time limit in the contract to convert the engines into vehicles and return the same. The witness replied that the agreement was that the vehicles should be taken back within seven months from the date of the contract, but only 212 auto-rickshaws were bought before the agreement date. It was informed that the remaining 176 engines could not be kept by CEL and would be sent back at the risk and cost of the company, but there was no follow-up action from their side. However, the Company was not able to recover them yet.

The Senior Audit Officer opined that the Company was aware of the fact that the rear engines will be shifted to BS IV norms in 2015 itself. But the Company didn't take any initiative to enter into an agreement to buy back the engines before 2017. The Managing Director agreed to the remark and added that they could not proceed due to financial crisis and low market value of the auto rickshaws fitted with rear engines.

The Committee enquired whether the Company had initiated any action to recover the 176 engines from CEL. The Managing Director replied that the attempt of the former Managing Director to recover the engines was invain. He added that the CEL authorities had sent a letter to the Company demanding to afford loss of ₹7.15 crore, sustained by them in buying raw materials for 1000 auto rickshaws. At the same time the Managing Director of KAL sent a reply to CEL authorities to remit the cost of 176 rear engines and an amount ₹250 lakh which was given as advance.

The Committee inquired whether the amount spent to purchase the engines at the rate of ₹29,550 was adjusted in any way. The witness replied that out of 212 autorickshaws purchased by the company, old engines were used only in 73 auto rickshaws and that amount was adjusted. The Committee observed that the Company had not perpared a reconciliation statement for the amount they owe each other. So the Committee recommends to prepare a reconciliation statement.

The Committee also inquired about the engines currently used in electric autorickshaws. The witness replied that BS-VI engines are currently used in electric autorickshaws and it is possible to convert BS III engines to B.S.IV. He added that it is to be checked whether BS III engines could be converted to BS VI engines. He assured the Committee that after ensuring the availability of idled engines with CEL they would check the possibility of reusing the engines.

The Principal Secretary of the Industries Department stated that since rear engine was a new product, a few autorickshaws were to be manufactured on experimental basis. He added that though there was a framework agreement, no subsidiary agreement including a provision for transfer of engines was framed. The Principal Secretary assured the

Committee that efforts would be made to retain the rear engines from CEL and to convert them to BS VI engines and would check whether these engines could be used for agricultural purposes.

The Committee observed that the absence of a formal agreement led to the audit observation and recommended that the Company should enter into an agreement incorporating the risk and cost clause while implementing such projects in future.

To a query of the Committee the witness informed that the manufacturing of diesel vehicles was ceased in 2019 and currently only e-vehicles are being manufactured and also planning to manufacture C.N.G vehicles. He added that KAL is now working at loss and only 300 e-autorickshaws were manufactured since 2019. Now KAL has tied up with a Pune based company and are manufacturing autorickshaws using the components supplied by them and that they have agreed to perform the sales and service of autorickshaws.

To another query of the Committee, it was informed that in KAL there are 150 employees out of which 75 are permanent and the remaining employees work on daily/contract basis. He added that out of the salary arrear for eight months, they have been paid only arrears for three months. The witness explained the shortage of workshops for e-autorickshaws in all districts and about the problems of the battery used in the autorickshaws.

To a query of the Committee about other products of the Company the witness informed that they are manufacturing e-carts for waste disposal and also a vehicle named buggy for internal transportation. He added that KAL also perform job works for VSSC.

Conclusion/Recommendations of the Committee

- 1. The Committee noticed that KAL selected a support partner CEL through EOI for the manufacture of three wheelers fitted with rear engines after failing miserably in the manufacture of its own rear engine three wheelers and made a commitment to purchase 1000 three wheelers fitted with rear engines within seven months from CEL. Besides, the company supplied Greaves rear engines 249 nos in possession for fitting in the new vehicles against a purchase order costing ₹73.58 lakh. After supplying 212 new vehicles of which 73 fitted with Greaves engines, the supply stopped due to marketing and some other issues.***
- 2. The Committee observes that 176 rear engines worth ₹52 lakh were purchased by CEL from KAL and received an advance payment of ₹250 lakh. At the same time CEL claims that KAL would afford ₹7.15 crore which was emerged as loss by buying raw materials for manufacturing 1000 autorickshaws. So the Committee recommends to prepare a reconciliation statement and to settle the matter.***
- 3. The Committee understands that KAL, the Public Sector Undertaking established for the manufacture of three wheelers could not survive sans every revival measures taken and the manufacture of three wheeler fitted with rear engines was also not an exception.***
- 4. Since the assignment with CEL went on without a valid agreement it also met with financial problems and the balance Greaves engines became idle and cannot be made to use due to new emission standards.***
- 5. The Committee is of the opinion that KAL never tried to provide service centers and not exercised any market oriented programmes while manufacturing three wheelers and become defunct for the timebeing. The Committee strongly recommend that if the latest attempt of manufacturing electric vehicles is not met with success, liquidating the company for the sake of state exchequer may be seriously looked into.***

II. Forest Industries Travancore Ltd

Audit Report (2015-2016)

Para 3.2 – Sub-contract Management by Public Sector Undertakings

3.2.1 – Introduction

Public Sector Undertakings (PSUs) in Kerala carry out supply and installation of equipment and execution of civil works on behalf of Departments/agencies of Government of Kerala (GoK). These PSUs in turn engage sub-contractors for procurement of equipment and execution of work awarded by Departments of GoK/ agencies.

In order to examine compliance with rules and regulations and transparency in sub-contract management by PSUs, we examined 50 works⁵ relating to supply and installation of equipment and 107 works relating to civil construction in seven⁶ PSUs during the period 2010-11 to 2015-16. Out of these, 29 work orders valuing ₹178.79 crore for supply and installation of equipment were issued to the PSUs by GoK on nomination basis of which 20 work orders costing ₹51.47 crore were issued to the PSUs without preparing cost estimate. The cost estimates for these works were prepared by the PSUs based on which, work orders were issued by GoK to them on back to back basis⁷. The cost estimate in respect of 10 work orders for ₹27.77 crore was prepared with the help of business partners of the PSUs to whom these works were later sub-contracted. Audit Findings are discussed below.

Audit Findings

3.2.5 Execution of civil works on behalf of agencies of GoK

GoK and its agencies executed various civil construction works through PSUs such as SIDCO, Kerala State Construction Corporation Limited (KSCC), Kerala Irrigation Infrastructure Development Corporation Limited (KIIDC), **Forest**

5 41 works executed by Kerala State Electronics Development Corporation Limited (KELTRON) on behalf of 18 Departments/agencies of GoK and nine works executed by Kerala Small Industries Development Corporation Limited (SIDCO) for one Department/ three agencies of GoK.

6 Kerala State Electronics Development Corporation Limited, Kerala Small Industries Development Corporation Limited, Roads and Bridges Development Corporation of Kerala Limited, Kerala State Construction Corporation Limited, Kerala State Coastal Area Development Corporation Limited, Kerala Irrigation Infrastructure Development Corporation Limited and **Forest Industries Travancore Limited**.

7 'Back to back basis' is a term used by PSUs. It refers to purchases done by PSUs for GoK/ agencies whereby PSUs get orders from GoK /agencies who then pass it on to private parties with payment terms that PSU would make payment to private parties only after receipt of payment from GoK/ agencies.

Industries Travancore Limited (FIT), Kerala State Coastal Area Development Corporation Limited (KSCADC) and Roads and Bridges Development Corporation of Kerala Limited (RBDCK). These PSUs received (2013-14 to 2015-16) 166 work orders valuing ₹2,111.67 crore from various departments of GoK for execution of civil works. Out of these, we examined 107 work orders valuing ₹1,718.81 crore in order to ascertain transparency in award of work and efficient execution.

All 107 work orders examined by us were issued to PSUs on nomination basis in violation of the provisions of Kerala Financial Code (KFC). These works were subsequently sub-contracted by the PSUs.

Recommendation

1. **GoK should dispense with the system of awarding works to PSUs on nomination basis.**
2. **GoK should comply with the provisions of SPM and invite competitive tenders.**
3. **PSUs which get work orders after participating in tenders should ensure that all the provisions of SPM and CVC guidelines are complied with.**

[Audit Paragraph 3.2 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2016]

(The notes furnished by the Government on the audit paragraphs are given in Appendix II)

Discussion and Findings of the Committee

The Committee accepted the reply from the Government on the above audit observations. Hence no remarks.

*Thiruvananthapuram,
21st March, 2025.*

*E. Chandrasekharan,
Chairperson,
Committee on Public Undertakings.*

APPENDIX – I SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATION			
Sl. No.	Para. No.	Department Concerned	Conclusions/Recommendations
1	1	Industries	The Committee noticed that KAL selected a support partner CEL through EOI for the manufacture of three wheelers fitted with rear engines after failing miserably in the manufacture of its own rear engine three wheelers and made a commitment to purchase 1000 three wheelers fitted with rear engines within seven months from CEL. Besides, the company supplied Greaves rear engines 249 nos in possession for fitting in the new vehicles against a purchase order costing ₹73.58 lakh. After supplying 212 new vehicles of which 73 fitted with Greaves engines, the supply stopped due to marketing and some other issues.
2	2	Industries	The Committee observes that 176 rear engines worth ₹52 lakh were purchased by CEL from KAL and received an advance payment of ₹250 lakh. At the same time CEL claims that KAL would afford ₹7.15 crore which was emerged as loss by buying raw materials for manufacturing 1000 autorickshaws. So the Committee recommends to prepare a reconciliation statement and to settle the matter.
3	3	Industries	The Committee understands that KAL, the Public Sector Undertaking established for the manufacture of three wheelers could not survive sans every revival measures taken and the manufacture of three wheeler fitted with rear engines was also not an exception.

4	4	Industries	Since the assignment with CEL went on without a valid agreement it also met with financial problems and the balance Greaves engines became idle and cannot be made to use due to new emission standards.
5	5	Industries	The Committee is of the opinion that KAL never tried to provide service centers and not exercised any market oriented programmes while manufacturing three wheelers and become defunct for the timebeing. The Committee strongly recommend that if the latest attempt of manufacturing electric vehicles is not met with success, liquidating the company for the sake of state exchequer may be seriously looked into.