



TWELFTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)**

FIRST REPORT

(Presented on 17th October, 2006)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2006**

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ON
PUBLIC UNDERTAKINGS
(2006-2008)**

FIRST REPORT

**On
Kerala Electrical and Allied Engineering Company Ltd.
based on the Report of the Comptroller and Auditor General
of India for the year ended 31-3-2002 (Commercial)**

CONTENTS

	<i>Page</i>
Composition of the Committee	.. v
Introduction	.. vii
Report	.. I
Appendix I	
Summary of main Conclusions/Recommendations	.. 4
Appendix II	
Notes furnished by Government on the Audit Paragraph	.. 5

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2006-2008), having been authorised by the Committee to present the Report on their behalf, present this First Report on Kerala Electrical and Allied Engineering Company Ltd. based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2002 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended 31-3-2002 (Commercial) was laid on the Table of the House on 16-6-2003. The consideration of the Audit Paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the committee on Public Undertakings constituted for the years 2004-2006.

This Report was considered and approved by the Committee at the meeting held on 9-10-2006.

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

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Kerala Electrical and Allied Engineering Company Ltd. 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 Department and Finance Department and the officials of the Kerala Electrical and Allied Engineering Company Ltd. who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,
17th October, 2006.

MANCODE RADHAKRISHNAN,
Chairman,
Committee on Public Undertakings.

REPORT

KERALA ELECTRICAL AND ALLIED ENGINEERING COMPANY LIMITED

AUDIT PARAGRAPH

Infructuous Expenditure :

Mention was made in paragraph 2B. 8 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1996, No.2 (Commercial), Government of Kerala, about the tardy implementation of the project for manufacture of Special and General Purpose Electric Motors (SGPM) by the Company.

The SGPM project approved (August 1993) by Government at a cost of Rs. 22.50 crore was to be financed by way of equity (Rs. 7.50 crore) from Government and loan (Rs. 15 crore) from financial institutions. However, the Company could not tie-up the loan component of the Project since they had earlier defaulted (January 1991 onwards) the loan to financial institutions. As per the technical know-how agreement executed (January 1993) with M/s. ELIN, Austria, the validity of the collaboration agreement was for a period of 5 years from the date of commercial production or 8 years from the date of agreement and the validity expired in January 2001. The project was dormant since 1996-97 and the Company incurred an expenditure of Rs.2.09 crore (Technical know-how fee Rs. 1.03 crore. Detailed Engineering Service Rs. 0.84 crore. Other expenses Rs. 0.22 crore, net of interest receipt of Rs. 0.14 crore) till 31 March 2001. Thus, the implementation of the project by the Company even after knowing that the loan component would not be forthcoming on account of default in repayment of then existing loans to financial institutions coupled with delay of over 9 years in commencement of the Project, rendered the collaboration agreement invalid leading to infructuous expenditure of Rs. 2.09 crore.

Government stated (May 2002) that the issue of default in repayment of earlier loans and the subsequent hesitation of the financial institutions to sanction further long term loans had arisen only after the commencement of implementation of the project and subsequent Government guarantee for a foreign loan as also effort for a One time settlement with financial institutions did not materialise due to bad financial situation of Government. The reply is not tenable as the Company had defaulted repayment against loans to financial institutions since January 1991 onwards, much before the commencement (August 1993) of implementation of the project and Government

as well as the Company were aware of the non-availability of term loans for implementation of the project. The decision to go ahead with the project despite non-availability of institutional credit rendered the expenditure on the project infructuous.

[Audit paragraph 4.1.1.1—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2002]

The note furnished by Government on the audit paragraph is given in Appendix II.

1. The Committee enquired why the Company had entered into technical collaboration without ensuring availability of funds for the special and general purpose motor project. The witness explained that Government had approved the project in August 1993, with a total out-lay of Rs. 22.50 crores. The unit was to be located at Malappuram and for this seven acres of land was purchased, compound wall constructed, and foundation was also laid. The company was able to tie-up technical collaboration with M/s. ELIN, Austria, one of the famous motor manufacturers of the world. The Company had paid Rs. 1 crore as technical know-how fee and spent Rs. 84 lakh for the detailed engineering project from a power consultant in Tamil Nadu. Government had allotted Rs. 5 crore as equity and the rest of the finance had to be sourced from Financial Institutions like IFCI, IDBI etc. But due to default in repayment of a previous loan, the financial institutions had backed out. As Government did not stand as guarantee, loan could not be availed from international agencies also. So the project was kept in abeyance. When enquired about the money invested in the land, the witness stated that as per Government decision, the land had been handed over to Malabar Cements for Rs. 50 lakhs. The Committee remarked that the company had sustained loss in the transaction. Enquired about the total loss sustained in the project, the witness replied that Rs. 84 lakh spent on the detailed engineering alone need be regarded as actual loss. The technical know-how could be used for some other project in future. The Committee disagreed with this view of the Company pointing out that technology was fast changing and that it would be an even greater waste to use outdated technology on a new project.

Conclusion/Recommendation

2. The Committee is surprised to find grave irregularities in the implementation of the SGPM project. The Company should not have executed the technical know-how agreement with M/s ELIN, Austria, before obtaining requisite Government approval for the project. The Company was also aware that it had defaulted in the repayment of the

existing loans and hence further loans would not be sanctioned anymore. The Committee finds no justification, for the wasteful expenditure of Rs. 2.09 crore on the project. The Committee, therefore, recommends that strict action should be taken against those who authorised the tie-up with M/s ELIN, Austria and the detailed engineering service worth Rs. 0.84 crore. Action should also be taken to make good the loss of over Rs. 2 crore on the project.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
17th, October 2006.

*Chairman,
Committee on Public Undertakings.*

APPENDIX I

Summary of main Conclusion/Recommendation

<i>Para No.</i>	<i>Department concerned</i>	<i>Conclusions/Recommendations</i>
2	Industries	The Committee is surprised to find grave irregularities in the implementation of the SGPM project. The company should not have executed the technical know-how agreement with M/s. ELIN, Austria, before obtaining requisite Government approval for the project. the company was also aware that it had defaulted in the repayment of the existing loans and hence further loans would not be sanctioned anymore. The committee finds no justification, for the wasteful expenditure of Rs. 2.09 crore on the project. The Committee, therefore recommends that strict action should be taken against those who authorised the tie-up with M/s. ELIN, Austria and the detailed engineering service worth Rs. 0.84 crore. Action should also be taken to make good the loss of over 2 crore on the project.

APPENDIX II

**Government notes on Audit Paragraph Contained in the Report of
Comptroller and Auditor General of India for the
Year ended 31-3-2002 (Commercial)**

<i>Year</i>	<i>Para No.</i>	<i>Audit Paragraph</i>	<i>Government's reply</i>
(1)	(2)	(3)	(4)
2001-02	4.1.1.1	<p><i>Infructuous Expenditure :</i></p> <p>Failure of the Company to ensure availability of funds for the project resulted in invalidation of Technical Collaboration Agreement and rendered expenditure of Rs. 2.09 crores infructuous.</p> <p>Mention was made in paragraph 2B.8 of the Report of the Comptroller and Auditor General of India for the year ended 31st March, 1996, No.2 (Commercial), Government of Kerala, about the tardy implementation of the project for manufacture of Special and General Purpose Electric Motors (SGPM) by the Company.</p> <p>The SGPM Project approved (August 1993) by Government at a cost of Rs. 22.50 crores was to be financed by way of equity (Rs. 7.50 crore) from</p>	<p>At the time of preparation the Project Report pertaining to the Project for Special and General Purpose Electric Motors (SGPM) there was no default in repayment of Long Term Loan availed from the Financial Institutions by the company and hence assumed the possibility of raising further funds from Financial Institutions. The project was approved by the Government on 12-8-1993 with a total outlay of Rs. 2250 lakhs and the first instalment of Share Capital was released on 11-1-1994. The product was superior and appreciated by all agencies. By the time of implementation of the project the default in repayment of loan availed earlier from the Financial Institutions had</p>

(1)	(2)	(3)	(4)
		<p>Government and loan (Rs. 15 crore) from Financial Institutions. However, the Company could not tie-up the loan component of the project since they had earlier defaulted (January 1991 onwards) the loan to financial institutions. As per the technical know-how agreement executed (January 1993) with M/s. ELIN, Austria, the validity of the collaboration agreement was for a period of 5 years from the date of commercial production or 8 years from the date of agreement and the validity expired in January 2001. The project was dormant since 1996-97 and the company incurred an expenditure of Rs. 2.09 crore (Technical know-how fee Rs. 1.03 crore, Detailed Engineering Service : Rs. 0.84 crore, other expenses : Rs. 0.22 crore net of interest receipt of Rs 0.14 crores) till 31st March 2001. Thus, the implementation of the project by the Company even after knowing that the loan component would not be forthcoming on account of default in repayment of then existing loans to financial institutions coupled with delay of over 9 years in commencement of the project, rendered the</p>	<p>accumulated and due to this reason, the Financial Institutions declined to sanction long term loan for the SGPM Project. BAGP Project for which the earlier loan was sanctioned was passing through its gestation period and the incidence of loss was high at the time of starting implementation of SGPM Project. This resulted in the accumulation of defaulted dues.</p> <p>The Company subsequently tried to avail soft loan from foreign lender against Government Guarantee. But the Government did not give guarantee for foreign loan and therefore this attempt did not succeed. Alternatively the Government tried to settle the dues to Financial Institutions by way of One Time Settlement (OTS) which also did not materialize at that time. The circumstances under which the Long Term Loans could not be availed are as explained above which are beyond the control of the Company.</p>

(1)	(2)	(3)	(4)
		collaboration agreement invalid leading to infructuous expenditure of Rs. 2.09 crore.	Technical Collaboration Agreement become invalid since the Company kept the project in abeyance under the direction of the Government. Renewal of the Agreement is still possible in case the company proceed with the implementation of the project.
		Government stated (May 2002) that the issue of default in repayment earlier loans and the subsequent hesitation of the financial institutions to sanction further long term loans had arisen only after the commencement of implementation of the project and subsequent Government guarantee for a foreign loan as also effort for a One Time Settlement with financial institutions did not materialize due to bad financial situation of Government. The reply is tenable as the Company had defaulted repayment against loans to financial institutions since January 1991 onwards, much before the commencement (August 1993) of implementation of the Project and Government as well as the Company were aware of the non-availability of term loans for implementation of the Project. The decision to go ahead with the project despite non-availability of institutional credit rendered the expenditure on the project infructuous.	Time is the essence in the implementation of any project. The cost of the project has gone up several fold and the technology has undergone various changes and upgradations due to the inordinate delay in the implementation of the project. Hence the viability of the project is to be reassessed. Board of Directors of the Company have decided to sell/transfer the land acquired for the project to KSIDC/KINFRA. Under these circumstances the company is compelled not to proceed further with the project.