TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)

TENTH REPORT

(Presented on 17th October, 2006)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2006

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COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)

TENTH REPORT

On

The Rehabilitation Plantation Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2002

966/2006.

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INTRODUCTION

I, Chairman, Committee on Public Undertakings (2006-2008) having been authorised by the Committee to present the Report on their behalf, present this 10th Report on The Rehabilitation Plantations 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, was laid on the Table of the House on 16-6-2003. The consideration of the audit paragraphs included in the Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2006-2008.

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 Labour and Rehabilitation Department of the Secretariat and the Rehabilitation Plantations ~~Corporation~~ 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, Labour and Rehabilitation Department and Finance Department and officials of the Rehabilitation Plantations ~~Corporation~~ Ltd. who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
17th October, 2006.

REPORT

THE REHABILITATION PLANTATION LIMITED

AUDIT PARAGRAPH

Unfruitful investment

The Company which was producing natural rubber, decided (March 1989) to start ancillary industries and M/s. Rubber Board, Kottayam (Board) was identified as the technical consultant for conceiving and implementing the project for manufacture of hospital sheetings. Though the Company entered (November 1991) into an agreement with the Board depending entirely on it for implementation of the project, no protective clause was included in the agreement fixing responsibility on the consultant for successful commissioning of the project by producing the intended product. The project cost of Rs. 0.50 crore approved in December 1990 was revised to Rs. 0.79 crore (January 1992) and Rs.1.13 crore (November 1993) due to delay in implementation of the project. The project, scheduled to start commercial production by June 1991 was ultimately put to trial run in April 1996 only. The plant was commissioned at a cost of Rs. 0.95 crore with installed capacity of 450 MT per annum against 500 MT per annum envisaged in the project report. The Company, based on performance and trial run, fixed achievable capacity at 315 MT per annum. In the absence of sufficient technical expertise the Company could not devise suitable calendering and spreading processes required for manufacture of hospital sheetings of prescribed thickness and surface finish which were essential qualities for marketing the product.

Thereupon, the Company had to utilise the plant for manufacture of low value foot-wear quality sheetings not originally envisaged in the project. Due to reduction in sales realisation arising from production of low quality industrial sheetings, fall in level of installed capacity to 315 MT per annum, increase in variable cost, etc., the actual break even point of the project (2000-01) was at 339 per cent of the installed capacity (450 MT) rendering the project unviable.

Thus, the implementation of the project without sufficient technical expertise resulted in non-attainment of projected installed capacity and rendered the investment of Rs. 0.95 crore thereon unfruitful. The alternative use of the plant for production of uneconomic low quality industrial sheetings led to a loss of Rs. 0.68 crore (cash loss Rs. 0.29 crore) for the period from September 1997 to March 2001.

Government stated (May 2002) that the company's earlier demand projection for the conventional hospital sheetings did not hold good now and possibility of making the unit viable with the technical assistance of Rubber

Board was being explored. Efforts were also stated to be under way to make the unit viable by reducing variable cost and the company did not treat the project as a failure. The reply is not tenable since originally the break even capacity worked out by the Company was 404 MT per annum against the attainable installed capacity of 315 MT per annum indicating that the project could not be made viable since plant capacity is a limiting factor.

[Para 4.1.4.1—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2002 (Commercial)]

Notes on Audit paragraph furnished by Government is given in Appendix II.

1. The Committee pointed out that the implementation of ancillary industries without sufficient technical expertise resulted in non-attainment of projected installed capacity and rendered the investment of Rs. 0.95 crores unfruitful. The Committee remarked that alternative use of the plant for production of uneconomic low quality industrial sheetings also led to a loss of Rs. 0.68 crore and wanted an explanation in this regard. The witness stated that there was much delay in the commissioning of the project and due to this the actual expenditure rose to Rs. 95 lakh from the projected cost of Rs. 50 lakh. He added that the capacity was 350 MT per annum instead of 500 MT against 315 MT as observed by audit. Eventhough the company had planned to manufacture hospital sheetings, the decision was later changed to fabricated sheetings because of stiff competition and unaffordable excise duty of 16%. Hence there was no other way, but to adjust the production as per demand and the latest figure was 176 MT.

2. To a specific question of the Committee, the witness stated that the Company did not possess any professional experience in this field. For everything the Company was solely depending on Rubber Board which was basically a research organization. The witness admitted that it was a lapse on their part. The Committee observed that since the Rubber Board was made the technical advisor which owned hardly any experience in this field, the Company suffered a loss of Rs. 68 lakh. The Committee wanted to know whether the company had held any discussion with Rubber Board regarding the thickness of sheet. The witness replied that regular discussions were being held now.

3. To another question, the witness informed that there was no protective clause in the agreement. The Committee pointed out that there should have been specific clause, in the agreement for fixing responsibility on the consultant for successful commissioning of the project. The Committee suggested that a detailed enquiry regarding the previous experience and the

technical know-how ought to have been conducted before the Rubber Board was made the Technical Consultant of the Project. The witness further informed that the Rubber Board had submitted a report in 1991 regarding market study.

4. To a pertinent question, the witness disclosed that they could not trust private organizations for technical and academic support when Rubber Board was there. Hence the Rubber Board was made the technical consultant which was considered to be most competent. The witness stated that the company had paid only Rs. 40,000 as consultancy fees out of Rs. 90,000. The Company had so far produced 1086.7 MT of sheets. In spite of all these efforts, the Company was running on loss, the witness added. As the market was showing an upward trend, targeted production might reach upto 250 MT during the current year. The witness stated that the company was trying to manufacture certain product which might be useful for the Railways.

Conclusion/Recommendation

5. **The Committee is much displeased to note that The Rehabilitation Plantation Limited has started an auxiliary industry without making a proper feasibility study causing heavy loss to the company. The project which was scheduled to start commercial production in 1991 was put to trial run only in 1996. By that time, the project cost had become almost double. Eventhough, the unit was intended to produce hospital sheetings, instead a decision was later taken to produce fabricated sheetings due to the absence of sufficient technical expertise and stiff competition. The Committee is perturbed to learn that the company has not obtained a sound market study report from any expert agency before starting such a project. Moreover the company has not ensured sufficient technical expertise before embarking on such a unit and depended entirely upon the Rubber Board which is basically a research organisation. The Committee opines that the casual approach adopted by the company in starting a new unit without acquiring sufficient technical know-how made the unit unviable, leading to a huge loss of Rs. 0.95 crore besides causing operational loss of Rs. 0.68 crore. The Committee, therefore, recommends that in future the company should desist from taking such mistakes incurring heavy financial burden. The Committee further recommends that every effort should be made to make the unit a viable one by modernization and diversification of production.**

MANKODE RADHAKRISHNAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
17th October, 2006.

APPENDIX 1

Summary of Main Conclusion/Recommendation

Para. No.	*Department Concerned*	*Recommendation/Conclusion*
(1)	(2)	(3)
5	Labour and Rehabilitation Department	The Committee is much displeased to note that The Rehabilitation Plantation Limited has started an auxiliary industry without making a proper feasibility study causing heavy loss to the company. The Project which was scheduled to start commercial production in 1991 was put to trial run only in 1996. By that time, the Project cost had become almost double. Even though, the unit was intended to produce hospital sheetings, instead a decision was later taken to produce fabricated sheetings due to the absence of sufficient technical expertise and stiff competition. The Committee is perturbed to learn that the company has not obtained a sound market study report from any expert agency before starting such a project. Moreover the company has not ensured sufficient technical expertise before embarking on such a unit and depended entirely upon the Rubber Board which is basically a research organisation. The Committee opines that the casual approach adopted by the company in starting a new unit without acquiring sufficient technical know-how made the unit unviable, leading to a huge loss of Rs. 0.95

(1)	(2)	(3)
		crore besides causing operational loss of Rs. 0.68 crore. The Committee, therefore, recommends that in future the company should desist from taking such mistakes incurring heavy financial burden. The Committee further recommends that every effort should be made to make the unit a viable one by modernization and diversification of production.

APPENDIX II

Govt. Report on Audit Paragraphs contained in the Report of Comptroller and Auditor General of India

Recommendation	Action taken
(1)	(2)
4.1.4 The Rehabilitation Plantations Limited *Paragraph No. 4.1.4.1 Unfruitful investment* Lack of sufficient technical expertise rendered the investment of Rs. 0.95 crore in the project for hospital sheetings infructuous besides incurring a loss of Rs. 0.68 crore in the production of uneconomic industrial sheetings. The company which was producing natural rubber, decided (March 1989) to start ancillary industries and M/s. Rubber Board, Kottayam (Board) was identified as the technical consultant for conceiving and implementing the project for manufacture of hospital sheetings. Though the Company entered (November 1991) into an agreement with the Board depending entirely on it for implementation of the project, no protective clause was included in the agreement fixing responsibility on the consultant for successful commissioning of the project by producing the intended product. The project cost of Rs. 0.50 crore, approved in December 1990, was received to Rs. 0.79 crore (January 1992) and Rs. 1.13 crore (November 1993) due to delay in	The Rehabilitation Plantations Ltd., Punalur was set up in 1972 with the objective of Rehabilitation of repatriates from Sri Lanka. The Company was incorporated under the Company's Act during May, 1976 with above social objective. The major activities of the Company are to provide employment to Srilankan repatriates in the Plantation Management and the processing of natural rubber. Company has carried out its business and has been successful in making profits since 1980 in commercial front and has provided sustained employment to repatriates. As a diversification programme Company decided during 1989 to manufacture rubber products as the raw material rubber was available from its plantations. Company engaged the Rubber Board for preparation of project report and providing technical support as consultant. The project report envisaged to produce '9 lakhs metres of hospital sheetings which included 3 lakh metres of plain sheetings and 6 lakh metres of fabric-inserted sheetings annually working in 3 shifts per day for 300 days'. The project cost was envisaged as Rs. 0.50 crore.

(1)	(2)
implementation of the project. The project, scheduled to start commercial production by June 1991 was ultimately put to trial run in April 1996 only. The plant was commissioned at a cost of Rs. 0.95 crore with installed capacity of 450 MT per annum against 500 MT per annum envisaged in the project report. The Company, based on performance and trial run, fixed achievable capacity at 315 MT per annum. In the absence of sufficient technical expertise the Company could not devise suitable calendaring and spreading processes required for manufacture of hospital sheetings of prescribed thickness and surface finish which were essential qualities for marketing the product. Thereupon, the Company had to utilize the plant for manufacture of low value foot-wear quality sheetings not originally envisaged in the project. Due to reduction in sales realization arising from production of low quality industrial sheetings, fall in level of installed capacity to 315 MT per annum, increase in variable cost, etc., the actual break even point of the project (2000-2001) was at 3.39% of the installed capacity (150 MT) rendering project unviable. Thus, the implementation of the project without sufficient technical expertise resulted in non-attainment of projected installed capacity and	Company entered into an agreement (during 1991) for implementation of the project. It is true that company did not have any protective clause in the agreement for fixing responsibility on the consultant for successful commissioning of the project solely due to the reasons that Rubber Board are the most competent in such matters. Company has received the academic and technical support for project implementation and it is still getting such support to make this project viable and in other activities of the company. Due to the administrative and technical delays the project could not be implemented in time and was started only in April 1996. The project was commissioned at a cost of Rs. 0.95 crore with installed capacity of 450 MT per annum against the 500 MT per annum envisaged in the project report. Due to the administrative, technical and market reasons company decided for commissioning of the project for the manufacturing of fabric inserted sheetings known as Foot-wear Quality Sheetings in commercial parlance. Fabric inserted sheetings was one of the product output in the project. The main reasons for the same are : 1. Calendaring could not be perfected to provide smooth finish to the sheetings.

(1)	(2)
rendered the investment of Rs. 0.95 crore thereon unfruitful. The alternative use of the plant for production of uneconomic low quality industrial sheetings led to a loss of Rs. 0.68 crore (cash loss Rs. 0.29 crore) for the period from September 1997 to March 2001. Government stated (May 2002) that the Company's earlier demand projection for the conventional hospital sheetings did not hold good now and possibility of making the unit viable with the technical assistance of Rubber Board was being explored. Efforts were also stated to be under way to make the unit viable by reducing variable cost and the company did not treat the project as a failure. The reply is not tenable since the originally the break even capacity worked out by the company was 404 MT per annum against the attainable installed capacity of 315 MT per annum indicating that the project could not be made viable since plant capacity is a limiting factor.	2. An excise duty of 16 % was found to be applicable for manufacture of hospital sheets which was not envisaged in the project report. 3. The cost with the above excise duty was higher to enter in the competitive market of hospital sheets wherein a low cost product of plastic origin was flooded in the market. 4. Company found that in insertion, sheets the main competitors were M/s. Trivandrum Rubber Works and it can sale its products in south India. The fabric sheeting in south India were mainly being supplied by manufacturers from Calcutta. Thus it may be seen that the company commissioned its manufacturing of sheeting project after careful consideration of administrative, technical and market scenarios and has stated since then manufacturing and sale of fabric inserted sheetings. It is true that company commissioned project with installed capacity 450 MT per annum against 500 MT per annum envisaged in the project report. It is also true that on performance of trial run Factory Manager stated that a capacity of 315 MT will be easily achievable. However, the matter was referred to the consultant and on closer scrutiny company could assess

(1)	(2)
	and has fixed its installed capacity to 450 MT per annum alone. The critical components for determining the capacity are Mixing Mills. Company has installed 2 Mixing Mills with configuration 14 x 36" and 16 x 42" with capacities to mix 20 and 50 Kg. per batch respectively. Using these two mills in combination for mixing and pre warming may definitely produce rubber compounds leading to production of 450 MT of sheetings per annum. This has also been the view of Rubber Board. The technical report received on the matter from Rubber Board dated, 22-7-1998 is enclosed for perusal. From the experience of working in one shift in last years, it is felt that above capacity is achievable. It is estimated from the above capacity that a break even capacity for making the project viable including the capital cost is 404 MT. Thus the installed capacity (450 MT) is above the breakeven point. The attainable capacity (315 MT) in the report of the Factory Manager has not been accepted by the company considering the technical capacities of critical components in the production unit. Due to the market and marketing problems company has so far not been able to utilize the full capacity of the production unit. Company has worked maximum in one shift and at limited times on two shifts as and when the demand has gone up. Company and

(1)	(2)
	its Board of Directors are conscious of critical status of the unit and are constantly working to achieve the full capacity of the unit. In fact the Board of Directors have constituted a committee consisting of technical and finance persons to revive and to initiate corrective measures. The committee consists of Chairman, M/s. HLL, Trivandrum, Director, T&TC, Rubber Board, Kottayam, Additional Secretary, Finance Department, Government of Kerala, Managing Director, RPL and Manager, R.S Factory, RPL. With the advise of the committee and the efforts taken by the company, it is submitted that company has achieved the following: (a) Company has kept the variable cost within the limits in previous years in spite of increased cost of inputs. (b) Company has manufactured the quality sheets for deemed exports purposes. (c) There is improvement of internal sales of the product. (d) Company has achieved ISO 9001-2000 certification for its quality management system for this unit also during 2003. (e) Company is exploring the possibility of manufacturing and supply of Rubber Pad (Grooved Rubber Sole Plate) to Indian Railways which is used in the Railway tracks.

(1)	(2)
	From the facts and circumstances stated above it is submitted that the Company is taking all concerned efforts to make the unit fully functional and economically viable. It is requested that the statement made above may please be accepted and the para in the report of C & AG report may kindly be dropped.