TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE ON PUBLIC UNDERTAKINGS (2006-2008)

FOURTH REPORT

(Presented on 17th October, 2006)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2006

TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)

FOURTH 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 31-3-2003 (Commercial)

960/2006.

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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 Fourth Report on Kerala Electricals and Allied Engineering Company Ltd. based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended 31-3-2003, was laid on the Table of the House on 28-6-2004. 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 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 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.

MANKODE RADHAKRISHNAN,

Chairman,
Committee on Public Undertakings.

REPORT

KERALA ELECTRICAL AND ALLIED ENGINEERING COMPANY LIMITED

AUDIT PARAGRAPH

Wasteful Expenditure

Company's decision to start the project without ensuring marketability of the product and availability of funds resulted in wasteful expenditure of Rs. 4.48 crore.

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 delay on the part of the Company in implementation of the project for production of Brushless Alternators for Automobiles (BAA).

The Company decided (1984) to implement the BAA project at a cost of Rs. 3 crore. The implementation of the project proposed (1987) at a revised cost of Rs. 5.10 crore was deferred (March 1998) at the instance of Government. However, four years after the deferment of the project, the Company decided (1992) to restart the project, without conducting any fresh marketability study. The Company projected a cost of Rs. 12.75 crore with a financing pattern of Government equity (Rs. 5.10 crore) and loans (Rs.7.65 crore) and started the project with the equity contribution of Rs. 4.85 crore received (March 1987 to March 1993) from the Government. Eventually the project work had to be stopped (1996) for want of funds from financial institutions due to default (during 1991 to 1996) in repayment of loans. The expenditure incurred on the project up to 31 March 1996 was Rs. 3.18 crore. At the time of stoppage of work in 1996 the Company had deployed 11 workers on the project and retained them without any work till 31 March 2003 resulting in payment of idle wages of Rs. 1.08 crore.

A study conducted (July 2001) by Kerala Industrial Technical Consultancy Organisation confirmed that the project was not viable since the automobile manufacturers had inhouse/external sourcing arrangements to meet their entire requirements and a new multi products project involving a cost of Rs. 13.90 crore had been proposed in place of BAA project. This new project also could not be implemented (May 2003) for want of funds. The total expenditure incurred on the project up to 31 March 2003 was Rs. 4.48 crore.

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Thus, the decision of the Company to go ahead with the project despite doubtful marketability of the product and non-availability of finance from financial institutions resulted in wasteful expenditure of Rs. 4.48 crore.

Government stated (June 2003) that due to default in repayment of loans to IFCI and IDBI during 1991 to 1996 the financial institutions withdrew the sanctioned loan as a result of which the execution of the project came to a standstill. The reply is not tenable since the Company was aware (1991) of the withdrawal of sanctioned loans for the projects by financial institutions before restarting the project in 1992 and could have avoided investment in the project without tying up fresh finance.

[Para 4.2—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2003 (Commercial)].

The notes furnished by Government on the para is given in Appendix II.

1. The Committee pointed out that the Company's decision to start the Brushless Alternator for Automobiles (BAA) project without ensuring the marketability of the product and availability of funds resulted in wasteful expenditure of Rs. 4.48 crore and wanted an explanation in this regard. The Managing Director, KEL stated that the company conceived the project in 1980 and the product they proposed to manufacture was Brushless Alternators for Automobiles (BAA) which would replace the DC dynamos. The company wanted to manufacture them in bulk quantity and to supply them to the automobile manufactures. The witness informed that the Kasargode unit was a huge project with an investment of Rs. 20 crore. In 1988 the Government had taken a decision to concentrate on Kasargode project, but the project for BAA was kept in abeyance and in 1994 the Government finally gave clearance for the project. The witness disclosed that the project was kept in abeyance for about 14 years from 1980 to 1994. When Government gave Rs. 4 crore in 1994, the company acquired the infrastructure such as buildings and the machinery with the Government assistance. The Government also directed the company to make use of the facilities for other units at Kasargod and Kundara.

2. On enquiry whether the company had intended to revive the project after installing the infrastructure facilities with the money provided by the Government, the Managing Director informed that the company was intending to revive the original project. When asked how the company intended to make use of the infrastructure facility already possessed the witness informed that they expected good returns from the Kasargod unit, but it did not materialise.

3. The witness informed that the infrastructure facilities were now being used for the repair of transformers, DC fans for Railways and the project was congenial for these purposes.

4. To the remark of the Committee that the Company should have ensured the availability of funds before considering the revival of the Kasargode project for the second time, the witness stated that they did not receive any assistance for the project, as there was 'default' in the repayment of the financial assistance already received from the IFCI for the project in 1991. When asked whether the company had conducted any market survey during that period the witness replied in the affirmative.

5. The Committee was informed that the Company was utilising the machinery for manufacturing components for other units at Kundara and Kasargode. The witness also informed that 11 employees were working in the Edarikode plant who were deployed from other units of the Company.

6. Replying to a question of the Committee whether KEL had made any understanding with KSEB, the witness informed that the KEL had an understanding with KSEB and they had already received orders from KSEB and they were doing the repairing of transformers in the workshops of KEL.

7. When the Committee wanted to know the condition of the Palakkad unit, the witness stated that a work study had been conducted. It was found that the project had become obsolete and the machinery was too outdated to be utilised. The witness added that though a proposal was submitted for setting up a new plant somewhere else, it was not approved by Government. The witness informed the Committee that the Kasargode Unit of KEL had good turnover and 90% of capacity could be achieved. The Mamala and Kundara Units were also running in profit, he added.

8. When the Committee enquired whether the Company had signed any MOU with Public Sector Undertakings, the witness replied in the negative and informed that the company had an understanding with the PSU and accordingly they would give maximum orders for the company. The Committee suggested that there should be an understanding at the Government level for entrusting the work of KSEB to the Company. The witness stated that when approached for such an understanding, the KSEB had discouraged the proposal by stating that being a commercial organization, it had to purchase materials at the lowest possible price.

9. Taking into consideration the high cost of transportation for carrying all the defaulted transformers from the Malabar area to Ernakulam for repair, the Committee decided to recommend that a separate repairing unit should be set up at Malabar area itself in order to avoid inconvenience and the huge transportation charges.

Conclusions/Recommendations

10. **The Committee finds that the Company had ventured into a project without ensuring the marketability of the product and availability of the funds and also noted that inordinate delay had occurred in the implementation of the project due to lack of planning and foresight. The Committee is shocked to find that though the study conducted by Kerala Industrial Technical Consultancy Organisation confirmed that the project was not viable and the uncertainty of the availability of finance was known, the company proceeded with the project. The Committee therefore recommends that the viability of the project and availability of finance should be ensured before commencing new projects at least in future.**

11. **The Committee observed that high cost of transportation incurred for carrying all the defaulted transformers from Malabar area to Ernakulam for repairs. So the Committee recommends that a separate repairing unit should be set up at Malabar area in order to avoid inconvenience and the huge transportation charges.**

MANKODE RADHAKRISHNAN,

Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
17th October, 2006.

APPENDIX I

Summary of Main Conclusions/Recommendations

Sl. No.	*Para. No.*	*Department Concerned*	*Conclusions/Recommendations*
(1)	(2)	(3)	(4)
1	10	Industries	The Committee finds that the Company had ventured into a project without ensuring the marketability of the product and availability of the funds and also noted that inordinate delay had and occurred in the implementation of the project due to lack of planning and foresight. The Committee is shocked to find that though the study conducted by Kerala Industrial Technical Consultancy Organization confirmed that the project was not viable and the uncertainly of the availability of finance was known the company proceeded with the project. The Committee therefore recommends that the viability of the project and availability of finance should be ensured before commencing new project at least in future.
2	11	..	The Committee observs that high cost of transportations incurred for carrying all the defaulted transformers from Malabar area to Ernakulam for repairs. So the Committee recommends that a separate repairing unit should be set up at Malabar area in order to avoid inconvenience and the huge transportation charges.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON AUDIT PARA

INDUSTRIES (D) DEPARTMENT

Action taken Statement on the Recommendations contained in the Report of Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial)

Name of the comapny	*Para. No.*	*Title of the Para.*	*Reply to the Para.*
(1)	(2)	(3)	(4)
Kerala Electrical and Allied Engineering Company Limited	4.2	*Wasteful Expenditure* Company's decision to start the project without ensuring marketability of the product and availability of funds resulted in wasteful expenditure of Rs. 4.48 crores. 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 delay on the part of the Company in implementation of the project for production of Brushless Alternators for Automobiles (BAA). The Company decided (1984) to implement the BAA project at a cost of Rs. 3 crores. The imple-	The Brushless Alternator for Automobiles (BAA) project was originally conceived for implementation by the year 1988 at Edarikode unit of KEL. During that period the Project was cleared for financial assistance by IFCI along with the Brushless Alternator for General Purpose (BAGP) Project at Kasaragod. But as per the instructions of the Government the execution of BAA project was temporarily suspended as the Government wanted to give top priority for the implementation of the Kasaragod project. Accordingly BAGP Project was implemented and commissioned in 1990 with a capital outlay of Rs. 20 crores. The capital outlay originally envisaged for BAA Project at Edarikode was Rs. 6.42 crores, which was subsequently enhanced to Rs. 12.75 crores due to cost over-run which in turn, was

(1)	(2)	(3)	(4)
		mentation of the Project proposed (1987) at a revised cost of Rs. 5.10 crore was deferred (March 1988) at the instance of Government. However four years after the deferment of the project, the Company decided (1992) to restart the project, without conducting any fresh marketability study. The company projected a cost of Rs. 12.75 crores with a financing pattern of Government equity (Rs. 5.10 crore) and loans (Rs. 7.65 crore) and started the project with the equity contribution of Rs. 4.85 crore received (March 1987 to March 1993) from the Government. Eventually the project work has to be stopped (1996) for want of funds from financial institutions due to default (during 1991 to 1996) in repayment of loans. The expenditure incurred on the project upto 31 March 1996 was Rs. 3.18 crore. At the time of stoppage of work in 1996 the Company had deployed 11 workers on	consequent to the delay in execution. After giving approval in 1992, the Government released Rs. 4.84 crores towards equity for BAA Project in 1994. The company utilized the entire amount of Rs. 4.8 crores during 1994-95 for construction of the building and installation of a part of plant and machinery. From 1991 to 1996, the company has been incurring loss on account of the BAGP Project implemented at Kasaragod, which resulted in default in repayment of Institutional dues to IFCI and IDBI. The efforts of the Government to repay the loan based on a one-time-settlement also did not materialize then. The financial institutions withdrew the sanctioned loan on account of the default made by the company in the repayment of term loan taken for BAGP project, Kasaragod. The company's efforts to avail a soft loan from foreign sources also did not materialize, as the government was not in a position to provide guarantee for such an arrangement. As a result of this, the execution of the project came to a stand still.

(1)	(2)	(3)	(4)
		the project and retained them without any work till 31 March 2003 resulting in payment of idle wages of Rs. 1.08 crore. A study conducted (July 2001) by Kerala Industrial Technical Consultancy Organization confirmed that the project was not viable since the automobile manufacturers had in-house/external sorucing arrangements to meet their entire requirements and a new multi products project involving a cost of Rs. 13.90 crore had been proposed in place of BAA project. This new project also could not be implemented (May 2003) for want of funds. The total expenditure incurred on the project upto 31 March 2003 was Rs. 4.48 crore. Thus, the decision of the Company to go a head with the project despite doubtful marketability of the product and non-availability of finance from financial intitutions	The inordinate delay in the implementation of BAA Project was caused by the withdrawal of the sanctioned loan by the financial institutions, which were beyond the control of the company. The Government directed the management to make all possible efforts to utilize the plant and machinery installed at the site for supplementing the needs of other units of KEL. Based on this decision some employees were deployed at the project for looking after the maintenance of the building, plant and machinery and other fixed assests of the project in order to keep them operative and to supplement the needs of other units of KEL. If the Company withdraws these employees from there, the plant and machinery of the project would have damaged beyond repair and further utilization of the same would have been impossible. The Public Undertakings Committee (PUC) in its meeting held on 16-9-2002 at Thiruvananthapuram had also gone deep into the matter. In the implementation of a Project, time is one of the predominant factors. This project was originally

(1)	(2)	(3)	(4)
		resulted in wasteful expenditure of Rs. 4.48 crores. Government stated (June 2003) that due to dafult in repayment of loans to IFCI and IDBI during 1991 to 1996 the financial institutions withdrew the sanctiond loan as a result of which the execution of the project came to a standstill. The reply is not tenable since the Company was aware (1991) of the withdrawal of sanctioned loans for the projects by financial institutions before restarting the project in 1992 and could have avoided investment in the project without tying up fresh finance.	conceived in the early 80's slated for completion in 1998. The Government finally approved the project in 1994. By this time, the cost estimate has gone up three-fold and the technology had also undergone various changes and upgradations. Therefore the investment made for the infrastructure so far for the BAA Project is being utilized by the company for the need based requirement of the other units of the comapny and hence the investment cannot be considered as infructuous. A fresh proposal for the revival of Edarikode Unit has already been approved by the Government as per G. O. (Rt.) No. 1150/04/ID dated, 27-11-2004 which envisages the utilization of the existing infrastructure, adding additional facility for manufacture, of Brushless DC fans (BLDC) for rail coaches, Transformer repair of Kerala State Electricity Board, High Speed Alternators, fuse units of Kerala State Electricity Borad etc.