TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)

THIRTY SIXTH REPORT

(Presented on 12th September, 2007)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2007

TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)

THIRTY SIXTH REPORT

On

[Autokast Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31-3-2002 (Commercial)]

1208/2007.

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS (2006-2008)

Chairman :

Shri Mankode Radhakrishnan.

Members :

Shri P. K. Abdu Rabb
,, A. A. Azeez
,, M. Chandran
,, C. M. Dinesh Mani
,, K. T. Jaleel
,, K. K. Jayachandran
,, P. J. Joseph
,, K. Kunhiraman
,, K. Sudhakaran
,, K. C. Venugopal.

Legislature Secretariat :

Dr. N. K. Jayakumar, Secretary
Shri R. Vijayakumar, Joint Secretary
,, K. Mohanakumar, Deputy Secretary
Smt. L. Sailaja, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2006-2008), having been authorized by the Committee to present the Report on their behalf, present this Thirty Sixth Report on Autokast Ltd based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2002 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year 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 were made by the Committee on Public Undertakings constituted for the year 2004-2006.

This Report was considered and approved by the Committee at the meeting held on 18-8-2007.

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 Paragraph included in this Report.

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Autokast 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 Autokast 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,
12-9-2007.

REPORT

AUTOKAST LIMITED

2B. 1 ***Introduction***

The Company was incorporated in May 1984 as a wholly owned subsidiary of Steel Industrials Kerala Limited (SILK). The main objects envisaged at the time of incorporation of the Company were:

(i) to promote, undertake, finance, execute and develop ferrous and non-ferrous casting industries and units in Kerala State or elsewhere,

(ii) to do the business of designers, manufacturers, buyers, sellers, dealers, importers and exporters of all types of ferrous and non-ferrous materials,

(iii) to promote or assist in the promotion of any company or companies for any purpose which may directly or indirectly benefit this Company or to advance objects and interests thereof and to acquire shares in such companies.

Accordingly, a project for manufacture of 23000 MT per annum of integrated casting was commissioned in May 1989 at a total cost of Rs. 30.14 crore.

2B. 2 ***Organisational set-up***

The Company is managed by a Board of five Directors including a part-time Chairman (who was also the Chairman of the Holding company). Managing Director is the Chief Executive of the Company and there are no functional Directors/Technical experts in the Board. The Managing Director is assisted by General Manager (Operations), Dy. General Manager (Marketing) and Finance Manager.

Though the Company was under a revival scheme, the post of Managing Director remained vacant for a total period of 17 months from 13 November 1996 to 16 September 1997 and from 25 March 2001 to 7 October 2001.

A Management Committee consisting of BIFR's (Board for Industrial and Financial Reconstruction) Special Director, nominee of IFCI, representative of Lead Bank, Director of Holding Company and Managing Director of the Company was constituted (1995) at the instance of BIFR for reviewing on a monthly basis the operations of the Company and for closely monitoring the implementation of the revival scheme. However, the Committee was not meeting regularly and no meeting was held after June 2001.

2B. 3 ***Scope of Audit***

The activities of the Company till 31 March 1990 were reviewed and included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990. The Report was yet to be discussed by the Committee on Public Undertakings (May 2002). The present review conducted during the period from January to April 2002 covers the working of the Company for the five years upto 31 March 2001.

2B. 4 ***Finance and Resources***

2B. 4. 1 *Capital structure*

Against the authorised share capital of Rs. 20 crore, the paid-up capital of the Company as on 31st March 2002 was Rs.17.97 crore. The Company is yet (August 2002) to regularise the share capital advance of Rs.1crore received during the year 1997-98.

2B. 4. 2 *Borrowings*

The total borrowings of the Company as on 31 March 2001 was Rs. 54.5 crore comprising loan from banks: Rs. 20.99 crore, holding company: Rs.13.50 crore, Government of Kerala: Rs.12.95 crore, IDF: Rs.1.30 crore and Kerala Industrial Revitalisation Fund Board (KIRFB): Rs. 5.77crore. The defaulted interest on bank loans as on 31 March 2001 amount to Rs. 18.70 crore.

2B. 5 ***Rehabilitation package***

2B. 5. 1 *Implementation of Rehabilitation package*

Ever since commencement of commercial production, the Company's working resulted in huge losses mainly due to under-utilisation of capacity and heavy rejections at factory as well as customer level and working capital problems. In view of heavy accumulated loss of Rs. 24.38 crore as on 31 March 1992, which represented 197 per cent of paid up capital of Rs. 12.35 crore as on that date, the Company was registered (1992) as a sick PSU with BIFR and a rehabilitation package was accepted (December 1995) by Government. Based on the package, the company had written back concessions equivalent to Rs.11.49 crore in 1995-96 and Rs. 8.71crore in 1999-2000. Besides, additional funds amounting to Rs.35.70 crore (Holding company: Rs.8.50 crore, Government loan: Rs.17.95 crore; share capital contribution: Rs. 3.45 crore, KIRFB: Rs.5.80 crore) were also pumped in from December 1995 to March 2001 for rehabilitation of the Company. Moreover, concessions by way of moratorium on sales tax, waiver of electricity duty, interest, deferment of payment of energy charges, etc., were also granted. However, the production recorded during this period ranged between 9.5 and 13.3 per cent only

of installed capacity and the rejection level was high. Thus, the rehabilitation measures of the Company by spending Rs. 35.70 crore by way of additional funds and granting Rs. 20.20 crore by way of concession did not help the Company either in increasing the productivity or the overall performance, but resulted in additional loss of Rs. 36.12 crore. The accumulated loss on completion of rehabilitation period (March 2001) was Rs. 99.03 crore, which represented 551 per cent of paid-up capital Rs. 17.97 crore. Though the employees of the Company were benefited substantially due to wage revision and overtime wages, the labour productivity and production recorded further decrease. While the Management Committee submitted periodical reports to the Board on the performance of the Company and necessary directions were being issued from time to time, the performance of the Company did not improve. The rehabilitation package was declared. (August 2000) by BIFR as a failure. The inefficiencies and losses that contributed to the failure of the rehabilitation package are discussed in the succeeding paragraphs.

2B. 6 ***Financial position and working results***

The Company had finalised its accounts for the period up to 2000-01. The financial position and working results of the Company for the five years up to 31 March 2001 are given in Annexures 14 and 15.

It could be seen from Annexure 14 that the financial position of the Company was alarming and Company's Debt Equity ratio ranged between 2.64:1 and 3.91:1 during the years from 1996-97 to 2000-01 indicating Company's over dependence on borrowed funds. The accumulated loss of Rs.99.03 crore as at the end of 31 March 2001, which was more than 5 times the paid-up capital and reserves, led the Company to have a negative networth.

Annexure 15 indicated that the net loss during the five year period ranged between Rs. 8.98 crore and Rs. 10.18 crore except during 1999-2000 when the loss was Rs. 0.76 crore mainly due to write-back of Rs.8.71crore being interest waived by IFCI. The losses were mainly attributable to heavy manufacturing and other expenses, employees cost and finance charges. The employees cost registered an increase of 56 per cent over the five years up to 31st March 2001 mainly due to wage revisions and payment of overtime wages during the period of rehabilitation.

The finance charges represented 23 to 32 per cent of total cost during the five years up to 31 March 2001. The Company had been incurring huge cash loss every year and the same amounted to Rs. 15.58 crore during the period of five years ending 31 March 2001.

The Management had not analysed the reasons for the losses. It was, however noticed in audit that the main reasons for the losses were gross under utilisation of installed capacity, heavy rejection at factory level and also a customer level, excessive consumption of power, very low labour productivity and lack of cost control measures as discussed in succeeding paragraphs.

2B. 7 ***Production performance***

The raw material consisting of Cold Rolled Continuously Annealed (CRCA) scrap, Pig Iron, MS Scrap, etc., are fed into the Induction Furnace for melting and necessary additives are added for maintaining the properties of casting as required by individual customers. The molten metal is then poured into the moulds and after cooling, the same is decored, fettled and machined to form the finished product.

2B. 7. 1 *Capacity utilisation*

Installed capacity of the plant was 18000 MT of castings per annum which was increased (June 1986) to 23000 MT per annum. According to the Detailed Project Report (DPR) the production was to reach the level of 18000 MT per annum from 1986-87 onwards and the break even level of production was 9000 MT per annum. During the 12 years from 1989-90 to 2000-01, the maximum production achieved was 4939 MT (1995-96) of castings only which worked out to 21.5 per cent of the installed capacity. The Company had failed to achieve the break even level of production till 31 March 2001, despite having sufficient orders as discussed in the following paragraphs:

2B. 7. 2 *Loss due to non-achievement of budgeted production*

The Company had been preparing annual production budget. The budgeted vis-a-vis actual production during the 5 years from 1996-97 to 2000-01 were as given in Annexure 16.

Details in the Annexure indicated that :

(i) during the five years ended 31 March 2001 the Company had been budgeting production at very low levels ranging from 23.4 to 43.4 per cent of installed capacity. Despite this the actual production was only between 30.2 to 55.4 per cent of the budgeted production leading to shortfall in production of 23188.913 MT for the five years ended 31 March 2001.

Since the Company was having enough orders on hand, the shortfall in production of 23188.913 MT resulted in non-execution of orders. The value of sales not executed due to shortfall in production during the period 1996-97 to 2000-01 amounted to Rs.68.32 crore computed at the average rate applicable for domestic sales for respective years.

(ii) the net production* during the 5 year period ranged between 9.5 and 13.3 per cent of the total installed capacity indicating heavy under-utilisation of the plant capacity leading to high cost of production arising from under-absorption of fixed costs. The reasons for low level of production were attributed by the Government (July 2002) to disruption/restrictions in power supply, working capital inadequacy, etc. However, it was noticed that the Company had not utilised the quota allotted by Kerala State Electricity Board (KSEB) to the full extent during periods of power restrictions. Funds received were also not properly deployed as discussed in paragraph 5 supra.

2B. 7. 3 *Loss of contribution*

The details of break even production, actual production, shortfall and loss of contribution of the four years ended 31 March 2000 are given below:

Year	*Budgeted production*	*Break even Production*	*Net production*	*Shortfall in production*	*Contribution per MT*	*Loss of contribution*
		(In metric ton)			*(Rupees)*	*(Rs in crores)*
1996-97	10000	5319	3049.787	2269.213	7230.00	1.64
1997-98	9600	6383	2894.331	3488.669	7320.00	2.55
1998-99	6000	13020	2176.751	10843.249	4490.00	4.87
1999-00	6000	8076	2698.834	5377.166	7130.00	3.84
Total	..	32798	10819.703	21978.297	..	12.90

It was noticed in audit that the Company had ignored the break even level while budgeting and budgeted a production of 6000 MT only during the years 1998-99 and 1999-2000 and 5400 MT only for the year 2000-01. The actual production always fell short of the break even production resulting in loss of contribution. The contribution lost during the four years ended 31 March 2000 amounted to Rs. 12.90 crore. Ostensibly, the reasons were: (i) Low yield, (ii) Rejection and remelting (iii) Inefficiency of labour/machines. These are discussed in subsequent paragraphs.

2B. 7. 3. 1 *Loss of production due to part utilisation of Induction Furnace*

The Company had a unit of two Induction Furnaces of 6 MT capacity installed during the year 1985-86. For obtaining maximum output with less energy consumption, the furnaces were equipped with a Holding System having four contactors that facilitated the selection of both the furnaces either for Melting or

* Net production means, production excluding factory rejection and in house consumption.

for Holding the molten metal. This change-over system became defective in May 1995 and after a lapse of nearly 15 months, a proposal was put up (August 1996) for getting the system replaced/repaired through M/s Pillar Induction (India) Ltd., Madras at a cost of Rs.8.50 lakh. Though the proposal was approved by the Board, the system had not been repaired or replaced (March 2002) resulting in utilisation of the furnace in part only. Had the system been in operation, production would have increased by 30 per cent (4660 MT) during the period 1996-97 to 2000-01. Of the contribution lost (Rs. 12.90 crore), loss of contribution of Rs. 3.14 crore was due to low capacity utilisation of Induction Furnace.

2B. 7. 4 *Low yield*

MS Scrap, CRCA Scrap, Pig Iron, etc., were the raw materials used for production of castings in addition to the factory and customer rejections of GI and SGI casting. MS scrap, Cast Iron returns and Pig Iron are used for production of GI castings while CRCA scrap and SGI returns are used for production of SGI castings. While preparing the budget, the Company had adopted the norm of 70 and 65 per cent yield respectively for GI castings and SGI castings from the liquid metal outputs. An analysis of the production of castings vis-a-vis the molten metal output as per the record revealed that the Company was getting around 70 per cent yield in the case of GI castings whereas it was only 54-56 per cent in the case of SGI castings involving a shortfall in yield of 300.152 MT and resultant loss of Rs.1.28 crore as shown in the table below:

Year	*Liquid Metal (MT)*		*Castings (MT)*		*Percentage of yield*		*Short-fall in yield of SGI castings (MT)*	*Average sale price (Rupees/ MT)*	*Value (Rupees in lakh)*
	*GI**	*SGI***	*GI*	*SGI*	*GI*	*SGI*			
1998-99	3439.804	418.491	2363.746	226.185	68.7	54.0	45.834	38748	17.76
1999-00	3655.180	1026.949	2549.066	568.615	69.7	55.4	98.902	38534	38.11
2000-01	3266.725	1800.330	2314.528	1014.799	70.9	56.4	155.416	46662	72.52
				Total			300.152		128.39

The excessive shortfall in yield was due to shrinkage, high generation of scrap, excess weight of castings produced, etc.

The Government stated (July 2002) that the Company had started various latest engineering techniques to improve the yield.

* GI—Grey Iron.
** SGI—Spheroidal Graphite Iron

2B. 7. 5 *Rejection of castings*

The rejection of casting produced by the Company occurs at the factory level and also at customer level. While the factory level rejections were due to manufacturing defects like dimensional inaccuracies, hairline cracks, etc., the customer level rejections arose at the time of further machining at customer's end. The rejections at factory level were much higher than the norms as discussed below:

2B. 7. 5. 1 *Factory rejections*

While the industry norms for rejections at the factory level was only 4 per cent, the Company fixed a rejection rate of 6 per cent of actual production till 1998-99 which was increased to 8 per cent from 1999-2000 onwards. However, the actual rejections during the five years from 1996-97 to 2000-01 were higher than the norm of 6 per cent and 8 per cent of gross production fixed by the Company as shown below:

Year	*Gross production (MT)*	*Norm fixed by Company (per cent)*	*Plant rejection as per norm (MT)*	*Actual plant rejection (MT)*	*Percentage of plant rejection to actual production*	*Excess over norm (MT)*	*Value @ Rs.25000 per MT (Rupees in lakh)*
1996-97	3269.497	6	196.170	219.710	6.7	23.54	5.89
1997-98	3193.945	6	191.637	299.614	9.4	107.977	26.99
1998-99	2599.507	6	155.970	422.756	16.3	266.786	66.70
1999-00	3141.265	8	251.301	442.431	14.1	191.130	47.79
2000-01	3329.327	8	266.346	337.943	10.2	71.597	17.90
			Total			661.030	165.27

The percentage of rejection was 6.7 during 1996-97, but increased to 16.3 in 1998-99 when the annual production was the lowest during the five year period. The reasons for the factory rejections were process defect, dimensional inaccuracies, improper online inspection, non-improvements in process control techniques, etc. It was also noticed in audit that the monthly rejection recorded was as high as 60.6 per cent (April 2000). Computed at the average cost of Rs. 25000 per MT charged on sub-contractors for recovery of excess machining rejections, the excess rejection of 66.030 MT resulted in loss of Rs. 1.65 crore.

It was also noticed during audit that, the Company purchased (November 1999) a Fusion Welding Furnace at a cost of Rs. 3.10 lakh with the objective of

reducing the factory rejection by 40 per cent. The equipment remained defective ever since the date of commissioning. By taking effective action to repair and replace the machine, the Company could have reduced the factory rejection by 280 MT valued at Rs. 0.76 crore and avoided the loss of Rs.0.53 crore (excluding scrap value and operating cost amounting to Rs. 0.23 crore) for the period from December 1999 to March 2002.

Government stated (July 2002) that continuous evaluation of the reasons for rejection was being done now by the Company to bring down the level of rejection and the rejection could be brought down to acceptable level in future.

2B. 7. 5. 2 *Product-wise plant rejections*

The table below indicates rejection in respect of 5 different products having specified fixed weight which were in continuous production in the Company during the years 1999-2000 and 2000-01:

Product	*1999-2000*			*2000-01*		
	Production	*Rejection*	*Percentage of rejection to production*	*Production*	*Rejection*	*Percentage of rejection to production*
	Quantity in Nos			*Quantity in Nos*		
Eicher Carter	9417	1337	14.2	11638	600	5.2
Eicher Crank	4132	652	15.8	3037	516	17.0
Eicher Flywheel	2072	658	31.8	982	214	21.8
Kamco Cl.Fm	7101	1018	14.3	5160	1031	20.0
Kamco MG case	2949	961	32.6	912	397	43.5

It could be seen that the percentage of rejection of items of continuous production was very high compared to the industry norm of 4 per cent for factory rejection. In the case of Kamco MG case, the rejection was as high as 43.5 per cent of the production for 2000-01. No remedial action was taken to reduce the rate of rejection. The reasons attributed (March 1999) by the Company for the rejection of Kamco MG case were defect of sand system and lack of metal cutting facilities in pattern shop. No action had been taken by the Company to minimise the rejections even after 2 years of analysing the reasons.

2B. 7. 6 *Consumption of power and additives*

2B. 7. 6. 1 *Power*

As per the Detailed Project Report (DPR), the consumption standard for power was 1500 units (KWh) per MT of castings produced which was revised by the Company to 1800 units per MT from 1996-97. An analysis in audit revealed that the actual monthly consumption of power varied between 1677 units (December 1999) and 3318 units (April 2000) per MT of castings produced. The power consumed in excess of norms during the five years from 1996-97 to 2000-01 was 5 MU valued at Rs. 1.25 crore as indicated below:

Year	*Cross Production (MT)*	*Units consumed (KWh)*	*Consumption as per norm of 1800 Units/MT*	*Excess consumption (Units)*	*Average Rate/Unit (Rupees)*	*Extra cost (Rupees in lakh)*
1996-97	3269.497	6763500	5885095	878405	1.66	14.58
1997-98	3193.945	6993818	5749101	1244717	2.00	24.89
1998-99	2599.507	5904200	4679113	1225087	2.59	31.73
1999-00	3141.265	6567200	5654277	912923	3.31	30.22
2000-01	3329.327	6732800	5992789	740011	3.16	23.38
			Total	5001143		124.80

According to Government (July 2002) electricity charges were in the nature of semi-variable cost and moderate absorption of fixed cost required an average production of 500 MT per month. The reply itself indicated failure of the Company to stabilise production to the optimum level of 500 MT per month which led to excessive consumption of power.

2B. 7. 6. 2 *Additives*

For maintaining the properties of castings, the Company had been using additives when the scrap was melted. Ferro Silicon, Ferro Silicon Magnesium, Ferro Manganese, Shell coke, Ivajet HMT, Ivajet IOGE, etc., were the major additives consumed. A review of consumption of such additives for the four years up to 2001-02 revealed that the quantity actually used was far in excess of the norms fixed by the Company and resulted in avoidable extra expenditure of Rs. 30 lakh on 137274 kg of additives excessively consumed.

The Government stated (July 2002) that consumption of additives depended on the quality of raw material and also on the requirement of customers. However, the fact remained that there was absence of internal control to correlate consumption with quality variations.

2B. 7. 7 *Purchase of silica sand*

The Company had been using silica sand as a raw material which was mulled and mixed with various additives and binders for the manufacture of moulds and cores. The Company was purchasing sand from local suppliers at the all inclusive rate of Rs.306 per MT. Though the Company had under its possession nearly 22 hectares of land where the silica sand was available, mining of sand was limited to the minimum and purchase from local suppliers was being resorted to. However, from 2001-02 onwards, the Company stopped buying from outside source and met the requirement by mining of sand from own land. The average cost incurred for mining silica sand from own land was Rs.60 per MT only (all inclusive). The purchase of sand from local suppliers when the material could be mined from own land at lesser cost resulted in avoidable extra expenditure of Rs.0.53 crore on 24728 MT of silica sand purchased during the five years up to 2000-01.

The Government stated (July 2002) that sand was procured from outside suppliers due to non-possession of mining licence. The Company should have initiated action for obtaining mining licence in view of the substantial savings in cost that would accrue on captive mining.

2B. 8 *Labour productivity*

2B. 8. 1 *Per employee production*

According to the DPR an annual production of 18000 MT of castings was achievable with a staff strength of 1250 which indicated a production of 1.2 MT per employees per month. While this was much less as compared to per employee production obtained by some of the foundries situated in the neighbouring states viz., Vijaya Malleables, Bangalore (2MT per month), CPC, Coimbatore (2.1 MTper month), Shakti Sugars, Coimbatore (2.5 to 3.3 MT per month), the actual production per employee per month of the Company for the five years from 1996-97 to 2000-01 ranged between 0.36 MT and 0.52 MT only.

If the services rendered by the Apprentices (ranging from 90 to 124) were also considered, the production per employee would have been much lower.

2B. 8. 2 *Manpower utilisation*

The table below provides the details of actual production, number of employees, number actually required based on the norm of 1.2 MT of production per employee per month envisaged in the DPR, etc., for the five years ended 31st March 2001.

	1996-97	1997-98	1998-99	1999-2000	2000-01
Gross Production (MT)	3269.497	3193.945	2599.507	3141.265	3329.327
Man power required as per DPR norm for the above production (Nos.)	227	222	181	218	231
Man power available (Nos.)	537	517	502	486	478
Excess manpower (Nos.)	310	295	321	268	247
Total employee cost (Rupees in crore)	3.47	4.31	5.37	5.38	5.42
Average cost per employee (Rupees)	64661.00	83279.00	106936.00	110605.00	113324.00
Excess expenditure (Rupees in crore)	2.00	2.46	3.43	2.96	2.80

It could be seen that the total number of employees held in excess of the requirement for actual production during the five years ranged between 247 and 321. Based on the average cost per employee for the respective year, the extra expenditure incurred during the five years ended 31st March 2001 was Rs. 13.65 crore. The Company has not initiated any action to identify the surplus manpower.

2B. 8. 3 *Payment of overtime wages*

It was noticed in audit that the Company was engaging employees on overtime basis despite having surplus man power. The overtime wages paid was also quite disproportionate to actual production.

The amount paid as overtime wages for the five years ended 31st March 2002 worked out to Rs.34.33 lakh. During the year 1999-2000 alone, an amount of Rs.15.45 lakh was paid as overtime wages when actual production was only 3141.265 MT (13.7 per cent of revised installed capacity). It could thus be observed that the payment of overtime wages despite having surplus staff strength lacked justification.

2B. 9. ***Sub contract***

2B. 9. 1 *Under-Utilisation of fettling capacity*

The fettling shop in the Company had been provisioned on the concept that a large part of the fettling operations would be offloaded to outside ancillary units set up adjacent to the Company. Accordingly, a fettling shop with a capacity of 150 MT/month only was initially set up at the time of commissioning of the plant. Later, the in-house fettling capacity was increased (April 1991) to 250 MT/month at a cost of Rs.42 lakh.

Inspit of the increase in capacity of the fettling shop, addition of workmen and new machinery, fettling work was also entrusted to outside parties during the period from 1998-99 to 2000-01. Assuming 80 per cent utilisation of the in-house fettling capacity (200 MT per month), sub contracting of 2378 MT of castings for the fettling work @ Rs. 850/MT to outside agencies during the period 1998-99 to 2000-01 had resulted in an avoidable cash outflow of Rs.20.21 lakh.

2B. 9. 2. *Avoidable expenditure on decoring and allied work*

Decoring is a part of fettling and finishing process, which did not envisage engagement of skilled workers. However, the Company had been carrying out the decoring and other allied works by engaging outside firms on contract basis. The projcet report also did not envisage such works to be done on contract basis. The Company incurred avoidable expenditure of Rs.28.07 lakh during the five years from 1996-97 to 2000-01 for getting the work done by outside agencies instead of utilising its own available facilities.

Government stated (July 2002) that available manpower was not sufficient to carry out this activity. Reply is not tenable as company was having surplus manpower including unskilled workers and decoring is a part of production process.

2B. 10 ***Sales***

2B. 10. 1 *Sales policy*

The Company had been catering to the requirement of casting from domestic as well as foreign customers. The castings were produced according to the specific orders and requirement of customers and sales effected directly on ex-works basis in respect of indigenous order and f.o.b basis for exports. Orders were being received mainly from regular customers. Major portion of the products sold were of standard type. The Company had been utilising the service of agents for obtaining export orders on commission basis which ranged between 2 and 3 per cent of f.o.b value.

2B 10. 1. 1 *Fixation of selling price*

The Company has not devised a scientific costing system to compute the cost of production despite being in existence for 18 years. The Company had been finalising the selling price on the basis of rough estimate prepared for the purpose of quotation and subsequent negotiations conducted with the customers and not with reference to actual cost data.

2B. 10. 1. 2 *Fixation of lower selling price due to non-consideration of direct wages*

Based on the annual accounts, the Company had computed the variable cost, average selling price and contribution for the four years from 1996-97 to 1999-2000. However, the Company had not considered the factory wages for computation of variable cost. It was noticed in audit that when the element of factory wages was also taken into account, there was negative contribution since 1998-99 as shown below:

Year	*Production* (MT)*	*Average sale Price per kg (Rupees)*	*Variable Cost per kg (Rupees)*	*Wages*		*Total Variable cost per kg (Rupees)*	*Contribution per kg (Rupees)*
				Total (Rupees in lakh)	*Per kg (Rupees)*		
1996-97	3034	28.29	21.06	152.25	5.02	26.08	2.21
1997-98	2881	30.16	22.84	172.45	5.99	28.83	1.33
1998-99	2149	33.00	28.51	212.60	9.89	38.40	(-) 5.40
1999-00	2700	35.00	27.87	227.53	8.343	36.30	(-) 1.30
2000-01**	2964	35.50	29.03	247.23	8.34	37.37	(-) 1.87

The Company was selling certain product at prices far below the variable cost. The loss on account of sale of six selected items below cost during the three years upto 2000-01 was Rs.3.85 crore. Out of this the loss in the sale of castings below cost to M/s. Eicher, a major customer, during the three years was Rs.3.45 crore. Despite this, the company allowed a reduction of Re 1 per kg in the selling price of products manufactured for them.

According to Government (July 2002), the reduction was effected based on a conditional offer by the firm to reduce the credit period and also to avoid loss of orders. However, the firm ultimately did not reduce the credit period. Government did not offer any comment on non-inclusion of wages in the computation of variable cost.

2B. 10. 2 *Sales performance*

Details of actual sales vis-a-vis budgeted sale during the five years upto 31st March 2001 were as follows:

Year	*Budgeted Sales* — *Quantity*	*Actual Sales*	*Percentage of actual sales to budgeted sales*
	(MT)	*(MT)*	
1996-97	10000	2401.16	24.01
1997-98	9600	2780.23	28.96
1998-99	6000	2192.56	36.54
1999-2000	6000	2445.04	40.75
2000-01	5400	3003.02	55.61

The increase in percentage of sales from 24.01 to 55.61 of the budgeted sales during the five years was due to decrease in budgeted sales. Government stated (July 2002) that the Company could not achieve production and sales as planned in the budget due to delay in finalisation of restructuring plan on account of which the operations were to be scaled down in the absence of financial support. The reply is not convincing since the relief and the financial support extended under the rehabilitation packages were not properly utilised and also due to higher plant rejection (as discussed in Paragraph 2B.7.5.1)

2B. 10. 3 *Despatch plan*

From October 1999 only, the company started preparing monthly plan for production and despatch of castings based on confirmed orders and actual production was planned accordingly. An analysis of the monthly plan for the period from October 1999 to December 2001 revealed that the quantity despatched varied from 28 to 91 per cent of the planned quantity. As the entire quantity planned could not be despatched, execution of sale orders were always delayed. Non-achievement of despatch plan was on account of shortfall in production. Quality problems, raw material shortage, delay in machining, delay in sample approval, etc., were the main reasons for shortfall. Most of these problems were of repetitive nature and could have been avoided by close monitoring and remedial action.

2B. 10. 4 *Production planning and control*

The Company had been producing goods as per the specific requirements of customers. No standard product was made as the product specification varied from customer to customer. But it was noticed that the Company produced castings during certain periods in excess of the confirmed ordered quantity. Thus, lack of proper planning in production caused accumulation of non-moving stock.

In a separate analysis presented before the management committee, inventory was analysed as follows:

	Stock of Castings (including the stock with sub contractor)	
	As on 31-3-2000	*As on 31-3-2001*
Moving stock (MT)	460.854	428.738
Percentage to total stock	48.4	53.3
Non moving stock (MT)	492.122	375.641
Percentage to total stock	51.6	46.7
Total (MT)	952.976	804.379

It could be seen that out of the total stock, 47 per cent was non-moving as on 31st March 2001.

Out of the total stock of 847.800 MT held as on 30th September 2000, 446.920 MT was identified as non-moving. Out of this, 149.341 MT of castings was finally melted as scrap during the period from October 2000 to December 2001. As on 31st December 2001, 324.200 MT was remaining as non- moving stock. Based on the difference between the average selling price of Rs.30062.11 per MT at which stock were valued by the Company and the cost of scrap of Rs.849.02 per MT, the loss due to excessive production of castings and subsequent melting of 473.541 MT as scrap, worked out to Rs. 1.02 crore at the differential rate of Rs.21570 per MT.

2B. 10. 5 *Sales rejections*

According to industry norms the rate of customer rejection shall not exceed one per cent. The Company failed to limit the rejection rate to one per cent and during the 4 year period from 1997-98 to 2000-01 the percentage rate of customer rejection varied from 4.4 (2000-01) to 7.7 (1997-98).

Though the rate of rejection came down over the years, 522.69 MT of castings was rejected in excess of the norms during the four years ended 31st March 2001 resulting in loss of Rs.1.21 crore as shown below:

Year	*Despatch (MT)*	*Customer rejection allowable as per norms (MT)*	*Actual rejection (MT) and (per cent)*	*Excess (MT)*	*Conversion cost (per MT) (Rupees)*	*Total loss (Rupees in lakh)*
1997-98	2777.77	27.78	213.14 (7.67)	185.36	21019	38.96
1998-99	2171.16	21.71	153.15 (7.05)	131.44	23250	30.56
1999-2000	2453.19	24.53	131.65 (5.37)	107.12	25639	27.46
2000-01	2880.76	28.81	127.58 (4.43)	98.77	24663	24.36
Total	10282.88	102.83	625.52	522.69		121.34

2B. 10. 5. 1 *Product-wise analysis of sales rejections*

Analysis of customer rejection of five major products for the three years (1998-99 to 2000-01) is given in Annexure 17.

(i) the percentage of customer rejection ranged between 4.4 and 100 against the industry norm of one per cent.

(ii) rejection was the highest in the case of Control Housing (Eicher) and the castings despatched were rejected even up to 100 per cent. The Company could not obtain further orders for this item since 2000-01.

(iii) except in the case of two products (Carter Housing & Crank Housing) rate of rejection showed an increasing trend.

The major reasons for customer rejection were blow-holes, cracks, sand inclusions, etc., in the castings produced by the Company which were controllable and could have been minimised by proper on-line inspection. Eleven instances of bulk/lot rejection of castings by three customers involving a quantity of 666 nos. (value: Rs.20.28 lakh) for the year 2000-01 were also noticed in audit.

Though the customer rejection rate was abnormal, no action had been initiated by the Company to reduce the rejection. Customer rejection was more expensive than factory rejection as it resulted in extra expenditure towards transportation as well as inventory carrying cost. Hence, the Company should have conducted adequate inspection before despatching the materials so as to ensure quality standards as per customer specification.

2B. 10. 5. 2 *Non-adherence to specifications*

The Company received (March 1999) orders from M/s. Asian Wind Turbines Private Limited (AWT), Chennai for the supply of 4 nos. of Hub 750 KW at Rs. 1.5 lakh per unit. The quantity to be supplied was enhanced (February/March 2000) by 11 nos. The Company received (July 2000) further orders for the supply of 15 nos. of Hub of the same specification from AWT at Rs.1.67 per lakh per unit, thus enhancing the total quantity to 30 nos. Against these orders, 28 nos. of Hub were delivered by December 2000, out of which 3 nos. valued at Rs.5.21 lakh were returned by AWT and 8 nos. (value Rs.13.89 lakh) were lying at customer's premises unaccepted from September 2000 onwards, since these items did not conform to quality parameters. Non-adherence to prescribed specifications while effecting supply of custom made castings resulted in a loss of Rs. 19.10 lakh.

2B. 11 ***Internal Audit***

Till 1995-96 Internal Audit of the Company was being conducted by a firm of Chartered Accountants. However, for the years 1996-97, 1998-99 and 1999-2000 a firm of Chartered Accountants was appointed as concurrent auditors at the instance of IFCI. Reports on concurrent audit were being furnished to IFCI. For the years 1997-98, 2000-01 and 2001-02 Internal Audit was conducted by a firm of Chartered Accountants and half yearly reports were being received.

From the periodical reports submitted by the concurrent/Internal Auditors, it was noticed that:

(i) the audit was not conducted concurrently as required by IFCI during 1997-98, 2000-01 and 2001-02;

(ii) during 1998-99 and 1999-2000, audit was taken up belatedly and the very purpose of concurrent audit was not fulfilled; and

(iii) Internal audit report contained many persistent irregularities such as high level of rejection, short fall in production, accumulation of work in progress, prolonged excessive retention of materials with sub-contractors, etc., which indicated that effective follow up action was not being taken by the Management to rectify system deficiencies and improve the working of the Company.

Conclusion

The Company, incorporated in May.1984, never achieved the break even level of production and the net production ranged between 9.5 and 13.3 per cent of the installed capacity due to heavy under-utilisation of plant capacity arising from low labour productivity and working capital constraints. During the rehabilitation period, the Company failed to address the main problem of high incidence of rejection both at plant level and customer level. Even the financial assistance received by the Company under BIFR package for improving the working of the Company was partly diverted for meeting the liabilities on account of wage revision and payment of overtime wages of the employees when the Company was under rehabilitation and facing working capital constraints. Further, the company was unable to recover even the direct cost of production.

In view of the poor performance of the company resulting in recurring loss and the BIFR's declaration of rehabilitation package as a failure, Government needs to take a quick decision to either close down or sell-off the company.

[Para 2B. Contained in the Report of the Comptroller and Auditor General of India for the year ended 31.3.2002 (Commercial).]

Notes on Audit paragraph received from Government is given in Appendix II.

1. The Committee enquired whether the company had been shut down recently. The witness replied in the affirmative and added that this was because power supply had been cut off. The Committee wanted to know the reason for the cut off, in spite of the understanding for payment of electricity charges in instalments. The witness informed that the company had represented to Government that it would pay 50% of the dues of each month and had paid accordingly in August and September. The bill for October, 2005 had not been received. But power supply had been withdrawn citing previous dues. To the Committee's enquiry regarding the dues towards KSEB, the witness replied that the dues amounted to Rs.20 crore, and that instalment facility had been accorded to Autokast from February 2005 onwards, the Company had even defaulted this. It was decided at the Ministers level, that the company be allowed to pay 50% of the succeeding months' bills. But it was an informal understanding, as the matter comes under the purview of the Power Regulatory Commission. The Committee remarked that the withdrawal of power supply and consequent shut down of the plant was because of the irresponsible attitude of the management. A public sector undertaking should not be allowed to shut down and that too, when an understanding already existed at the higher level. Regarding the reopening of the company, the witness informed that discussion would be held with the Minister.

2. The Committee enquired about the reasons for the delay in repairing the change-over system which resulted in loss of production. The witness explained the working of the induction furnace and testified that no loss had occurred due to the defective change over system. He elaborated that the crucible of the induction furnace contained a melting electrical and a holding electrical system. Only one melting electrical can be made to function at any given time. The capacity of one furnace crucible is 6 tonne. The changeover contactor is needed only when the total liquid metal required to produce a single casting is more than 6 tonne. Such a requirement did not arise during the period under review. The furnaces were used alternately and hence no loss had occurred.

3. The Committee enquired of the reasons for the low yield in the case of SGI castings which had resulted in a loss of Rs.1.28 crore during the period under review. The witness replied that this was because, at that time, the company had produced large number of intricate castings. The company is at present getting 70 per cent yield in the case of SGI castings, he added. The Committee pointed out that norm of 65 percent originally adopted by the Company was proved wrong.

4. The Committee enquired about the reasons for high level factory rejections in the company, while the international average rejection is only 4%. The witness stated that such a norm does not exist in the foundry industry. Shop-floor rejection and customer rejection would amount to more than 10 percent. The Committee enquired how the norm of 4% was fixed initially. The witness replied that due to the large number of variables, it was difficult to fix norms and they were trying to keep the rejections around 10%. Accepting the explanation of the witness, the Committee pointed out that in the case of the company, the rejection level was 16.3% in 1998-99, 14.1% in 1999-2000 and 10.2% in 2000-01. The Committee find no justification for this when the percentage of rejection was only 6.7% in 1996-97. The percentage of rejection should have dropped with passing years as the staff acquired expertise and experience in the field. But this company has never achieved the break even stage. The Committee expressed deep anguish over the defective functioning of the company without caring to rectify the defects and produce better quality products. The Committee remarked that there was no justification for such a huge Government investment to produce low quality goods for which there are not likely to be many buyers.

5. The Committee enquired about the reasons for the high percentage of rejection of even those items which were in continuous production during the period of review. The witness explained that rejections occurred due to a number of factors, viz defects while pouring the metal in the casting, defect in processing, defect in making the casting pattern etc. Some products took more time to stabilize, while, some stabilized easily. 'Kamco' was a complicated casting. Hence, the

production of Kamco MG case was stopped. But at the insistence of the customer, a public sector company, Autokast was going to resume its production. The Committee wanted to know whether show cause notice had ever been issued to the workers for faulty work to which the witness gave no reply. The Principal Secretary, Industries Department stated that the company which started functioning in 1984 with capital investment of Rs.17.79 crore had accumulated a loss of Rs.127 crore and cash loss at present was Rs.2.2 crore. A voluntary retirement scheme was introduced and at present the company has 340 employees. The monthly power charges alone amounted to Rs.20 lakh and the BIFR had recommended closure of the company. The company is now fuctioning on an AIFR stay. Government will have to take a policy decision on whether this public sector undertaking can be saved.

6. The Committee wanted to know the reasons for the high level consumption of power and the resultant increase in electricity charges. The witness explained that this was because of decrease in the monthly production level. Electricity consumption would be less if the molten metal could flow continuously in the furnace. But if the mould was not ready when the metal became ready, the molten metal would be held in the furnace, which would result in increased power consumption. The Committee enquired why steps were not taken to optimize production and reduce power consumption. The witness answered that steps had been taken and power consumption had been limited to 1800 units during the time of continuous production.

7. Regarding the excessive use of additives, the witness stated that it varied according to the product. The company was working in 3 shifts and was getting bonus by controlling consumption of power during the peak hours. Due to proper use of power, the company was getting incentive of Rs.50,000 per month. The average daily consumption was 20,000 units.

8. The Committee enquired why the company had purchased sand at the rate of Rs.306 per MT when it could mine sand from its own land at the expense of Rs.60 per MT. The witness explained that as the company did not have mining license it was purchasing sand from local suppliers. When strike in the Pallippuram area made it difficult to obtain sand, the company started mining from its own land. Now, being unable to pay its dues to the local suppliers, the company was continuing to use sand from its own land. Out of the 22 hectares of land it owns, 25% is occupied by buildings. And only the sand available from specific pockets are suitable for use. At present, it has been found that the foundry sand on the company's property is almost exhausted and soon the company will have to purchase from outside.

9. The Committee enquired about the reasons for the very low level of per employee production and the present rate of per employee production. The witness answered that the present per employee production per month was 0.86 MT. The private companies had higher per employee production due to mass production of automobile components. The Committee wanted to know whether workload had been fixed and duty assigned to the workers. The witness elaborated that workload had been fixed, but still the production was low. The turnover had now increased from Rs. 50 lakh to Rs.1.3 crores. The Committee remarked that stringent action should be taken against those who do not follow the norms fixed, if the company wants to increase production. The witness elaborated that the company was in great strain due to lack of working capital, bank support etc. The Committee accepted the claim of the witness that the functioning of the company has improved.

10. The Committee enquired why the Company had entrusted fettling work to outside agencies even after increasing the in-house fettling capacity from 150 MT/month to 250 MT/month expending Rs.42 lakhs. The witness explained as follows:

The total production of the company could be divided into 3 sections – High pressure moulding line, conventional machine – moulding line and hand moulding. At the time of plant designing, it was decided that some activities of Autokast would be done through outside agencies. Hence only a skeletal - in - house fettling capacity had been provided in the company. It was this capacity that had now been enhanced. Fettling involved a number of activities such as cleaning of casting, shotblasting, chipping, grinding and then once more shotblasting before the goods could be despatched. Out of these, only the chipping and grinding operations were being done by the outside agencies. All other activities were done in the company's fettling shop. The company does not, at present, have the in-house facility to carryout these operations also. Moreover, sub-contract was done only after full capacity utilisation of the company's fettling shop. Moreover, the 7 ancillary units set up outside the company were exclusively handling the works of Autokast. The Committee wanted to know the percentage of capacity utilisation of the plant and the percentage of work being done by outside agencies. The witness informed that the entire fettling works of the larger casting were being done in the company itself and the smaller works only were being sub-contracted. There was 60-70% capacity utilisation in the company. Fluctuations in the market also affected the company's production. At present there is a great demand for windmill casting, he added. To the Committee's query regarding the staff strength, the Managing Director informed that Voluntary Retirement Scheme had been introduced in the year 2003. The company at present has 342 persons on its rolls. Some of them are on long leave and a few others are on deputation. At present 290 persons which

includes executives and workers are working in the company. The Committee enquired whether the company is at present running on profit. The witness informed that cash loss is being reduced. Cash loss had come down from Rs. 5 crore to Rs. 2 crore and the Company is expecting to reduce it further.

11. The Committee enquired why the company had carried out decoring and other allied works by engaging outside firms on contract basis instead of utilising its own facilities, thereby causing a loss of Rs.28.07 lakh during the period 1996-97 to 2000-01. The witness explained that decoring was related to fettling and that the company did not have sufficient unskilled staff to do the above work. There were only 10 unskilled workers in all the 3 shifts together. If the decoring works were to be done in-house, more workers would have to be recruited and this would be costlier than sub-contracting. Then the company would not be able to compete with other Coimbatore-based companies. Moreover, these works were not of full time nature and it was better to sub-contract. The sub-contracts were issued at very low rates on an yearly basis after inviting tenders. To the Committee's enquiry regarding manpower, the witness informed that the projected manpower of Autokast was 1250. The company had introduced Voluntary Retirement Scheme . At present, the company is managing with 290 staff, who were essential for the existence of the company. If all related works were to be done within the Company another 200 to 250 persons would have to be recruited, he added.

12. The Committee enquired the reasons for low capacity utilisation. The witness explained that there were a number of reasons for this, mainly, lack of working capital and general market situation. The company was functioning without financial support from any source other than its own resources. The company was selling its products to the automobile and windmill industries. There were a number of competitors and without fixing a reasonable selling price, the company would not be able to survive. Price was fixed after negotiations with the purchasers. While bargaining was hard and profit less in the automobile sector, more profit was obtained in the windmill sector. Castings made by Autokast Limited for the windmill industry were purchased by multinational companies also after strict testing and the company was the leading supplier in this field.

13. The Committee wanted to know whether the expense on wages of employees was considered while fixing the selling price. The witness replied in the affirmative and stated that the company was reducing cash loss and not taking up orders for non-contributing items.

14. The Committee enquired about the fixation of selling price at lower rates. The witness answered that selling price was not low.

15. The Committee wanted to know about the budgeted sales and actual sales of the Company. The witness elaborated that the previous method of tonnage sales was rejected and the latest method of basing it on value of sales had been used, leading to increase in sales turnover. For the first time in the history of the company, the annual turnover had reached Rs.14.2 crore. The company was now developing new high value products such as that needed by the windmill industry which would help to raise the rate from 35 to 65 or 70. At the same time low value items such as that for Kamco, had not been stopped. To continue supply to Eicher, which had not been taken over by Tapco, additional investment would be needed to satisfy the new quality standards. So the company was concentrating on the windmill sector.

16. The Committee enquired about the non-achievement of the Despatch Plan. The witness explained that at present no application is pending and there is no unsold stock. No item is produced without order and without any exact despatch schedule. Processing is done within one or two days after stock arrives and despatch is done at once. Now work is being done on the basis of weekly and monthly despatch plan.

17. The Committee enquired about the various measures taken to prevent accumulation of stock. The witness stated that non-moving items had been converted into scraps and the rest of the products disposed off.

18. The Committee enquired about the reasons for the high rate of rejections of the company's products. The witness stated that the norm of 1% rejection did not exist in the industry and that the company was trying to keep rejection within 10%. At present the company is taking up only large castings and hence customer rejection is almost absent. In the automobile industry, random checking was done, and sometimes the whole lot was rejected if a few pieces were found faulty.

19. The Committee wanted to know why the company had not adhered to specifications while producing 30 numbers of Hub 750 KW for M/s Asian Wind Turbines Private Limited (AWT), Chennai. The witness informed that AWT had been purchasing the Hub castings from Autokast. But when it became a fully owned subsidiary of the parent company viz. M/s. NEG Micon, they imposed more quality parameters for the castings. When the castings were for use in India alone, testing did not have to be done at minus temperatures. Since Micon is a multinational company, testing would be done at minus temperatures also to make the castings suitable for international use. The Committee enquired how the customer could make changes in the specifications after the agreement had been entered into. The witness informed that the customer would not compromise on quality and the company was expecting more orders from them. So it was trying to meet the stringent quality specifications.

20. The Committee enquired whether the Internal Audit wing was functioning in the Company. The witness answered in the affirmative. When enquired about the present position of the company, the witness stated that it was reducing losses to a certain extent. The Company was referred to BIFR in 1992 and was declared a sick unit in 2000. Though the SBT, the operating agency, issued advertisements for sale of the Company, there were no purchasers. Winding up order had been issued in 2004 September, but an appeal had been filed in AIFR. At the hearing held on 24th February 2006, the company was asked to file an affidavit on a plan for restrict using, with concurrence of Government. When informed that the Company was reducing losses and paying salary regularly to its employees the AIFR remarked that the company should be allowed to function, the witness added. The Committee wanted to know how the company was meeting its working capital requirements. The witness stated that no help was forthcoming from Government and that the Company was managing with the payments and advances that were received from customers. Government had offered Rs.20 crore for restructuring, but so far it had not given anything. A loan of Rs. 5.80 crore had been taken from RIAB, for which Rs. 3.60 crore had been paid as interest. The Company was making marginal profit.

Conclusions/Recommendations.

21. **The Committee pointed out that the norm of 65% originally adopted by the company with regard to the yield of SGI Casting had proved wrong. The Committee wanted to know why the company had not considered limiting factors which are already known while fixing the norms.**

22. **The Committee expressed dissatisfaction over the increasing rate of factory rejections and opined that it was due to process defects, dimensional inaccuracies, improper online inspection, non-improvements in process control techniques etc. The Committee, therefore recommends that these deficiencies should be rectified and necessary steps should be taken urgently for quality improvement. The Committee desires to be informed of the steps taken for reducing rejections.**

23. **The Committee also opined that customers will not purchase defective items after welding at the price of new product. Hence purchase of the fusion welding furnace was definitely a wasteful expenditure.**

24. **The Committee understands that the percentage of rejection of items of continuous production is still very high and no remedial action was taken to reduce the rate of rejection. The Committee opined that this shows the utter carelessness and irresponsibility of the officers concerned. Hence the Committee recommends to fix responsibility at various levels and to take**

strong disciplinary action against irresponsible officials. The Committee also recommends to take effective measures to reduce the rate of rejection to the minimum admissible level according to the industry norms.

25. **The Committee is constrained to note that even though the company had consumed power in excess of norms it could not stabilize production to the optimum level of 500 MT per month. So the Committee recommends to take scientific and technical actions to stabilize production to the maximum level and to reduce consumption of power.**

26. **The Committee finds that the quantity of additives actually used by the company was far in excess of the norms fixed and it shows there was absence of internal control to correlate consumption with quality variations. The Committee recommends steady chemical composition which will satisfy the use of additives at the prescribed norms. The Committee understands that the average output per employee per month of this firm is very low when compared to other similar companies. This fact will nurse the closure of this sick unit to a great extent. The Committee therefore, recommends to fix the workload of the employees of this undertaking, considering the norms of the industry and to take stringent action to implement the same for a healthy survival of the company.**

27. **The Committee observes that the Company has not devised a scientific costing system to compute the cost of production and had been finalizing the selling price on the basis of rough estimate prepared for the purpose of quotation and subsequent negotiations. Hence, the Committee recommends to device scientific and full fledged costing system for fixing the selling price**.

28. **The Committee opines that non-achievement of despatch plan of finished goods was on account of shortfall in production. Quality problems, raw materials shortage, delay in machining, delay in sample approval etc. are the main reasons for shortfall. The Committee also observes that most of these problems are avoidable. Hence, the Committee recommends that these problems should be avoided by close monitoring.**

29. **The Committee recommends to conduct inspections and eliminate defects at every stage of production to bring down customer rejection and inform the steps taken in this regard. The Committee also recommends to make available the details of factory rejection and customer rejection during the last five years.**

30. **The Committee finds that though internal audit reports of the Company indicated many persistent irregularities no effective follow-up action was being taken by the management to rectify the same. The Committee, therefore recommends that internal audit should be done in time and effective steps should be taken to rectify the irregularities pointed out in the Internal audit reports.**

31. **The Committee remarked that the cut off of power supply and consequent shutdown of the plant was because of the irresponsible attitude of the management and the officers concerned. Hence, the Committee recommends that the management and officers should be more vigilant and such situations should be avoided in future.**

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
12-9-2007.

Chairman,
Committee on Public Undertakings.

ANNEXURE 14 OF AUDIT REPORT

(Referred to in paragraph 2B.6)

STATEMENT SHOWING FINANCIAL POSITION OF AUTOKAST LIMITED

Particulars	*1996-97*	*1997-98*	*1998-99*	*1999-2000*	*2000-01*
	Rupees in Lakh				
(1)	(2)	(3)	(4)	(5)	(6)
A. Liabilities :					
(a) Paid-up Capital	1310.00	1460.00	1797.00	1797.00	1797.00
(b) Advance towards share capital	..	195.00	100.00	100.00	100.00
(c) Reserves and surplus	15.00	15.00	15.00	15.00	15.00
(d) Borrowings	5127.55	5254.30	51.67.82	5009.80	5450.69
(e) Trade dues and other liabilities including provisions	1977.12	2506.81	3097.06	3278.98	3779.72
Total A	8429.67	9431.11	10176.88	10200.78	11142.41
B. Assets :					
(a) Gross Block	2856.35	2877.80	2888.54	2985.73	2986.33
(b) Less Depreciation	2341.08	2367.92	2395.91	2432.92	2471.17
(c) Net Block	515.27	509.88	492.63	552.81	515.16

(1)	(2)	(3)	(4)	(5)	(6)
(d) Capital workp-in-progress	38.75	30.17	110.18	26.62	27.58
(e) Current Assets, loans and advances	778.55	875.97	644.94	616.29	696.88
(f) Intangible assets (accumulated losses)	7097.10	8015.09	8929.13	9005.06	9902.79
Total B	8429.67	9431.11	10176.88	10200.78	11142.41
Capital Employment*	(—)536.71	(—)955.64	(—)1659.18	(—)1858.08	(—)2287.88
Net worth @	(—)5772.10	(—)6345.09	(—)7017.13	(—)7093.06	(—)7990.79

* Capital employed represents net fixed assets (including capital work-in-progress) plus working capital

@ Net worth represents paid-up capital plus reserves and surplus less intangible assets.

ANNEXURE 15 OF AUDIT REPORT

(Referred to in paragraph 2B.6)

STATEMENT SHOWING WORKING RESULTS OF AUTOKAST LIMITED

Particulars	*1996-97*	*1997-98*	*1998-99*	*1999-2000*	*2000-01*
	Rupees in Lakh				
(1)	(2)	(3)	(4)	(5)	(6)
A. Income :					
Sales	683.58*	838.68	726.99	850.49	1066.01
Change in stock levels	75.45	(—)55.08	10.07	(—)33.94	(—)4.05
Other income	3.43	10.74	22.37	892.32	16.14
Total A	762.46	794.34	759.43	1708.87	1078.10
B. Expenditure :					
Raw material consumed	331.82	338.89	280.12	330.44	396.15
Manufacturing and other expenses	271.98	290.55	289.13	375.09	418.64
Employee cost	347.23	430.55	536.82	537.54	541.69
Administration and other expenses	37.35	36.70	59.12	35.16	42.42

* Includes pattern development charges Rs. 12.50 lakh.

(1)	(2)	(3)	(4)	(5)	(6)
Selling, distribution and other expenses	28.28	27.46	44.53	42.69	46.38
Financial Charges	507.13	542.15	375.70	422.54	485.59
Depreciation	221.57	26.85	27.99	37.01	38.25
Agricultural expenses	1.20	0.44	0.39	0.03	0.07
Total B	1746.56	1693.59	1613.80	1780.50	1969.19
Loss	984.10	899.25	854.37	71.63	891.09
Add (+)/Deduct(—) prior period adjustments	33.56	18.74	59.67	4.30	6.64
Net Loss	1017.66	917.99	914.04	75.93	897.73

ANNEXURE 16 OF AUDIT REPORT

(Referred to in paragraph 2B. 7. 2)

STATEMENT SHOWING ITEM-WISE INSTALLED CAPACITY, BUDGETED PRODUCTION AND ACTUAL PRODUCTION IN AUTOKAST LIMITED FOR THE FIVE YEARS UPTO 2000-01

Year	*Installed Capacity (In MT)*				*Budgeted production (In MT)*				*Actual Production* (In MT)*				*Actual Budget*	*Actual to Installed*
	GI	*SGI*	*Steel*	*Total*	*GI*	*SGI*	*Steel*	*Total*	*GI*	*SGI*	*Steel*	*Total*	*Percentage*	
1996-97	15000	5000	3000	23000	8200	1600	200	10000	3039.042	10.745	..	3049.787	30.5	13.3
1997-98	15000	5000	3000	23000	6720	2880	..	9600	2835.266	59.065	..	2894.331	30.2	12.6
1998-99	15000	5000	3000	23000	5400	600	..	6000	1954.273	212.902	9.576	2176.751	36.3	9.5
1999-2000	15000	5000	3000	23000	4830	1140	30	6000	2174.140	503.730	20.964	2698.834	45.0	11.7
2000-01	15000	5000	3000	23000	4053	1347	..	5400	2079.083	912.301	..	2991.384	55.4	13.0

* Actual production arrived at after excluding rejection.

ANNEXURE 17 OF AUDIT REPORT

(Referred to in paragraph 2B. 10. 5. 1)

STATEMENT OF PRODUCT-WISE ANALYSIS OF CUSTOMER REJECTION IN AUTOKAST LIMITED

Customer	*Product*	*Quantity in Nos.**	1998-99	1999-2000	2000-01	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Eicher Tractor Ltd.	Carter Hsg	Despatched	8975	7638	10931	27544
		Rejected	659	555	668	1882
	Per cent		7.3	7.3	6.1	6.8
Eicher Tractor Ltd.	Crank Hsg	Despatched	2708	2882	3037	8627
		Rejected	382	172	133	687
	Per cent		14.1	6.0	4.4	8
Eicher Tractor Ltd.	Fly wheel	Despatched	1569	1385	775	3729
		Rejected	89	85	64	238
	Per cent		5.7	6.1	8.3	6.4
Eicher Tractor Ltd.	Control. Hsg.	Despatched	96	100	..	196
		Rejected	18	100	..	118
	Per cent		18.8	100	..	60.2

Kamco	Cyl. Frame	Despatched	5000	5490	4635	15125
		Rejected	315	537	583	1435
	Per cent		6.3	9.8	12.6	9.5
Kamco	MG Case	Despatched	1202	1487	1216	3905
		Rejected	127	341	516	984
	Per cent		10.6	22.9	42.4	25.2

* Each product has specified fixed weight per unit

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl.No.	*Para No.*	*Department Concerned*	*Conclusions/Recommendations*
(1)	(2)	(3)	(4)
1	21	Industries Department	The Committee pointed out that the norm of 65% originally adopted by the company with regard to the yield of SGI Casting had proved wrong. The Committee wanted to know why the company had not considered limiting factors which are already known while fixing the norms.
2	22	,,	The Committee expressed dissatisfaction over the increasing rate of factory rejections and opined that it was due to process defects, dimensional inaccuracies, improper online inspection, non improvements in process control techniques etc. The Committee, therefore recommends that these deficiencies should be rectified and necessary steps should be taken urgently for quality improvement. The Committee desires to be informed of the steps taken for reducing rejections.
3	23	,,	The Committee also opined that customers will not purchase defective items after welding at the price of new product. Hence purchase of the fusion welding furnace was definitely a wasteful expenditure.
4	24	,,	The Committee understands that the percentage of rejection of items of continuous production is still very high and no remedial action was taken to reduce the rate of rejection. The

(1)	(2)	(3)	(4)
			Committee opined that this shows the utter carelessness and irresponsibility of the officers concerned. Hence the Committee recommends to fix responsibility at various levels and to take strong disciplinary action against irresponsible officials. The Committee also recommends to take effective measures to reduce the rate of rejection to the minimum admissible level according to the industry norms.
5	25	Industries Department	The Committee is constrained to note that even though the company had consumed power in excess of norms it could not stabilize production to the optimum level of 500 MT per month. So the Committee recommends to take scientific and technical actions to stabilize production to the maximum level and to reduce consumption of power.
6	26	,,	The Committee finds that the quantity of additives actually used by the company was far in excess of the norms fixed and it shows there was absence of internal control to correlate consumption with quality variations. The Committee recommends steady chemical composition which will satisfy the use of additives at the prescribed norms. The Committee understands that the average output per employee per month of this firm is very low when compared to other similar companies. This fact will nurse the closure of this sick unit to a great extent. The Committee therefore, recommends to fix the workload of the employees of

(1)	(2)	(3)	(4)
			this undertaking, considering the norms of the industry and to take stringent action to implement the same for a healthy survival of the company.
7	27	Industries Department	The Committee observes that the Company has not devised a scientific costing system to compute the cost of production and had been finalizing the selling price on the basis of rough estimate prepared for the purpose of quotation and subsequent negotiations. Hence, the Committee recommends to device scientific and full fledged costing system for fixing the selling price.
8	28	,,	The Committee opines that non-achievement of despatch plan of finished goods was on account of shortfall in production. Quality problems, raw materials shortage, delay in machining, delay in sample approval etc. are the main reasons for shortfall. The Committee also observes that most of these problems are avoidable. Hence, the Committee recommends that these problems should be avoided by close monitoring.
9	29	,,	The Committee recommends to conduct inspections and eliminate defects at every stage of production to bring down customer rejection and inform the steps taken in this regard. The Committee also recommends to make available the details of factory rejection and customer rejection during the last five years.
10	30	,,	The Committee finds that though internal audit reports of the Company indicated many persistent irregularities no effective

(1)	(2)	(3)	(4)
			follow-up action was being taken by the management to rectify the same. The Committee, therefore recommends that internal audit should be done in time and effective steps should be taken to rectify the irregularities pointed out in the Internal audit reports.
11	31	Industries Department	The Committee remarked that the cut off of power supply and consequent shutdown of the plant was because of the irresponsible attitude of the management and the officers concerned. Hence, the Committee recommends that the management and officers should be more vigilant and such situations should be avoided in future.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Para No.	*Action taken*
(1)	(2)
2B. 7.3.1	*Loss of production due to part utilization of Induction Furnace.* *Failure to repair/replace induction furnace resulted in loss of production* The utilization of change over contactor is applicable when the work load available is more than the liquid metal produced by one crucible. During the period under review, the production load available could be met through the operation of one crucible. Even if change over contactor was installed, company would not have achieved higher production, thus have nWot lost substantially by not installing the change over contactor. The change over contactor is essentially needed when the total liquid metal required to produce a single casting is more than 6 tonne which is the capacity of one furnace crucible. Since product-mix finalised for the period under review was not requiring more than 6 tonne liquid metal at a time to produce any single casting, company has not lost any amount on this account also. Though company made efforts to procure the equipment, it could not be done because of the acute financial constraint.
2B. 7.4	*Low Yield* *Low yield from molten metal resulted loss Rs. 1.28 crore* The company fixed a norm of 65% yield for SG iron castings, considering regular items and items in mass production during that period. However, during the period under review, the company produced large number of intricate castings in small lots which resulted in low yield. For intricate castings, the Engineering had to provide additional feeding points to take care of shrinkage, resulting in low yield. It is possible to increase the yield to some extent by providing extra insulation sleeves and

(1)	(2)
	compounds which add upto the cost of production. It may be noted that the finished weight of the castings come down to the extent of yield from the weight of molten metal available, the balance available as scrap for reuse. The short fall of 300.152 MT as projected by audit, is received back by the company in the form of foundry returns. The value of the foundry returns works out to Rs. 29.72 lakhs (300.152 MT @ Rs. 9,900/ MT). Hence the actual loss is Rs. 98.28 lakhs. Since the audit period under review, company has taken various measures to improve the yield. Because of the continuous efforts, company has reached an optimum level and the present yield of SG iron castings is 65 to 70%.
2B.7.5.1.	*Factory Rejections* *Factory Rejections in excess of Company's norms were 661.030 MT valued at Rs. 1.65 crore.* (i) There is no industry norm fixing the rejection level at 4%. Rejection at foundries vary depending upon the working situation. The institute of Indian foundrymen who is the nodal agency for foundry industry in India indicate that the tentative rejection level in foundries may be around 10% inclusive of shop floor rejection and customer rejection, in which shop floor rejection may be to the tune of 6 to 8% but not more than 10% (ii) When castings are rejected at the shop floor, the rejected castings are taken back as foundry returns and should be accounted at the value of scrap. The value of the scrap works out to Rs. 58.83 lakhs (661.03 MT @ Rs. 8900/MT). As such loss per MT will not be as high as Rs. 25,000/MT, as indicated in the audit para and only processing cost need be considered as a loss.

(1)	(2)
	(iii) Company is putting maximum efforts to reduce the rejection level substantially. Continuous interaction with employees and continuous improvement in technology field are some of the actions taken. Company is confident that with the action taken viz. continuous evaluation of reasons for rejection and remedial measures, the rejection percentage can be brought down to substantially lower level.
	(iv) Some of the items which are produced in bulk in the company like high value Wind Mill items, items for Ash Handling Plant etc. are produced at present in the company with zero rejection.
	Fusion Welding Furnace—the Fusion Welding Furnace was purchased by the company with a view to reduce the rejection percentage by way of salvaging some of the castings through welding. In this connection it may kindly be noted that the fusion welding furnace does not reduce the percentage of rejection but only salvage castings if customers permit the same. During the period of installation of fusion welding furnace, customers informed the company that they will not accept the castings even with minor welding. Under the circumstances, company was forced to discontinue the practice of welding. In the absence of approval from the buyers even if the fusion welding furnace was in order, company could not have salvaged any castings. Under the circumstances, company has not lost any amount because of the non functioning of the Fusion Welding Furnace. However, in future, if any of the customers permit welding by salvaging this machine could still be used.
2B.7.5.2.	*Product-wise Plant Rejections*
	The per piece weight of MG case is 18 kg and when one pattern is modulated in a match plate, the box yield is only 18 kg, which is not an economical proportion. Considering the above point company is concentrating in

(1)	(2)
	the production of other bigger casting only. MG case casting production is not re-started after 2000-01. As and when the company restart the production of MG case casting, adequate, care will be taken to produce the castings economically. The continuous evaluation of reasons for rejection is being done now and the company is hopeful that with the efforts made and systems being introduced at present, the company will definitely bring down the rejection to the accepted level in future. Company has already rectified defects in the sand system and also identified sub-contractors in the absence of sufficient facilities in the pattern shop. Company has already proven that the rejection in certain items as mentioned in this audit para, has already come down to an acceptable level.
2B.7.6.2.	*Additives* The norms of consumption of additives consumed by the company is of general nature and varies from case to case depending upon the special requirement of the components and also special requirements highlighted by customers. Autokast is manufacturing special castings for specific applications. Some of the sectors catered by Autokast includes Wind will, Water Transportation, High Pressure Values, handling plant etc. In all the above sectors the casting has to function at adverse working situation and because of the above the clients indicate special quality requirement of the castings. In order to meet special requirement, very often the company has to make some structural changes by adjusting the chemical composition of molten metal. This often necessitated addition of more additives than what is indicated in the norms. The norm fixed is considering the optimum specifications of the basic raw material. To contain the cost, the company is not procuring basic charge material from Steel Plants. Company is purchasing CRCA Scrap, Cost Iron Scrap. HMS etc. which are cheaper than the Pig Iron.

(1)	(2)
	However in this case, the composition will widely vary, and company cannot assure a steady chemical composition which will satisfy the addition of additives at the prescribed norms. To counter variation in the raw material composition, company is forced to add more quantities of additives than fixed by the norm.
2B.7.7.	*Purchase of Silica Sand*
	Eventhough the sand was available at the company premises, permission was not granted by the Mining and Geology Department for mining of silica sand from the company premises since company is not located in the mining area. During the year 1998-99, company had collected 2750 MT of silica sand from company premises due to prolonged labour problems with Mine Owners. Again from 2000, company started collecting sand from its own premises since local suppliers stopped supplying the sand as the company has not paid their bills due to paucity of fund. It may also be noted that of the 22 hectares of land belonging to Autokast, at least 25% of the above is occupied by buildings and facilities put up for the plant. Also the sand available from all the remaining areas is not suitable for foundry applications. Only the sand available from specific pockets are suitable for the purpose. Present situation indicate that the foundry sand available is almost exhausted and shortly company will be forced to procure from other sources including from earlier local sources.
	Considering the above, company will not be able to meet all future requirement of silica sand by mining from own land. Had the company resorted to mine sand earlier, the stock available in the premises would have been exhausted by now. The Company had earlier tried to obtain mining license, during the year 1981 but could not get the same.
2B.8.2.	*Manpower Utilization*
	The manpower requirement of 1250 for the production of 18,000 MT of castings projected in DPR include direct

(1)	(2)
	workers and indirect workers needed to man Auxiliary Departments. Indirect manpower required to man auxiliary departments remain same for meager man auxiliary departments remain same for meager production or for full capacity of 18,000 MT/annum provided the shift arrangements remain the same. So apportioning the manpower to a lower production level is not a practical proposition. If we compare the minimum manpower required to man various departments who are not directly responsible for day-today production activities, with the actual number of manpower presently employed, it could be seen that there is not much surplus employees. Thus the projection of extra expenditure of Rs. 13.65 crores as indicated in the audit is not a factual one. In this connection, it may be mentioned that the workmen are recruited on a permanent basis on the long term plan. It is not possible to increase or decrease the manpower to match with the production requirement of any particular period. Hence minimum strength has to be maintained at any time to man various departments and also for various equipments available regardless of the quantum of production.
2B.8.3.	*Payment of Overtime Wages* Earlier years, company had engaged workmen on overtime basis due to high absenteeism in certain production areas. Since then company initiated action for restricting Over Time by conducting department wise analysis and fixing up responsibility and accountability to the concerned departments. At present the company have completely stopped overtime payment by efficient planning and control.
2B.9.1.	*Under Utilization of Fettling Capacity* The company produce small, medium and heavier castings from different production sections. Almost 50% of castings are produced in HP Line, which are small and medium size in nature. Only Skelton fettling (in house)

(1)	(2)
	facility to the tune of 150 MT per month only was planned initially. Subsequently, in house fettling facility has been increased to 250 MT/month incurring a cost of Rs. 42 lakhs Audit para highlight that inspite of increase in capacity of the fettling shop, addition of workmen and new machinery, fettling work was also entrusted to outside firms during the period 1998-99 to 2000-01 resulting in an avoidable expenditure of Rs. 20.21 lakhs. The total activities in Fettling Shop consist of shot Blasting, Grinding, Chipping, Inspection at various Stages, Painting, Loading etc. Out of the above only grinding and Chipping works are sub-contracted. The castings returned from sub-contractors are shot blasted and prepared for despatch at the fettling shop only. The original proposal was to carry out some of the fettling activities in total through ancillary set up. The Sub Contracting done at present is only in respect of smaller components for which there is no in house facility planned and bigger items are done at company premises only. It may be further noted that ancillary shops are set up by entrepreneurs only to cater to the requirement of the company. They are not fed with the fettling work by any other outside agencies. They have put up their units based on the assurance given by company regarding minimum work load. Hence it is not possible to eliminate them totally. Company is presently utilising Sub-Contractors only after utilisation of in house facilities to the full extent. Heavier castings are fettled in company's fettling shop. Even the items earlier used to be fettled by Sub-Contractors are presently done at company.
2B.9.2.	*Avoidable expenditure on Decoring and allied works.* Company has resorted to getting the decoring work done through outside firms on contract basis due to shortage of Unskilled Workmen. The available work force was not adequate to carry out the decoring of castings departmentally. Though the original project report does not propose the decoring internally, it may be noted that the

(1)	(2)
	unskilled workmen, as envisaged in the DPR has not been recruited by the company and hence available manpower is not sufficient to carry out these activities. In addition to the decoring, all the runners and risers during decoring is to be broken and to be transferred to Melting Shop. If company resorted to recruit additional manpower to decore, it will be more expensive than getting the work done through Sub-Contractors.
2B.10.1.1.	*Fixation of Selling Price.* Because of the various reasons company is not able to utilise the installed capacity which has made implications on costing. For the purpose of quotations, the company is adopting marginal costing methods. The company compute product wise cost details which are complied based on the actual operating data. The variable cost consisting of raw material cost, direct and indirect cost and other manufacturing expenses are carefully evaluated and the expected contribution is added to arrive at the selling price. Since company is facing competition from several manufacturers, the company will not be able to get additional cost incurred by the company comparison to competitors' price. Since the company is incurring huge fixed expenses, the same can be absorbed only at the break even level of operations and the company is putting best efforts to achieve the same at the earliest. Since the market price for similar products are more or less fixed, lot of inroads are to be made to manufacture more complicated items which will generate more profits. Presently the prices are finalised based on the quotation submitted by the company to the parties which include overheads and wages.
2B.10.1.2.	*Fixation of lower selling price Due to non-consideration of direct wages.* The market price is fixed on the basis of contribution. The competition from several manufacturers are very strong at present and hence the company is unable to dictate terms with the customers. Presently, the company

(1)	(2)
	is getting an average contribution of Rs. 10,000/MT and compared to similar manufacturers the same is reasonable. Customers are requesting for further price reduction especially in the rates of established products and we are reluctantly refusing to accept the request for price reduction. Hence the main emphasis should be towards improving efficiency in operation which an be achieved by increasing the productivity and substantial reduction in the fixed cost of the Company. These factors will have to be considered under the prevailing Indian conditions. It is also to be noted that the recessionary trend was continuing in Automobile Industry. Regarding the price reduction of Rs. l/kg to M/s. Eicher Tractors, against the supply of Carter Castings, it may Tractors, against the supply of Carter Castings, it may be noted that the rate reduction was done in a special situation and also on a conditional basis too. Against the reduction of selling rate by Rs.1/kg to them, the company has achieved the following: (a) payment period was reduced from 30 days to 15 days (b) schedules were doubled (c) they have agreed to consider a price escalation after Autokast was established as a consistent supplier for their 3 bore crank case castings. There was a possibility that Eicher would have cancelled the order and gone for alternate sources, provided Autokast had not reduced the rate as sought for. The advantage received by Autokast is much more comparing the marginal reduction effected in the selling price. Considering the fact that M/s. Eicher Tractors is the major customer of Autokast and in the event Eicher cancelling their order, the existence of Autokast was at stake, action taken by the company is justified.

(1)	(2)
2B.10.2.	*Sales Performance* Company could not perform satisfactorily during the initial years including the period under review due to various constraints beyond the control of the company. Some of the constraints faced by the company include Power Cuts, power restrictions, shortage of working capital to purchase essential raw materials and the need for developing large number of complicated castings. Because of the above reasons company could not project a bigger sales budget. Situation in foundry industry was also not bright during the period under review. Management and employees of the company realised the poor performance of the company at that time and taken firm decision to improve the performance of the company by sacrificing many of the benefits and increasing the productivity substantially. Towards the end of the review period the over all situation of the foundry industry shown a changing trend and the company has also started looking up. Considering the above, a restructuring plan was made with the support of UNDP Consultants under aegis of Kerala State Public Sector Restructuring and Internal Audit Board (RIAB). However, there was delay in implementation of the restructuring plan which affected the further performance of the company. With the active support of the Government, a revised restructuring plan is under the consideration of the BIFR. With the implementation of the revised restructuring plan, company is confident to achieve the projected production and financial results.
2B.10.3.	*Despatch Plan* Company was computing monthly production plan based on the despatch schedule. All the problems mentioned regarding non achievement of targets are normally for reasons applicable to all the foundries. During the period under review, company developed large number of new items which took time to stablise. Shortage of working capital, delay in machining etc. had occurred especially due to the fact that required working capital facilities

(1)	(2)
	were not available. By adopting a practice of preparing monthly production plan and despatch schedules based on the confirmed order, company could avoid stock piling of some quantity of castings, as practiced earlier and sometimes helping to increase the cash flow and over all working result of the company. Company has taken utmost care to procure essential raw materials to avoid production stoppage. Company has also expanded the machining bases to get the castings machined in time, which was one of the reasons for delay in despatch of castings. By the action taken by the company, substantial improvement is seen in the working results.
2B.10.4.	*Production, Planning and Control*
	The Company is still exploring the possibility of selling non moving castings to the original customer and continuously in search of secondary market for selling the non moving stock of castings.
2B.10.5.	*Sales Rejections*
	There is no industry norm in respect of customer rejection. The average customer rejection prevailing in the industry is 2 to 4%. On verification of documents available with Institute of Indian Foundrymen (IIF), who are the Nodal Agency for Foundry Industry in India, it could be seen that average customer rejection with major foundries in India is to the tune of 2 to 4%. If the customer rejection is considered as 2 to 4%, the loss projected could have been much lower than the figure of Rs. 1.21 crores projected by the audit. Company is taking effective steps to reduce the customer rejection continuously.
2B.10.5.1.	*Project-wise analysis of Sales Rejection*
	Analysis of customer rejection of five major products for the three years (1998-99 to 2000-01)
	The Industry norms in respect of customer rejection in Indian Industry is never 1%. The average customer rejection prevailing in industry is to the tune 2 to 4%. On verification of the documents available with Institute of

(1)	(2)
	Indian Foundrymen, who are the Nodal Agency for foundry industry in India, it could be seen that the average customer rejection with respect to major foundries in India is to the tune of 2 to 4%. Company's own target as per the ISO specification is 6% for shop floor rejection and 4% for customer rejection. The high rejection in respect of Control Housing meant for M/s. Eicher Tractors was due to the fact that the item was a developmental one and also due to the fact that there has been some metallurgical problems due to non availability of required quality scrap. The anomaly has since been rectified by providing right material. The items were despatched to customers after adequate inspection. Most of the rejection from the customers revealed only after machining and it could not have been possible to detect such defects before effecting despatch from the company because these are hidden defects. If company want to assess internal defects, it is technically possible by spending exhorbitant amount in adopting inspection procedures like Ultrasonic testing, MPI testing, X-ray testing etc. Company has since then adopted random checking by adopting above process to streamline the manufacturing process.
2B.10.5.2.	*Non-adherence to specifications* The Hub casting produced initially were accepted by AWT because the above castings generally met the quality standard then fixed by the customer. Subsequent to the change of the status of the customer from Joint Sector to fully owned subsidiary of the parent company—M/s. NEG Micon, they have increased the quality standards by imposing more and more quality parameters for accepting the Hub Castings. Company has taken the above challenge and developed the Hub castings (Sl.No.30) and submitted the same to them which was accepted by the party after conducting all tests and inspection procedures. Company has since received substantial order for the supply of Hub casting from M/s. NEG Micon. Since company has taken effective steps to develop critical castings as per the quality standard fixed by the party, company can produce castings without rejection in future.