



**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

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

**FORTY NINTH REPORT**

(Presented on 30th June, 2008)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2008

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

**FORTY NINTH REPORT**

**On**

**The action taken by Government on the Recommendations contained in the  
42nd Report of the Committee on Public Undertakings (2001-2004)  
relating to Kerala State Cashew Development  
Corporation Ltd. based on the Report of the  
Comptroller and Auditor General of India  
for the year ended 31st March 1997,  
1999 and 2001 (Commercial)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2006-2008)

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## INTRODUCTION

I, Chairman Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 49th Report on the action taken by Government on the recommendations contained in the 42nd Report of the Committee on Public Undertakings (2001-2004) on the working of the Kerala State Cashew Development Corporation Ltd. based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 1997, 1999 and 2001 (Commercial).

The Statement of action taken by the Government included in this Report were considered by the Committee constituted for the year 2006-2008.

This Report was considered and approved by the Committee at the meeting held on 16-6-2008.

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

Thiruvananthapuram,  
30-6-2008.

MANKODE RADHAKRISHNAN,  
*Chairman,*  
*Committee on Public Undertakings.*

## REPORT

The Forty Second Report of the Committee on Public Undertakings (2001-04) on Kerala State Cashew Development Corporation Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31st March 1997, 1999 and 2001 (Commercial ) was presented to the House on 30th July, 2003.

The Report contained 8 recommendations. Government have furnished replies to the recommendations.

The committee (2006-08) considered the replies received from Government at its meeting held on 28-12-2007 and approved the same without any remarks. The recommendations and its replies are included in this Report.

**Replies furnished by Government which have been accepted by the  
Committee without remarks**

<i>Sl. No.</i>	<i>Para of the Report</i>	<i>Department concerned</i>	<i>Conclusions/ Recommendations</i>	<i>Action taken by Government</i>
(1)	(2)	(3)	(4)	(5)
1	16	Industries	<p>The Kerala State Cashew Development Corporation Limited was incorporated in July 1969 in the Public Sector with a broad objective of the overall development of cashew industry in the State, which contributes a major chunk of foreign exchange to the State. Moreover, providing fair number of employment days to the thousands of workers engaged in this traditional sector is yet another major objective of maintaining the industry in the Public Sector. But the Committee observes that due to a number of reasons like improper planning, insufficient management, absence of a clear cut sales and purchase policy, the Company had failed miserably in fulfilling the two objectives.</p>	<p>Cashew Development Corporation was established in July 1969 as a model employer in the Cashew sector. In the beginning stages the company could provide adequate number of working days to its workers and earned profit. But in subsequent years the company could not provide sufficient number of days work due to the non-availability of raw nuts and also due to the financial problems. Because of the smuggling of raw nuts to the other states, the company could not collect the required quantity of raw nuts and thereby the number of working days came down.</p> <p>In order to overcome this situation Government have implemented monopoly procurement during the period 1977 to 1982 and 1988 to 1992 and 1994 and the company could collect sufficient quantity of</p>

(1)	(2)	(3)	(4)	(5)
1	16	Industries		<p>nuts and provide sufficient number of days work. Once the monopoly procurement of raw nuts was discontinued the company could not collect the required quantity of raw nuts from the local market and hence the company had to import raw nuts. During the period 1997-2001 the company had imported 59896 MT of raw nuts and could provide work for 100 days on an average. Due to the down fall of the Kernel price during 2000-2002 in the international market, the entire working capital was eroded due to heavy loss, and the company could not run the factories during 2001-03.</p> <p>Now the Company has taken effective measures to reduce the production cost and all other expenditure and the raw nuts are being purchased at the lowest rate by inviting global tenders and on the basis of negotiation. Similarly the kernels are also being sold at the maximum rate based on market report.</p>



(1)	(2)	(3)	(4)	(5)
2	17	Industries	<p>The Committee deprecates the action of the Government in effecting frequent changes in the post of Managing Director of the Company. The Committee notices that there were four changes in the post of Managing Director between July 1993 and March 1996 with tenures of 4 to 10 months. It is the considered view of the Committee that frequent changes in the incumbency of MD will not only affect the smooth functioning of the company, but will also deprive the continuity and consistency of policies being implemented in the Company. The Committee, therefore, reiterates its recommendation in its 33rd Report (1993-95)</p>	<p>The present Managing Director is holding the post from 2-1-2000 till date, leaving a gap of 8 months between 16-10-2002 and 17-6-2003.</p>
3	18	„	<p>It is alarming to note that the financial position of the Company is very precarious. Though the Company started with a paid up capital of Rs. 30.59 crore, the accumulated loss as at the end of 1995-96 was 149.34 crore and it had</p>	<p>During 1992-93 the company incurred heavy losses due to the high price of raw nuts collected under monopoly procurement scheme, which the private processors refused to take delivery. During 1993-94 based on</p>

(1)	(2)	(3)	(4)	(5)
			<p>further dipped down to a Supreme Court verdict, level of Rs. 312.64 crore additional 36 factories as at the end of March were returned to the 2002. The Company is private owners. The making huge loss setting up of the running into crores of company was not aimed rupees every year since at the objective of profit 1992-93. No earnest alone but also to uplift effort is seen to have the working conditions been made to salvage the of the weaker sections of the company from the the society engaged in the whirlpool of the ever the traditional sector. increasing debts. The Company had to</p>	<p>function as per the orders issued by Government from time to time such as running additional factories which were taken over from private owners by the Government and entrusted the Company taking of higher priced monopoly procured nuts etc. which resulted in added loss to the company. Since inception in 1969, the company made profit for 8 years out of the first 10 years of operation. However, during subsequent years the company could not show profitable performance due to the take over of additional factories as directed by the Government to provide employment to</p>

(1)	(2)	(3)	(4)	(5)
				<p>the poor labourers and to meet the Government's social objectives. The accumulated loss of the company as on 31-3-2001 was Rs. 35346.09 lakhs. Loss in the years 2001-02 and 2002-03 are estimated to be 3441.62 lakhs and Rs. 1427.47 lakhs respectively. The heavy loss during the latter part of 90s is mainly due to the unprecedented fall of Kernel price in the international market. Moreover, the loss is accumulated not only from the working of the company, but also resulted from executing the social objectives under the directions of the Government.</p> <p>The Company is working with 100% borrowed capital from a consortium of banks consisting State Bank of India, the State Bank of Travancore and Punjab National Bank, out of which a good portion of money is paid back to the Government in the form of taxes, interest on Government loans, guarantee commission etc. Since the company is working with 100%</p>

(1)	(2)	(3)	(4)	(5)
				<p>assistance from banks, interest on working capital is also a major reason for the heavy losses.</p> <p>The Kerala State Cashew Development Corporation Ltd. was not working with the sole objective of profit making but also to assist the Government in fulfilling the social objectives. When the Company had carried out these social objectives envisaged by the Government such as maximum employment, fair and adequate wages and amenities to the workers etc. the business objective (earning profit) was not in favour of the company. The Company is trying its level best to overcome all the drawbacks and to reach a stage of no profit-no loss so that it could survive on its own.</p>
4	19	Industries	<p>The Committee observes that, budgetary support is given to the Company every year by Government with an intention to provide fair wages to the workers, number of employment</p>	<p>The Company is established with the objective of giving sufficient number of days of employment and fair wages to the workers, failed to do this because</p>

(1)	(2)	(3)	(4)	(5)
4	19	Industries	<p>days to workers. Eventhough the object is to give minimum 105 days of employment to workers, the number of employment days given to workers ranged from 13 to 87 in an year during the period 1991-92 to 1995-96, it is a matter of serious concern that for providing such meagre employment, the company is being run on persistent loss. The Committee points out that, had the company been shut down and the money released by the State Government was paid as idle wages to the workers at least the loss could have been averted.</p>	<p>of the non-availability of raw nuts and due to financial problems. Though the number of working days ranged from 13 to 87 during the period 1991-92 to 1995-96, the company could provide work for 100 days on an average each year during the period 1996-97 to 2000-01.</p> <p>As a model employer giving fair wages to the workers, the company is the motivating factor in the cashew industry. Merely giving idle wages to the workers will not achieve this objective. The presence of the industry in Kerala is due to the existence of the company. The management is taking all effective measures for providing sufficient number of working days to employees.</p>
5	20	„	<p>The Committee is perturbed to note that the financial management in the Company is in shambles. The Committee came across a number of instances where the company lost crores of rupees due to the</p>	<p>The Company has strengthened the Internal Audit Wing by deputing sufficient staff members and all major transactions such as import and export matters are subjected to strict scrutiny.</p>

(1)	(2)	(3)	(4)	(5)
			<p>inefficient financial management. One instance for the inefficient financial management that has come to the notice of the Committee is the failure of the company to claim Advance License Scheme in the import of 10886 tonnes of Tanzanian raw cashew nuts in 1992 resulting in the loss of Rs. 2.25 crore. Yet another instance is the loss of Rs. 3.10 crore as premium due to the failure of the company to claim ALS on the export made during 1992-93. It is surprising to note that the Company lost a sum of Rs. 1.33 crore as it failed to avail ALS benefit offered by Government of India for the export made by the company for one year up to September 1993. The committee observes that the company has not made any attempt to study the benefit of the scheme offered by Government of India and opines that this is the best example of financial mismanagement prevalent in the company.</p>	

(1)	(2)	(3)	(4)	(5)
			<p>The Committee, therefore, recommends that the Internal Audit Wing in the company should be strengthened. The internal audit cell should inspect all the major transactions like import, export sales of cashew nuts etc.</p>	
6	21	Industries	<p>The Committee is shocked to note that the company had incurred a loss of Rs. 7.75 crore in the import of raw cashew nuts from Bhavani stores, Singapore. The Committee understands that the purchase was effected on a single offer basis. The Committee was appraised that the purchase was made as per the decision of the High power Committee constituted by Government. The price prevailing at the time in the market and the price at which the private processors purchased the nuts was lower than that quoted by Bhavani Stores. The Committee cannot comprehend the logic behind such a purchase spending Rs. 7.78 crore which was</p>	<p>During 1992-93 the tender system was not in existence in KSCDC for importing raw nuts. Reliable parties used to offer their rates and after negotiation orders were issued for the import of raw nuts. In 1992-93 M/s Bhavani Stores offered rates for the import of best variety Tanzanian origin CDJKL quality and after negotiation the rate was fixed at US \$ 1078 per MT. The fact that the company may suffer loss when compared to then prevailing export rate of kernels was informed to the Government. But considering the priority of providing employment to the poor workers, the Purchase Committee directed the company to import 10886 MT</p>

(1)	(2)	(3)	(4)	(5)
			<p>stated to be for raw nuts. The providing fair days of Government order dated employment when the 13-3-1992 was issued actual wages paid for showing all reasons of additional days of the purchase. employment were just Rs. 3.32 crores only. Besides the decision to purchase nuts from a particular party on a single offer gives room for doubts as to the genuineness of the intention. Hence the Committee recommends that a detailed enquiry be conducted into the whole deal.</p>	
7	22	Industries	<p>The Committee notices that there is a sharp decline in the yield of export grade Kernels during the four years upto 1995-96. The Committee is not convinced with the grade kernels. contention of the witness Government have also that procurement of off arranged a detailed season nuts is the enquiry in the matter by reason for low out turn the Finance (Inspection of cashew Kernels. The Wing) Department. The Committee observes that Finance (IW NT-H) even when the Company Department visited the imported high quality head office of KSCDC at Tanzanian raw nuts in Kollam and some of 1992-93, the out turn was factories and collected just 25.8% only. The available materials from Committee, therefore, is of them in connection with the purchase, distribution</p>	<p>Even though the Managing Director KSCDC has furnished the explanation stating the reason for the decline in the yield of export grade kernels. Government have also arranged a detailed enquiry in the matter by the Finance (Inspection of cashew Kernels. The Wing) Department. The Finance (IW NT-H) Department visited the head office of KSCDC at Kollam and some of factories and collected available materials from them in connection with the purchase, distribution</p>



(1)	(2)	(3)	(4)	(5)
			<p>the opinion that the reasons for the low yield is not connected with the quality of raw nuts alone. The Committee doubts that some kind of manipulations/foul play has occurred in the production side and hence a detailed enquiry be conducted into this aspect also.</p>	<p>and processing of imported Tanzanian raw cashew nuts during the years 1991-92 and 1992-93. On scrutiny of the Import Register (containing the quantity of imported raw nuts issued to various factories) and Production Register (Containing the quantity of raw nuts processed in various factories and details of out turn received from the factories) for the years 1991-92 and 1992-93, the total quantity of raw nuts used for production in the factories did not tally with the quantity issued to them and both excess and short use of imported raw nuts for production were found. In view of the above, the inspection team called for the Stock Register of various factories (there were 70 factories including those taken from private processors by Government) related to the receipt and processing of imported raw cashew nuts for the years 1991-92, 1992-93 and 1993-94. Stock</p>

(1)	(2)	(3)	(4)	(5)
				<p>Registers of only a few factories (11 out of 26 called for) were available to the Inspection Team. Regarding the remaining factories, the company has reported that in spite of the repeated efforts the concerned Stock Registers could not be traced out as those factories were taken from the private processors by notification of Government and later the notification had been quashed by the Hon'ble Supreme Court and ordered to return the factories to its owners. It has also been reported by the Company that since the Court order had to be implemented immediately, all the belongings of the company including office records and registers were shifted to some of their factories in a hurried manner and now these records were untraceable at this time. Some factories had received raw nuts not only direct from the port but also from other nearby factories. Further more, the records related to the details of raw nuts</p>

(1)	(2)	(3)	(4)	(5)
				<p>issued to the factories direct from port alone is available in the Head Office. The details related to the transfer of raw nuts from one factory to other is available only in the Stock Registers of the concerned factories. Since the stock registers of all the factories run by the company during the relevant period were not available, the Finance (Inspection Wing) team could not arrive at a definite conclusion. Due to non-availability of the Stock Registers of all the 70 factories, it is not possible to cross check the details such as quantity of imported raw nuts received by the factories direct from port quantity of raw nuts transferred from one factory to another and quantity processed in various months during 1991-92 and 1992-93.</p> <p>In the above circumstances, it is informed by the Finance (inspection-NTH) Department that it is unable to proceed with the enquiry to find out whether any</p>

(1)	(2)	(3)	(4)	(5)
				manipulations/foul play had taken place in the production during the years 1991-92 and 1992-93 as directed by the Committee on Public Undertakings.
8	23	Industries	The Committee opines that company does not have a proper sales policy. The company retained a stock of 65 containers of exportable cashew kernels for a considerable period when the price in the international market was declining steeply, which had resulted in a loss of Rs. 2.27 crores. The argument of the company that stock was kept for better price does not hold good since the price was decreasing day by day. The Committee recommends that the company should adopt a well-defined sales and marketing policy in consultation with an expert agency.	Usually the company enters into forward contract for more than 35% of the expected production as and when the availability of raw nuts is confirmed. The balance stock will be sold according to the fluctuations in the market price. Sometimes, even when the market shows steady declining trend the price increases all of a sudden based on the demand for short term covering. As this being the case, the retention of stock of cashew kernels for a short period was to obtain high price.

Thiruvananthapuram,  
30-6-2008.

MANKODE RADHAKRISHNAN,  
*Chairman,*  
*Committee on Public Undertakings.*