



TWELFTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2008-2011)**

SIXTY FIFTH REPORT

(Presented on 25th February, 2009)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2009

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On

**Kerala Feeds Ltd. based on the Report of the Comptroller
and Auditor General of India for the year
ended 31-3-2006 (Commercial)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2008-2011)

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Smt. L. Sailaja, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2008-2011) having been authorised by the Committee to present the Report on their behalf, present this Sixty Fifth Report on Kerala Feeds Ltd. based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2006 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended 31-3-2006 (Commercial) was laid on the Table of the House on 28-3-2007. 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 years 2006-2008.

This Report was considered and approved by the Committee at the meeting held on 21-1-2009.

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

The Committee wish to express their thanks to the officials of the Agriculture Department of the Secretariat and Kerala Feeds 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, Agriculture Department and Finance Department and the officials of Kerala Feeds Ltd., who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
25-2-2009.

*Chairman,
Committee on Public Undertakings.*

REPORT
KERALA FEEDS LIMITED

AUDIT PARAGRAPH

The Company, which is engaged in the production of cattle feed, uses Maize, Jowar or Wheat as raw material considering the cost factor. The Company had been following the practice of procuring live stock grade wheat, which was acceptable to the Company as per their quality parameters, from Food Corporation of India (FCI), whenever it was available. In the case of wheat the price of good quality wheat was normally higher than that of its substitute ingredients.

During the year 2004-05 the Company purchased 1902.675 MT of C&D grade wheat from FCI at a landed cost of Rs. 7317.77 per MT. This grade of wheat was actually intended for human consumption as per FCI norms. It was noticed that at the time of deciding (13 April 2004) on purchase of higher quality wheat, the substitute material, 'maize', was available at Rs. 6500 per MT. There was also a stock of 178.434 MT of maize in hand and thereafter the daily stock ranged between 173.195 MT and 906.522 MT during the month of April 2004 against the average daily requirement of 51.05 MT. Supply of 1205 MT of maize was also pending against earlier orders on that date. In view of the very high level of stock of maize, the purchase of good quality wheat at a higher price was not justifiable since there was no intention to make any value addition to fetch enhanced prices from the market.

Thus, the injudicious decision of the Company to purchase high quality wheat at a higher price even when substitute maize was available at cheaper rates, resulted in avoidable extra expenditure of Rs. 15.56 lakh*.

The Government stated (July 2006) that the Company was in continuous efforts to improve the quality of the output by using wheat, with the only difference that the quality used in this purchase was a better one involving higher cost. The reply is not acceptable since the Company required only live stock grade wheat and the same was being purchased from FCI. The Company by purchasing good quality wheat intended for human consumption at exorbitant price as a one time measure, could only add to the cost without any increase in selling price. Since the Company had not purchased any further quantity of higher grade wheat the contention regarding improvement in quality of output cannot be accepted.

* 1902.67MT X Rs. 8177.77 per MT (Rs.7317.77—Rs. 6500)

[Audit Paragraph 4.8 Contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2006 (Commercial)]

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

1. The Committee wanted to know the reason for the decision of the Company to purchase wheat at higher price despite availability of its substitute maize at cheaper rates and the company having sufficient stock of it, which resulted in avoidable extra expenditure of Rs. 15.56 lakh. The witness replied that due to increased competitiveness in quality by the competitors Kerala Feeds had been taking various measures for improvement of quality of the cattle feed. The Company had bought the higher grade wheat for quality improvement. The Committee disagreed with the witness remarks and pointed out that the Company purchased the higher grade wheat only once and enquired what prompted the Company to purchase high quality wheat for the purpose of live stock and opined that if the Company had wanted to improve quality, then it would have continued to purchase the wheat according to the availability but the Company had not done so. To a specific query whether the quality had improved, the witness replied that the physical quality of pellet had improved. It's length had increased and shape and colour changed, and the dust percentage had decreased. This was the effort of R&D wing to increase the demand in the market and improve the quality.

2. To another query, the witness replied that the Company has been producing a maximum of 500 tones of cattle feed as per its capacity. The problem was that the price cannot be increased according to increase in price of raw materials. Now the Company has reached a no gain no loss stage and there is a proposal to build a feed plant in Karunagapally.

Conclusion/Recommendations

3. **The Committee finds that Kerala Feeds Limited incurred an extra expenditure of Rs. 15.56 lakh due to the indiscreet decision of the Company to purchase wheat at higher price even though there was sufficient stock of its substitute maize which was also available at cheaper rates. The Committee does not accept the explanation given by Government that the higher grade wheat was purchased for quality improvement because the company made no effort for the same later. The Company had purchased the higher grade wheat only once and also the selling price of the improved variety was not higher than the normal rate as the company did not intend to make value addition to fetch higher price from the market.**

The Committee therefore recommends that action should be taken against those responsible for the purchase and the amount lost should be recovered from them. The Committee also desires to be informed of the steps taken during the last 3 years by the company to reduce losses and increase profit.

Thiruvananthapuram,
25th February 2009.

MANKODE RADHAKRISHNAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

<i>Sl.No.</i>	<i>Para No.</i>	<i>Department Concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	3	Agriculture	<p>The Committee finds that Kerala Feeds Limited incurred an extra expenditure of Rs. 15.56 lakh due to the indiscreet decision of the Company to purchase wheat at higher price even though there was sufficient stock of its substitute maize which was also available at cheaper rates. The Committee does not accept the explanation given by Government that the higher grade wheat was purchased for quality improvement because the company made no effort for the same later. The Company had purchased the higher grade wheat only once and also the selling price of the improved variety was not higher than the normal rate as the company did not intend to make value addition to fetch higher price from the market.</p> <p>The Committee therefore recommends that action should be taken against those responsible for the purchase and the amount lost should be recovered from them. The Committee also desires to be informed of the steps taken during the last 3 years by the company to reduce losses and increase profit.</p>

APPENDIX II

NOTES FURNISHED BY THE GOVERNMENT ON THE AUDIT PARAGRAPH

Action taken notes on C & AG's Reports

- | | | | |
|-----|---|---|---|
| I | (a) Department | : | Agriculture (AHF) Department |
| | (b) Subject/Title of the Review Paragraph | : | Avoidable extra expenditure |
| | (c) Paragraph No. | : | 4.8 |
| | (d) Report No. and year | : | C&AG Report for the year ended 31-3-2006 |
| II | (a) Date of receipt of the Draft Para/ Review in the Department | : | |
| | (b) Date of Department's reply | : | |
| III | Gist of Paragraph/Review | : | Injudicious decision to purchase wheat at a higher price despite availability of its substitute Maize at cheaper rates resulted in avoidable extra expenditure of Rs. 15.56 Lakh. |
| IV | (a) Does the department agree with the facts and figures included in the paragraph ? | : | Yes |
| | (b) if not, please indicate the areas of disagreement and also attach copies of relevant documents in support | : | Not applicable |
| V | (a) Does the department agree with the audit conclusions ? | : | Yes |
| | (b) if not, please indicate the specific areas of disagreement with reasons for disagreement and also attach copies of relevant documents where necessary | : | Not applicable |

- VI (a) Remedial action taken : M/s. Kerala Feeds Limited who have been pioneers in the Pelletised
- (a) Improvement in system and procedure including internal controls : Cattle Feed Market has been able to establish its own brand image in pellet quality. Due to increased
- (b) Recovery of overpayment pointed out by audit : competitiveness in quality by the competitors, Kerala Feeds Limited have been taking various measures
- (c) Recovery of under assessment, short levy or other dues : for continual improvement on quality for a sustainable market from time to time. They have tried on the
- (d) Modification in the schemes and programmes including financing pattern : following materials as mentioned below as part of their ongoing production trial/research.
1. Use of pellet binders like Ligno-sulphate compounds and Sodium Bentonite in feed formulation to improve pellet length.
 2. Inclusion of water as a pellet binder to improve pellet production rate.
 3. Use of expeller oil cakes and wheat as pellet binder with nutritive value for feed formulation.

In order to improve the physical quality of pellet with less dust, uniform length and pellet durability index considering the different production variable at increased production feed rate, they have looked into the possibilities of substitution of Wheat for Maize. In this regard, they have tried out with different categories of wheat obtained from FCI and other available sources as the glutenous nature of wheat,

makes it an excellent pelleting aid and enhances pellet durability with good physical quality compared to other grains. Since good physical quality will get better acceptance from the farmers, which will in turn maintain the brand image in the market, they have resorted to purchase of Wheat whenever available.

M/s. Kerala Feeds Limited were regularly procuring available varieties of Livestock Feed grade Wheat from FCI since 2003. However the low quality damaged wheat was less in binding nature and had low nutritive value compared to good quality wheat, as can also be seen from the report published by Ministry of Agriculture, Food and Rural Affairs, USA. Hence it was decided to try out with higher grade quality of wheat if available. In the instant case, the company on knowing that FCI had C & D category wheat, normally being offered to Roller Flour Mills, which was very good and comparable with Wheat available in the open market, and since the rates were comparably less than market price, decided to request the FCI to allot the same. It was decided to procure wheat of C & D category from FCI as the adhesive quality available in the same would be higher when compared to Livestock Wheat or even Maize. Subsequently it was observed that the Company did not get the desired

result from the market, considering the higher price paid for Wheat and hence the Company did not go for further purchase of Wheat.

In the view of the above reply the paragraph on wheat purchase may kindly be dropped.
