



**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

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

**SIXTY SEVENTH REPORT**

(Presented on 25th February, 2009)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2009

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

**SIXTY SEVENTH REPORT**

**On**

**Transformers and Electricals Kerala Limited based on the  
Reports of the Comptroller and Auditor General of  
India for the years ended 31st March 2005  
and 31st March 2006 (Commercial)**

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Smt. D. Kumari Girija, Joint Secretary

Shri J. Unnikrishnan Nair, Deputy Secretary

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 Seventh Report on Transformers and Electricals Kerala Ltd. based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2005 (Commercial) and 31st March 2006 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31-3-2005 (Commercial) and 31-3-2006 (Commercial) were laid on the Table of the House on 13-2-2006 and 28-3-2007 respectively. 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 28-1-2009.

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 Industries Department of the Secretariat and Transformers and Electricals Kerala 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 Transformers and Electricals Kerala 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**

### **TRANSFORMERS AND ELECTRICALS KERALA LIMITED**

#### **AUDIT PARAGRAPH**

The Company engaged in the production of heavy electrical equipment received (October 2002) orders for Rs. 36.32 crore from BSES Limited (renamed as Reliance Energy Limited from March 2004) for the supply of generator power transformers and spares. As per the payment terms, the Company was to receive 10 per cent advance on the date of agreement and balance 90 per cent together with taxes and other levies by means of Letter of credit (LC) prior to five months to the date of inspection of equipment.

The BSES sought (November 2002) reduction in prices for which the Company offered (December 2002) to reduce the package prices to Rs. 32.82 crore subject to alteration in payment terms as interest free advance of 20 per cent of ex-works price of the main equipment on the date of agreement, 30 per cent on completion of six months from the date of order and balance payment against LC on pro-rata basis. The Company, however, had to provide necessary Bank Guarantee (BG) before release of advances by BSES. The alteration in payment terms was accepted by BSES. Purchase order was received in December 2002 from BSES and the agreement executed in March 2003.

In terms of the agreement the Company had to furnish BG in July 2003 towards release of 30 per cent advance amounting to Rs. 7.70 crore. The BG was, however, furnished after a delay of 12 months (July 2004) and BSES released the payment in August 2004. The delay in furnishing the BG by the Company was caused on account of procedural delays involved in obtaining counter guarantee from Government to facilitate issue of BG by Company's bankers (State Bank of Travancore).

Thus, the failure of the Company to furnish bank guarantee for release of advance payment in terms of the agreement deprived the Company of the benefit of advance payment which entailed interest loss of Rs. 92.40 lakh (at the rate of 12 per cent per annum).

The Government, while admitting the fact, stated (July 2005) that the real advantage of interest on advance payment finally accrued to the Company. The reply is not acceptable since the package price quoted by the Company was reduced after taking into account the savings in interest charges that would arise from timely receipt of advance payments from BSES, the benefit of which did not accrue to the Company.

[Audit Paragraph 4.1 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 (Commercial).]

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

1. The Committee enquired about the delay in furnishing bank guarantee to BSES Limited which deprived the company of the benefit of advance payment and resulted in interest loss of Rs. 92.40 lakh. The witness explained that the company was already under BIFR and in a tight financial position. The Company did not have sufficient back up money to arrange the bank guarantee in time. The company had to seek Government support and much time was spent due to various procedures followed in enhancing the credit limit from banks. Now the banks had raised the credit limit from Rs. 4 crore to Rs. 16 crore. The financial situation of the company had improved and it was now getting new orders. The witness conceded that what the Audit had said was technically correct and added that the time lag was not intentional but due to the inability of the company to procure enough money. The Committee pointed out that the company had reduced the price of the goods as sought by BSES Ltd. expecting the gain in interest accruing from the advance payment. But the advance payment could not be realised on time and thus the company incurred loss by agreeing to the price reduction. The witness informed that though the delay led to some initial loss the company got the advance money which could be utilized for its improvement and they did the same.

2. The Committee asked why the company could not utilise the overall guarantee limit of Rs. 87.40 crore which was valid up to 31-12-2003 given by Government to SBT. The witness replied that the company was allowed to avail only Rs. 4 crore as guarantee limit due to its poor financial condition.

### **Conclusions/Recommendations**

#### **No comments.**

#### **AUDIT PARAGRAPH**

The Company, engaged in the manufacture of transformers and electrical equipments, received (July 2000) a work order from Kerala State Electricity Board (Board) for execution of a transmission project on turnkey basis. The work was to be completed in all respects by July 2001.

In order to meet the requirement of the above project the Company placed orders (November 2003) for purchase of 332.5 MT of GI structures with Ferro Galva Industries, Nagpur (FGI) at an exworks rate of Rs. 31,000 per MT. As per

terms of delivery, the supply of 148 MT of tower structure was to be completed on or before 15 March 2004 and for the balance quantity the Company was to inform the delivery date later. Before the issue of purchase order FGI had intimated (November 2003) the Company that the balance quantity of 183 MTs would be supplied at the contract rates subject to written confirmation before the end of February 2004 and agreement to take supply in April/May 2004.

The Company, however, did not intimate the delivery schedule for the balance quantity to FGI by February 2004 as stipulated. Consequently FGI expressed its inability to supply the balance quantity at the agreed rate of Rs. 31,000 per MT.

Subsequently, for completion of the work of KSEB, the Company made (July 2004) direct negotiation with FGI and placed orders (July 2004) for 641 MTs at an enhanced price of Rs. 42,000 per MT. The entire quantity (including the balance 183 MT as per earlier orders) was supplied at the revised rate.

The extra expenditure on procurement of 183 MT worked out to Rs. 24.54 lakh [183 MT (Rs. 50,807-37,398)] including taxes and duties.

Thus, due to delay in intimating the delivery schedule for the balance quantity as per the firm's offer, the Company had to procure materials at enhanced rates resulting in avoidable extra expenditure of Rs. 24.54 lakh.

The Management stated (March 2006) that due to the financial difficulty faced by the Company, the first priority of available funds was given to current factory production with intention to meet the delivery commitments for avoiding the incidence of liquidated damages. It was also stated that as there was less pressure from KSEB to complete the work, it was considered prudent to slow down the project work. The reply is not acceptable since the KSEB project work, awarded in July 2000, was due for completion by July 2001 and KSEB had withheld an amount of Rs. 92.24 lakh towards liquidated damages. The Company could have intimated a staggered delivery schedule in February 2004 itself as agreed to by the supplier and avoided payment of enhanced rates.

The matter was reported to Government in May 2006; their reply is awaited (August 2006).

[Audit Paragraph No. 4.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2006. (Commercial)]

Notes on the Audit Paragraph have not been received from Government.

3. The Committee wanted to know the reasons for the delay in intimating confirmation of the balance quantity of the order for tower structures and the



delivery schedule which resulted in extra expenditure of Rs. 24.54 lakhs for the company. The witness attributed it to the poor financial situation of the company. If a firm order was given, payment should be made when the goods were received. Since the company did not have sufficient working capital, it gave priority to executing the orders in hand, the witness stated. The Committee enquired about the action taken against the persons responsible for the delay. The witness admitted that there was a slackness within the system which resulted in the poor financial condition of the company. To rectify this, a restructuring was underway. A strong management team had been constituted to monitor the functioning of the company. A plan to merge TELK with NTPC was in the final stage. The present Managing Director is from NTPC and middle level managers are being given training at NTPC's institute. This has brought the rhythm back in proper system. To the Committee's enquiry whether the company was still under BIFR, the witness replied in a negative manner. He added that the package for restructuring the company had been approved at the hearing held on 19th March 2008 and the final order would be received soon. Restructuring would be completed as soon as the order was received.

#### **Conclusions/Recommendations**

**5. The Committee deplores the fact that no action was taken by Government on the objections raised by Audit, even after the lapse of 21 months which shows that Government does not give importance to the objections by the Comptroller and Auditor General of India in the functioning of public sector undertakings in the State.**

**6. The Committee is shocked in observing that though the company accepted the transmission project of KSEB which was to be completed in all respects by July 2001, the company was placing orders for the GI structures needed for the project only in November 2003. The management would have known that it would have to pay liquidated damages for the delay in completion of the work. In order to avoid incurring additional expenditure on the GI structures the company should have intimated staggered delivery schedule before the end of February 2004. This carelessness on the part of the management resulted in extra expenditure of Rs. 11,000 per MT for 183MT of the tower structure. The Committee recommends that action be taken against those responsible for the delay and steps be taken to realise the loss sustained by the company. The Committee also wish to be informed whether orders have been issued regarding the restructuring in the company and of the steps taken in this regard.**

## AUDIT PARAGRAPH

The Company, engaged in the manufacture of transformers, obtained (August 2000) a work order from Kerala State Electricity Board (Board) for the construction of 33/11 KV Substations at Varappuzha and Vadakkekara for a total contract price of Rs. 4 crore. The scope of work included supply, installation and commissioning of autorecloser with sectionalisers. The technical specifications which formed part of the bid and contract stipulated that the number of units required was 27 autoreclosers and 81 sectionalisers, though the quantity to be supplied as per the price schedule mentioned “8 sets of 11 KV autorecloser with sectionaliser complete set as per specification”.

The Company, however, wrongly presumed that one set comprised of one autorecloser and one sectionaliser and accordingly quoted Rs. 41.56 lakh for eight sets as against one autorecloser and three sectionalisers mentioned in the technical specification. The mistake was noticed only when the Board clarified (October 2001) the position. The Board there upon insisted on the supply of eight autoreclosers and 24 sectionalisers at the rates initially quoted by the Company. Consequently the Company had to procure (August 2005) 16 additional sectionalisers valuing Rs. 18.53 lakh at its own cost.

Thus, the company’s failure to submit tenders after careful scrutiny of technical specifications resulted in avoidable additional expenditure of Rs. 18.53 lakh.

The Management stated (June 2006) that technical specification is only a guidance for specification of equipment and the quantity of items to be supplied was as per the price schedule in which the actual requirement was for eight sets. It was also stated that from technical point of view, the autorecloser could have any number of sectionalisers or no sectionaliser at all, which varies from case to case. The reply is not tenable in view of the fact that 27 autoreclosers and 81 sectionalisers mentioned in the technical specification indicated a ratio of 1:3 per cent and also the Company did not seek any clarification from the Board before submission of quotations.

The matter was reported to Government in June 2006; their reply is awaited (August 2006).

[Audit Paragraph 4.7 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2006 (Commercial).]

Notes on the Audit Paragraph have not been received from Government.

7. The Committee sought an explanation for the failure of the company to scrutinize the technical specifications of the bid before submitting tenders, which

resulted in additional expenditure of Rs. 18.53 lakh. The witness admitted that failure to study the technical specifications was a fault on the company's part. When the company submitted the bid in 2000, it assumed the ratio of auto reclosers to sectionalisers to be 1:1 instead of 1:3 due to lack of technical prudence and did not seek a clarification from KSEB. This was an error which occurred due to lapses in the system. The witness stated that technical examination should be done at one more level and that steps have been taken to avoid such lapses in future. The Committee wanted to know about the action taken against those responsible for the loss. The witness explained that the company was taking up work of this nature for the first time and it did not have previous experience in the field. A system for technical cross checking was also not in place. The officials had taken a risk and got orders worth Rs. 15 crore which was the biggest order during 2000. The Committee pointed out that being a highest bid it was a serious lapse on the part of the company that it did not seek any clarifications from KSEB. The witness requested the Committee to accept the explanation for the human error and stated that the company has taken measures to avoid such errors and was now running on profit. It was making working profit during the last 4 years. After the BIFR package, it would be increasing its profits. The turnover had reached Rs. 150 crore and profit had reached Rs.10 crore. Technical improvements had been made in the company and productivity had increased.

#### **Conclusions/Recommendations**

**8. The Committee concludes that while executing the work order for the construction of substations at Varappuzha and Vadakkekara for KSEB, the company failed to make a detailed study of the technical specification which clearly stipulated that the number of units required was 27 auto reclosers and 81 sectionalisers. Due to this imprudent approach when the Company submitted the bid in 2000, it assumed the ratio of auto reclosers to sectionalisers to be 1:1 instead of 1:3. This resulted in additional expenditure of Rs. 18.53 lakh to procure 16 additional sectionalisers to supply to KSEB. The Committee views this lapse seriously and recommends that action be taken against those responsible. The Committee also recommends that steps be taken to avoid such lapses in future and to inform to the Committee of the measures taken in this regard.**

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,  
25-2-2009.

*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	5	Industries	The Committee deplores the fact that no action was taken by Government on the objections raised by Audit, even after the lapse of 21 months which shows that Government does not give importance to the objections by the Comptroller and Auditor General of India in the functioning of public sector undertakings in the State.
2	6	Industries	The Committee is shocked in observing that though the company accepted the transmission project of KSEB which was to be completed in all respects by July 2001, the company was placing orders for the GI structures needed for the project only in November 2003. The management would have known that it would have to pay liquidated damages for the delay in completion of the work. In order to avoid incurring additional expenditure on the GI structures the company should have intimated staggered delivery schedule before the end of February 2004. This carelessness on the part of the management resulted in extra expenditure of Rs.11,000 per MT for 183MT of the tower structure. The Committee recommends that action be taken against those responsible for the delay and steps be taken to realise the loss sustained by the company. The Committee also wish to be informed

(1)	(2)	(3)	(4)
			whether orders have been issued regarding the restructuring in the company and of the steps taken in this regard.
3	8	Industries	<p>The Committee concludes that while executing the work order for the construction of substations at Varappuzha and Vadakkekara for KSEB, the company failed to make a detailed study of the technical specification which clearly stipulated that the number of units required was 27 autoreclosers and 81 sectionalisers. Due to this imprudent approach when the Company submitted the bid in 2000, it assumed the ratio of autoreclosers to sectionalisers to be 1:1 instead of 1:3. This resulted in additional expenditure of Rs. 18.53 lakh to procure 16 additional sectionalisers to supply to KSEB . The Committee views this lapse seriously and recommends that action be taken against those responsible. The Committee also recommends that steps be taken to avoid such lapses in future and to inform to the Committee of the measures taken in this regard.</p>

## APPENDIX II

NOTES FURNISHED BY THE GOVERNMENT ON THE  
AUDIT PARAGRAPH**Report of the Comptroller & Auditor General of India for the year ended  
31-3-2005 (Commercial) on Telk—Remedial Measures Taken—Statement**

- |     |   |   |  |
|-----|---|---|--|
| I   | (a) Department                                | : | Industries (H) Department  |
|     | (b) Subject/Title of the Review/<br>Paragraph | : | Chapter IV—Transaction Audit observations—Government companies—Transformers and Electricals Kerala Limited—4.1 Avoidable loss—Delay in furnishing bank guarantee deprived the company of advance payment with consequential interest loss of Rs. 92.40 lakhs.  |
|     | (c) Paragraph No.                             | : | 4.1  |
|     | (d) Report No. and year                       | : | Report of the Comptroller and Auditor General of India ended on 31-3-2005 (Commercial)   |
| II  | (a) Date of receipt of the Draft              | : | 10-4-2006  |
|     | (b) Paragraph/Review in the<br>Department     | : | Para 4.1   |
| III | Gist of Paragraph/Review                      | : | The Company engaged in the production of heavy electrical equipment received (October 2002) orders for Rs. 36.32 crore from BSES Limited (renamed as Reliance Energy Limited from March 2004) for the supply of generator power transformers and spares. As per the payment terms, the company was to receive 10 per cent advance on the date of agreement and balance 90 per cent |

together with taxes and other levies by means of Letter of Credit (LC) prior to five months to the date of inspection of equipment.

2. The BSES sought (November 2002) reduction in prices for which the Company offered (December 2002) to reduce the package prices to Rs. 32.82 crore subject to alteration in payment terms as interest free advance of 20 per cent of ex-works price of the main equipment on the date of agreement, 30 per cent on completion of six months from the date of order and balance payment against LC on pro-rata basis. The Company, however, had to provide necessary Bank Guarantee (BG) before release of advances by BSES. The alteration in payment terms was accepted by BSES. Purchase order was received in December 2002 from BSES and the agreement executed in March 2003.

3. In terms of agreement the Company had to furnish BG in July 2003 towards release of 30 per cent advance amounting to Rs. 7.70 crore. The BG was, however, furnished after a delay of 12 months (July 2004) and BSES released the payment in August 2004. The delay in furnishing the BG by the Company was caused on account of procedural delays involved in obtaining counter guarantee from Government to facilitate issue of BG by Company's bankers (State Bank of Travancore).

4. Thus, the failure of the Company to furnish bank guarantee for release of advance payment in terms of the agreement deprived the Company of the benefit of advance payment which entailed interest loss of Rs. 92.40 lakh (at the rate of 12 per cent per annum).

5. The Government, while admitting the fact, stated (July 2005) that the real advantage of interest on advance payment finally accrued to the Company.

6. The reply is not acceptable since the package price quoted by the Company was reduced after taking into account the savings in interest charges that would arise from timely receipt of advance payments from BSES, the benefit of which did not accrue to the Company.

- |    |  |  |
|----|--|--|
| IV | <p>(a) Does the department agree with the facts and figures included in the paragraph ?</p> <p>(b) if not, please indicate the areas of disagreement and also attach copies of relevant documents in support</p> | <p>: No</p> <p>: The delay in realization of the payment was due to delay in getting sufficient guarantee limits from the company's Bankers. TELK is a BIFR referred Company, the Bank had curtailed the facilities earlier extended to the Company and as a result of this, the Company was not having sufficient bank guarantee limits. With the Company's continued efforts and high level follow ups with Government of Kerala and with the Company's Bankers, M/s. State Bank of Travancore, the Company could get the bank guarantee limit</p> |
|----|--|--|



enhanced only after some time lag, which resulted in delay in realization of advance payments. The procedure and delay on the part of the customer was beyond the Company's control. Nevertheless, the Company had been very closely chasing the matter at the customer's end also. Within the overall constraints, the Company had taken all out efforts for obtaining the Bank Guarantee from the Bank and realizing the advance payment at the earliest possible time.

- V (a) Does the department agree : No  
with the audit conclusions ?
- (b) if not, please indicate the : The delay in realization of the  
specific areas of disagree- payment was due to delay in getting  
ment with reasons for dis- sufficient guarantee limits from the  
agreement and also attach company's Bankers. TELK is a  
copies of relevant documents BIFR referred Company, the Bank  
where necessary ? had curtailed the facilities earlier  
extended to the Company and as a  
result of this, the Company was not  
having sufficient bank guarantee limits.  
With the Company's continued  
efforts and high level follow ups  
with Government of Kerala and  
with the Company's Bankers, M/s.  
State Bank of Travancore, the  
Company could get the bank  
guarantee limit enhanced only after  
some time lag, which resulted in  
delay in realization of advance  
payments. The procedure and delay  
on the part of the customer was  
beyond the Company's control.  
Nevertheless, the Company had

been very closely chasing the matter at the customer's end also. Within the overall constraints, the Company had taken all out efforts for obtaining the Bank Guarantee from the Bank and realizing the advance payment at the earliest possible time.

- VI Remedial action taken : The delay in realization of the payment was due to delay in getting sufficient guarantee limits from the company's Bankers. TELK is a BIFR referred Company, the Bank had curtailed the facilities earlier extended to the Company and as a result of this, the Company was not having sufficient bank guarantee limits. With the Company's continued efforts and high level follow ups with Government of Kerala and with the Company's Bankers, M/s. State Bank of Travancore, the Company could get the bank guarantee limit enhanced only after some time lag, which resulted in delay in realization of advance payments. The procedure and delay on the part of the customer was beyond the Company's control. Nevertheless, the Company had been very closely chasing the matter at the customer's end also. Within the overall constraints, the Company had taken all out efforts for obtaining the Bank Guarantee from the Bank and realizing the advance payment at the earliest possible time. In spite of the delay in realizing the advance payments, it

may be noted that the real advantage of interest on advance payment that finally accrued to us was much more than the concessions passed on to the customer at the time of price negotiation, in lieu of the changed advance payments terms.

VII Recovery of underassessment : N.A.  
short levy or other dues

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