TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2008-2011)

SIXTY EIGHTH REPORT

(Presented on 25th February, 2009)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2009

TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2008-2011)

SIXTY EIGHTH REPORT

On

Kerala Minerals and Metals Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2006 (Commercial)

262/2009.

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS (2008-2011)

Chairman :

Shri Mankode Radhakrishnan

Members :

Shri P. K. Abdu Rabb
,, A. A. Azeez
,, K. K. Jayachandran
,, K. Kunhammed Master
,, K. Kunhiraman
,, T. U. Kuruvila
,, C. K. P. Padmanabhan
,, P. M. A. Salam
,, K. Sudhakaran
,, K. C. Venugopal

Legislature Secretariat :

Shri. P. D. Rajan, Secretary
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 Eighth Report on Kerala Minerals and Metals Ltd. based on the Reports 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 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 Kerala Minerals and Metals 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 Kerala Minerals and Metals 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,
25-2-2009.

REPORT

KERALA MINERALS AND METALS LIMITED

AUDIT PARAGRAPH

The Company placed orders (December 2002) with Haver & Boecker, Germany (H&B) for the supply and erection of one automatic product packaging machine named "INTEGRA 2W". The machine was procured in August 2003 and was commissioned in November 2003. With a view to meet the requirement of special type of bags used in the machine, the Company instead of inviting open tenders, made enquiries (9th June 2003) with two German firms viz., Bischof Sklein (Bischof) and Dy-pack Verpackungen (Dy-pack) on the ground that they were the suppliers recommended by H & B.

The offer of the firm M/s. Dy-pack at Rs. 31.53 and Rs. 28.81 for RC 813 grade and other grades respectively was found technically acceptable and a "one year" contract (July 2003) was concluded for 60,000 bags of RC 813 grade and 16,00,000 bags of other grades. As per the contract, the delivery was to be made in four quarters with an approximate quantity of 4,15,000 bags in each quarter commencing from second week of September 2003. In case the supplier failed to supply the bags as per the delivery schedule, the Company reserved the right to cancel the contract and make alternate purchase at the risk and cost (clause 2) of the supplier. Dy-pack, however, defaulted on the delivery schedule from second quarter onwards and supplied only 57,990 numbers of RC 813 grade and 8,27,060 numbers of other grades (comprising RC 822, RC 808 and RC 800 PG) by the end of the stipulated delivery period (August 2004).

The Company thereupon floated tenders in August 2004 and the lowest quoted rates per bag were Rs.18.77 (RC 808/822 grade), Rs.18.47 (RC 800 PG grade) and Rs. 19.92 (RC 813 grade) respectively. Ignoring this significant fall in the rates by Rs.10.04, Rs.10.34 and Rs.11.62 per bag when compared to the procurement prices of July 2003, the Company, instead of invoking the provision of short closing the contract and cancelling the orders with Dy-pack, continued to procure bags at the higher rates till February 2005.

The additional expenditure incurred on 7.12 lakh bags procured from Dy-pack during September 2004 to February 2005 worked out to Rs.76.73 lakh.

Thus, the decision of the Company to continue the purchase of bags at higher rates from a supplier who had defaulted resulted in avoidable expenditure of Rs.76.73 lakh

The Management stated (July 2006) that the price bids of tender floated in August 2004 was opened in November 2004 and after opening the price bid only they could make out the difference in prices and the technical suitability of the bags was to be confirmed. It was also stated that the Company could not cancel the order issued to Dy-Pack unilaterally as it would have given rise to claim for damages.

The reply is not tenable since the tenders received in August 2004 and scheduled for opening in September 2004 were actually opened by the Company only in November 2004. The tenders, on opening, were found to be technically and commercially suitable. Hence the undue delay caused in opening the tenders cannot be a justifiable reason for not ascertaining the difference in prices in time. In terms of condition of the purchase order with Dy-Pack the order could have been cancelled without any claim for damages against the Company since they defaulted on supplies from the second scheduled quarter (October-December) onwards.

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

[Audit Paragraph 4.4 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2006 (Commercial)]

Notes on the Audit Paragraph have not been received from Government

1. The Committee enquired about the decision of the company to continue the purchase of bags at higher rates from a supplier who had defaulted resulting in avoidable expenditure of Rs.76.73 lakh. The witness explained that the bags were used in the machine to pack Titanium pigment which is used in the paint industry. The company bought an automatic packaging machine from Haver & Boecker, a German firm in 2002. Haver & Boecker recommended the name of Dy-Pack to supply the specialised bags which suited the machine. The Company wanted to develop alternate suppliers and identified a firm located at Puducherry and an Austrian firm. Tenders were floated in August 2004, but technical approval from the plant had to be obtained before opening of price bid. For this, 10 sample bags were tested and plant approval obtained on November 23, 2004. The witness further stated that the bags from the Indian firm was found unsuitable and, an Austrian firm, Monty, was selected as second supplier. The competition between the two firms had resulted in price reduction of Dy-Pack's bags from Rs.29 per piece to Rs.19 and they were now priced at Rs.22. The witness admitted that some delay had occured in this process. The Committee asked why the company continued procurement from the first firm which had defaulted in supply, instead of cancelling the contract agreement, even

after identifying firms which offered lower costs and pointed out that the delay of 5 months had led to a loss of Rs.78 lakhs. The witness replied that there was no default. The time lag was because of the technical evaluation of the bags in the plant. The bags were tested for suitability. The Committee wanted to know why the company had not cancelled its orders with Dy-pack when it came to know in September 2004 that bags were available at a cheaper price. The witness explained that some problems had developed in the trials and so some changes in the specifications of the product had to be made and this took about 3 months. On 1-4-2005 orders were placed for the supply of 3.25 lakh bags. If the orders with the first supplier were cancelled before this, production in the company would be affected. The delay was only normal and now the second supplier was supplying bags suited to the company's requirement. The Committee opined that though the delay was short termed the loss resulted is remarkable.

Conclusions/Recommendations

2. **No Comments**

AUDIT PARAGRAPH

The Company engaged in the production of Rutile grade Titanium Dioxide Pigment had been procuring sealing rings (a spare part for Khosla air compressors) from Oriental Enterprises (OE) since 1999, at a basic rate of Rs.467 per unit. The Company made enquiries (April 2003) for the purchase of sealing rings and received two offers, one of which was from the regular supplier OE at Rs.467 per unit and the other one from Geekay Pneumatics(P) limited (GP) at Rs.10411 per unit. Both the firms were assessed as technically suitable; but the orders were placed (June 2003) on OE considering the substantial difference in price. In order to meet further requirements of sealing rings, the Company made (October 2003/March 2004) enquiries with the same firms and received (June 2004) per unit offer of Rs.467 and Rs.10411 from OE and GP respectively. The Company, however, placed (December 2003/September 2004) orders on GP at the exorbitant rate of Rs.10411 for 264 numbers on the ground that the firm was the authorised dealers of Khosla make air compressors. The entire material was delivered (February 2004 to March 2005) at a total cost of Rs. 29.06 lakh.

In response to another enquiry made by the Company in February 2005, OE and GP quoted Rs. 571 per unit and Rs. 9426 per unit respectively for the sealing rings. Both the offers were found technically suitable and the committee recommended to purchase from either of the parties. Accordingly the Company placed orders with OE for 132 rings. On this occasion also OE had quoted for their own make 'orienta' spare part for which the technical approval was given.

It was observed in audit that OE had been the regular supplier of sealing rings for Company's Khosla compressors since 1999 and the technical acceptability of this material was reiterated by the purchase committee in June 2003. Disregarding the advantage in cost and without any valid reasons on record, the same purchase committee declared the spares offered by OE as technically not acceptable and approved the offer of GP which was 22 times higher. It was also noticed that subsequently(February 2005) the Company evaluated the offer of OE as technically acceptable and purchased (September 2005) 132 rings indicating that earlier technical evaluations made for rejection of their offer were not based on merit. The total avoidable extra expenditure on the purchase of 264 sealing rings, at the differential rate of Rs.10510 (Rs.11010-Rs.500) amounted to Rs.27.74 lakh(including taxes, etc.,).

Thus, the unjustifiable decision to procure spare parts at exorbitant rates resulted in incurring of avoidable extra expenditure of Rs.27.74 lakh.

The matter was reported to the Government/Company in April 2006; their reply is awaited (August 2006).

[Audit Paragraph 4.5 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2006(Commercial)]

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

3. The Committee wanted to know why the company had decided to purchase sealing rings from Geekay Pneumatics Ltd. (GP) at exorbitant rates in December 2003 and September 2004 even though the cheaper ones offered by Oriental Enterprises was being used since 1999. The witness explained that the company was purchasing spare parts of the compressors also from Khosla Air Compressors from 1980-81 to 1999. To obtain price reduction, the company decided to develop a second supplier. The company authorities identified Oriental Enterprises from Calcutta as an alternate supplier. From 1999-2003 spare parts were purchased from Oriental Enterprises since the cost was much lower than that of Khosla. During that period the company had two spare compressors. During 2003-05 the spare compressors were used for making oxygen and so at that time, the company did not have a spare compressor. The failure rate of products from Oriental Enterprises was high. That made it imperative to buy products from Khosla during 2003-05 since it was more reliable. In 2005, the company bought a centrifugal compressor. Since a spare compressor was available, the company started buying sealing rings from Oriental Enterprises again. The Committee asked the justification for buying sealing rings from Geekay Pneumatics for which price per unit was Rs. 10411 against Rs. 467 from Oriental Enterprises. The Company took a risk when it went for buying products

from the Indian Company at a lower price, instead of continuing to buy from Khosla the original equipment manufactures, at higher price. The product was not as dependable as that of the foreign firm. In the absence of a spare compressor, the company could not take the risk as production in the whole plant would be affected. The Committee pointed out that the price of each sealing ring was 22 times higher than that offered by Oriental Enterprises and stated that an enquiry should be made into the deal and to find out why the purchase committee declared the spares offered by OE as technically not acceptable on this one occasion. The Committee also wanted to be informed of the details of the enquiry. The witness agreed that an enquiry would be conducted with the help of an external agency. The Committee was not convinced by the reason put forward by the witness and directed that the issue should be closed only after intimating the Committee of the findings of the enquiry. The Committee opined that the decision of the company to procure spare parts at exorbitant rates resulted in such a huge loss was unjustifiable.

Conclusions/Recommendations

4. **The Committee finds that the Company had purchased sealing rings from Geekay Pneumatics Ltd. (GP) at exorbitant rates in December 2003 and September 2004 even though the cheaper ones offered by Oriental Enterprises was being used since 1999. The price of each sealing ring offered by Geekay Pneumatics Private Limited was 22 times higher than that offered by Oriental Enterprises and resulted in extra expenditure of Rs.27.74 lakh. The Committee finds no justification for this blind purchase. Moreover no valid reason was recorded by the purchase committee as to why the product of Oriental Enterprises was declared not suitable. The Committee therefore recommends that an enquiry should be made into the deal by the state Vigilance Department and that the issue should be closed only after intimating the Committee of the findings of the enquiry**

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
25-2-2009.

Chairman,
Committee on Public Undertakings.

APPENDIX-I

Summary of Main Conclusions/Recommendations

Sl. No.	*Para No.*	*Department Concerned*	*Conclusions/Recommendations*
(1)	(2)	(3)	(4)
1	4	Industries	The Committee finds that the Company had purchased sealing rings from Geekay Pneumatics Ltd. (GP) at exorbitant rates in December 2003 and September 2004 even though the cheaper ones offered by Oriental Enterprises was being used since 1999. The price of each sealing ring offered by Geekay Pneumatics Private Limited was 22 times higher than that offered by Oriental Enterprises and resulted in extra expenditure of Rs.27.74 lakh. The Committee finds no justification for this blind purchase. Moreover no valid reason was recorded by the purchase committee as to why the product of Oriental Enterprises was declared not suitable. The Committee therefore recommends that an enquiry should be made into the deal by the State Vigilance Department and that the issue should be closed only after intimating the Committee of the findings of the enquiry