



**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

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

**SEVENTY FIRST REPORT**

(Presented on 30th June, 2009)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2009

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**SEVENTY FIRST REPORT**

**On**

**Malabar Cements Limited based on the Reports of the Comptroller  
and Auditor General of India for the years ended 31st  
March 2005, 2006 and 2007 (Commercial)**

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Smt. D. Kumari Girija, Joint Secretary

Shri J. Unnikrishnan Nair, Deputy Secretary

Smt. L. Sailaja, Under Secretary.

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\* Resigned from KLA w.e.f. 28-5-2009.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2008-2011), having been authorised by the Committee to present the Reports on their behalf, present this Seventy First Report on Malabar Cements Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2005, 2006, 2007 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended 31st March 2005, 2006 and 2007 were laid on the Table of the House on 13-2-2006, 28-3-2007 and 26-2-2008 respectively. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the period 2006-08.

This Report was considered and approved by the Committee at its meeting held on 13-5-2009.

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 Paragraph included in this Report.

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Malabar Cements Limited 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 the Malabar Cements Limited who appeared for evidence and assisted the Committee by palcing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

*Chairman,  
Committee on Public Undertakings.*

Thiruvananthapuram,  
30-6-2009.

## REPORT

### MALABAR CEMENTS LIMITED

#### AUDIT PARAGRAPH

#### **Avoidable Payment**

The Company entered into (April 2003) an annual Fuel Supply Agreement (FSA) with Singareni Collieries Company Limited (SCCL). As per the contract SCCL was to ensure the quality and grade of coal with reference to specified formula based on the ash and moisture content in the coal. For ensuring the grade and quality the FSA also provided for payment to SCCL guarantee charges at five *per cent* of the basic price of coal. For movement of coal from SCL under the above contract, the Company appointed (March 2003) Naresh Kumar & Co. Pvt. Limited (NKC), Secunderabad as the liaison/service agent. Ignoring the fact that SCCL had to ensure grade and quality of coal on payment of prescribed guarantee charges under the agreement, the Company included an overlapping provision for payment of bonus at Rs. 23 per MT to the liaison agent, NKC, for every percentage decrease in ash content for the quantity of coal received. The liaison agent transported 89,903 MT of coal under the contract during the period April 2003 to April 2005 and was paid bonus aggregating Rs. 60.32 lakh.

Thus, the Company's failure to exclude overlapping provisions in the work order of service agents with reference to the FSA resulted in avoidable payment of Rs. 60.32 lakh towards bonus for ensuring quality of coal.

Management stated (June 2005) that the FSA specified that the ash content in the coal would be in the range of 18 to 25 *per cent* and even one *per cent* reduction in ash content was very significant and hence bonus clause for ash reduction was included. The reply is not acceptable in view of the fact that agreement with SCCL for supply of coal had a provision for ensuring grade and quality at prescribed charges; the role of the transportation agent in this regard had, therefore, been rendered redundant.

The matter was reported to the Government in June 2005; their reply has not been received (September 2005).

[Audit Paragraph 4.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2005]

The notes furnished by Government on the audit paragraph is given in Appendix II.

1. The Committee found that the inclusion of an overlapping provision in the work order of service agents with reference to the Fuel Supply Agreements with Singareni Collieries Company Limited (SCCL) resulted in avoidable payment of Rs. 60.32 lakh towards bonus for ensuring quality of coal and wanted an explanation from the witness on it. The witness stated that the service of an agent is always beneficial for the movement of coal for the interest of the company. He explained that the ash content in the coal reduces its heat value. If the heat is high, less quantity is needed and therefore it is profitable. The Committee enquired whether the company has any data to prove that the payment of bonus was profitable to the company. The witness stated that there was a profit of Rs.19 per ton and the commission paid to the agent was only Rs. 4 per ton.

2. The Committee enquired about the present procedure for procurement of coal. The witness stated that at present there is no agent. The company is procuring coal from Singareni Collieries Company Limited and payment is made for 'C' grade coal but they are supplying coal of grade E and even below it. The company is a Government of India undertaking and Malabar Cements Ltd. cannot do anything as there is no penal clause in the agreement.

3. The Committee enquired why the service of the agent was dispensed with even when it was profitable to the company. The witness stated that when Audit raised objections, the service of the agent was dropped. The Committee observed that the company had justified the service of the agent in the reply furnished to the Committee and enquired why and when the service of the agent was dispensed. The witness replied that from 2006 the agent's service was dropped. The Committee stated that if the service of an agent was profitable to the company, it should have shown proof of the same to Audit instead of just dispensing with the service of the agent. The witness clarified that as per the agreement, sample would be taken in the presence of liaison agent and joint analysis would be done. If material was supplied otherwise, there would be penalty. Singareni Collieries had stopped the system of joint sampling from 2006. Now, only the materials supplied by the company can be accepted. In the agreement entered into after 2006 there is no provision for appointing liaison agents.

4. The Committee enquired why this provision was not included in the agreement. The witness stated that Government of India does not allow it as it is not beneficial to them. The agreement was renewed in 2008 but the provision for joint sampling is not included. To the Committee's question of whether the company could take action against the supplier for supplying E grade coal instead of coal of grade C, the witness stated that there is no penal clause in

the agreement. When enquired what the company did to ensure that the terms and conditions of the agreement are adhered to, the witness stated that the company had written to them.

5. The Committee wanted to know why the company paid bonus at Rs. 23 per MT to the liaison agent when there was 5% guarantee charge for ensuring quality. The witness stated that in 2006 joint protocol was stopped and joint inspection is not allowed since then. The company had no other option but to buy coal from them. The witness added that bonus was paid to ensure good quality coal. The Secretary stated that there is only one agency to supply the coal and therefore the company had to follow their rules. The agents could influence the officials and supply high quality coal. Since there was no quality improvement in that company, they abolished the system of joint inspection. The only other option was to use imported coal which has less ash content and is of good quality but more costly. The Committee wanted to know whether there is any action against the company which was obliged to provide. 'C' grade quality but is supplying E grade or grades below it. The witness stated that the company had no penal provision in the agreement. The witness informed that the company had written to them to rectify the defects. When the Committee asked why the company is paying for the grade which it never gets, the witness stated that the company is making advance payment. On enquiring whether use of imported coal is profitable to the company, the witness informed that imported coal is highly expensive but it has high heat value and therefore mixing it with local coal is suitable.

6. To the Committee's question whether the private companies which buy coal from SCCL are able to approve the terms, the witness stated that the private companies have agents there and they buy quality coal. Government companies have their own limitations.

#### **Conclusions/Recommendations**

7. **The Committee finds that the company included an overlapping provision for payment of bonus at Rs. 23 per MT for every percentage decrease in ash content of the coal received and paid bonus amounting to Rs. 60.32 lakh to the liaison agent M/s Naresh Kumar & Co. Ltd. in order to ensure quality of coal in spite of the fact that Singareni Collieries Company Ltd. was to ensure the quality of coal and grade as per Fuel Supply Agreement which provided for guarantee charges at 5% of the basic price of coal. The Committee point out that as per agreement, SCCL is bound to supply the coal of required grade without paying any extra charges. The Committee wanted to have the data to prove that the payment of bonus was profitable, to the Company as**



claimed by the witness. The Committee finds that inspite of defending the payment of bonus claiming that it was profitable, the Company dispensed with the service of the agent instead of justifying the payment with proof.

8. The Committee finds that even now, though the company is paying for 'C' grade coal from Singareni Collieries Company Ltd., the company is getting coal of grade E or of grades below it. The Committee therefore recommends that action be taken to ensure the grade of coal for which payment is made as per the terms and conditions of the agreement.

#### AUDIT PARAGRAPH

##### **Avoidable Payment**

The Company, engaged in the manufacture of Cement, has been using Cement Grade Lime Stone (CGLS) as a raw material. To meet the requirement of CGLS, the Company placed (July 2002) orders on five parties for supply of a total quantity of 1,20,000 MT during 2002-03 at an aggregate cost of Rs. 2.55 crore. As per Clause I (b) of Annexure to purchase orders, if Silica content in CGLS exceeded 16 *per cent*, the material was to be rejected outright and no payment to be made towards the cost of material and transportation. The rejected material was not required to be returned to the suppliers. The quality of the material was to be determined by drawing truck-wise samples on daily average basis and the quality determined by the Company was binding on the suppliers.

It was noticed by Audit that out of 34,673.62 MT of the material delivered (May 2003) against the order, 2383.93 MT was received with Silica content exceeding 16 *per cent*. In contravention of the terms of the purchase order, the Company accepted the materials and paid an amount of Rs. 10.90 lakh worked out on the basis of landed cost of Rs. 457.33 per MT.

The Company stated (July 2006) that even though the quality of materials supplied was tested truck-wise on daily average basis at the Company's laboratory, weighted average of 15 days supply has been considered for the purpose of making payment. The contention of the Company is not acceptable since the purchase order conditions specifically mentioned that the quality of material was to be determined on daily average basis and not on fortnightly basis as applied by the Company.

Thus, the acceptance of raw-material not conforming to prescribed quality parameters resulted in avoidable payment of Rs. 10.90 lakh.

The matter was reported to the Government in July 2006; their reply has not been received (August 2006).

[Audit Paragraph 4.12 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2006]

The notes furnished by Government on audit paragraph is given in Appendix II.

9. The Committee enquired why the company had accepted 2383.93 MT of Cement Grade Lime Stone (CGLS) against an order of 34,673.62 MT in which silica content exceeded 16% at a cost of Rs.10.90 lakh even though clause 1(b) of Annexure to purchase orders laid down that if silica content in CGLS exceeded 16%, the material was to be rejected outright, no payment to be made towards the cost of material and transportation, and the rejected material not required to be returned to the suppliers. The witness stated that there were five suppliers and purchase was made on daily basis. But as per a clause in the agreement, the percentage of silica content was calculated by taking the average of 15 days' quality. When the Committee pointed out that as per the agreement, the percentage of silica has to be arrived at on daily basis, the witness replied in the negative and stated that material supplied to them are tested in the laboratory on daily basis but payment is made once in 15 days on the basis of weighted average of 15 days. The Committee stated that the question was not of payment but of quality and enquired whether the quality of the materials supplied was tested on daily basis. The witness replied in the affirmative. The Committee suspected that the company was adopting the system of 15 days' average in order to help the supplier and not to protect the benefit of the company.

10. The Committee wanted to know whether the company rejected the material if the silica content was above 16%. The witness stated that the mined, naturally occurring materials have different quality in different parts. The Company was using it after heaping and blending it to ensure availability of the desired quality. The Company would accept the materials which did not affect the product quality. No supplier would allow truck wise testing and rejection in the case of naturally occurring materials. Truck wise rejection is done in the case of chemical products.

11. The Committee enquired why the Company stipulated 15 days' span for the purpose of payment. The witness stated that as per tender when huge quantities are purchased the condition is that payment will be made every 15 days. To the Committee's question regarding the procedure being followed at present, the witness replied that analysis was done once in 7 days. When enquired why the system was changed, the witness informed that conditions are changed when tender is called for each time. The Committee remarked that as

per observation of Audit the agreement had been violated, but the company had stated that it was done as per the agreement and wanted an explanation for it. The Senior Audit Officer pointed out that daily average was not taken to reject the materials which have more than 16% of silica content and as per the tender condition there was no provision for 15 days average for quality testing. It was only for the purpose of payments. The Principal Secretary, Industries Department stated that the payment is made by taking average of 15 days after rejecting the loads which have excess silica content. The Committee enquired whether the Company had rejected even a single load which had excess silica content. The witness replied in the negative. The Committee stated that if it is so, substandard material also might have been bought.

12. The Committee opined that the company has tried to safeguard the interest of the contractor and provided the Committee with misleading replies. The Committee stated that a criteria has to be adopted for quality assurance and that is to reject materials on daily average basis. The Committee observed that the agreement had been misinterpreted to allow purchase of poor quality materials.

13. The Committee opined that action should be taken against those who tried to safeguard the interest of the suppliers, if the public sector undertaking was to be saved. The Principal Secretary, Industries Department assured the Committee that he would examine it to know whether there was any lapse and whether it was purposeful. The Committee instructed that the material be examined on daily average basis. The witness stated that suppliers might agree for examination and rejection on daily average basis but the cost of the materials would rise. Quality, cost and availability of the material in the market would have to be taken into consideration. The Committee remarked that since competitive tender was involved the company can make a selection to obtain maximum benefit.

#### **Conclusions/Recommendations**

14. **The Committee finds that as per purchase order if silica content in the Cement Grade Lime stone exceeds 16%, the material was to be rejected outright and no payment need to be made towards the cost of material and transportation, and the quality of the materials was to be determined by drawing truck wise sample on daily average basis. The Committee noticed that the acceptance of the material without ensuring the prescribed quality parameters led to the unwarranted payment of Rs. 10.90 lakh. The Committee also finds that 15 days' average instead of daily average system for rejection of materials which have more than 16% of silica content was adopted in order to**

help the supplier rather than protecting the interest of the Company. The Committee understands that the Company has not rejected even a single load which had excess silica content.

15. The Committee therefore recommends to take action against those who tried to safeguard the interest of the supplies rather than that of the company by violating the terms of the purchase order. The Committee further recommends that Government should see that the terms and conditions of agreements regarding purchase are not violated causing loss to the public sector undertakings. The Committee further want to be informed whether there was any lapse and if it was purposeful.

#### AUDIT PARAGRAPH

##### **Avoidable expenditure on excessive contract demand**

The Company, engaged in the manufacture of cement, is a High Tension-(HT-I) category consumer of Kerala State Electricity Board (Board) with a contract demand of 1500 KVA. As per Clause 14(a) of the service connection agreement, the Company had the option to increase/decrease the contract demand by giving six months' notice.

Since October 2002 the Board had been levying Rs.270 per KVA of Billing demand per month as 'Demand charge' on HT-I consumers. The Billing demand was the recorded maximum demand for the month or 75 *per cent* of the Contract demand or 50 KVA whichever was the highest.

Audit noticed that the actual maximum demands recorded in a month during 2004-05, 2005-06, and 2006-07 were 599 KVA, 620 KVA and 652 KVA respectively which indicated that the Company required only a contract demand of 900 KVA. The Company, however, did not initiate action to reduce the contract demand from 1500 KVA to 900 KVA in terms of the provisions in the agreement. The extra expenditure on unutilized portion of contract demand for the three years up to 2006-07 worked out to Rs. 43.74 lakh.

Thus, the failure of the Company to reduce the excessive contract demand with reference to enabling provisions in the agreement resulted in avoidable expenditure of Rs. 43.74 lakh.

Management stated (June 2007) that they have requested (November 2006) the Board to reduce the contract demand to 1000 KVA. However, the fact remained that the delay on the part of the Company in taking timely action entailed a loss of Rs. 43.74 lakh.

The matter was reported to Government in May 2007; their reply is awaited (July 2007).

[Audit paragraph 4.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2007]

The notes furnished by Government on the audit paragraph is given in Appendix II.

16. The Committee finds that the failure of the company to reduce the excessive contract demand in terms of the provisions in the agreement resulted in a loss of Rs. 43.74 lakh. The Committee opined that it happened due to the negligence of the officials. The Principal Secretary, Industries Department stated that it was due to the monopoly of the KSEB. They do not reduce the contract demand on request. It is inconvenient for the Board to do so. The Company had taken up the matter with Government to resolve the problem by reducing the contract demand to 1000 KVA. The Board had to invest fixed cost for it on the basis of the contract demand requested. If it is reduced after sometime the Board will have to bear the loss. The witness agreed that a delay had occurred.

#### **Conclusion/Recommendation**

17. **The Committee finds that even though clause 14 (a) of the service connection agreement provided the Company with the option of increasing/decreasing the contract demand by giving six months notice, no action was taken by the Company to reduce the contract demand from 1500 KVA to 900 KVA, which resulted in a loss of Rs. 43.74 lakh as payment for electricity not used during the three years upto 2006-07. The Committee opines that this happened due to the negligence of the Officials of the Company. The Committee deprecate over the delay on the part of the Company in taking timely action which entailed the loss and recommends that responsibility be fixed and action taken against those responsible, to avoid such lapses in future.**

MANKODE RADHAKRISHNAN,

*Chairman,  
Committee on Public Undertakings.*

Thiruvananthapuram,  
30th June, 2009.

## 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	7	Industries	The Committee finds that the Company included an overlapping provision for payment of bonus at Rs. 23 per MT for every percentage decrease in ash content of the coal received and paid bonus amounting to Rs. 60.32 lakh to the liaison agent M/s Naresh Kumar & Co. Ltd. in order to ensure quality of coal inspite of the fact that Singareni Collieries Company Ltd. was to ensure the quality of coal and grade as per Fuel Supply Agreement which provided for gurarantee charges at 5% of the basic price of coal. The Committee pointsout that as per agreement, SCCL is bound to supply the coal of required grade without paying any extra charges. The Committee wanted to have the data to prove that the payment of bonus was profitable, to the Company as claimed by the witness. The Committee finds that inspite of defending the payment of bonus claiming that it was profitable, the Company dispensed with the service of the agent instead of justifying the payment with proof.
2	8	„	The Committee finds that even now, though the company is paying for ‘C’ grade coal from Singareni Collieries Company Ltd., the company is getting coal of grade E or of grades below it. The Committee therefore recommends that action be taken to ensure the grade of coal for which payment is made as per the terms and conditions of the agreement.
3	14	„	The Committee finds that as per purchase order if silica content in the Cement Grade Lime stone exceeds 16%, the material was to rejected outright and no payment need be made towards the cost of material and transportation, and the quality of the

(1)	(2)	(3)	(4)
			<p>materials was to be determined by drawing truck wise sample on daily average basis. The Committee noticed that the acceptance of the material without ensuring the prescribed quality parameters led to unwarranted payment of Rs. 10.90 lakh. The Committee also finds that 15 days' average instead of daily average system for rejection of materials which has more than 16% of silica content was adopted in order to help the supplier rather than protecting the interest of the Company. The Committee understands that the Company has not rejected even a single load which had excess silica content.</p>
4	15	Industries	<p>The Committee therefore recommends to take action against those who tried to safeguard the interest of suppliers rather than that of the company by violating the terms of the purchase order. The Committee further recommends that Government should see that the terms and conditions of agreements regarding purchase are not violated causing loss to the public sector undertakings. The Committee further wants to be informed whether there was any laps and if it was purposeful.</p>
5	17	„	<p>The Committee finds that even though clause 14 (a) of the service connection agreement provided the Company with the option of increasing/decreasing the contract demand by giving six months' notice, no action was taken by the Company to reduce the contract demand from 1500 KVA, to 900 KVA, which resulted in a loss of Rs. 43.74 lakh as payment for electricity not used during the three years upto 2006-07. The Committee opines that this happened due to the negligence of the Official of the Company. The Committee deprecate over the delay on the part of the Company in taking timely action which entailed the loss and recommends that responsibility be fixed and action taken against those responsible to avoid such lapses in future.</p>

## APPENDIX II

**NOTES FURNISHED BY THE GOVERNMENT ON THE AUDIT PARAGRAPHS**

I	(a) Department	Industries (H) Department
	(b) Subject/Title of Review/Paragraph	Malabar Cements Limited—Avoidable payment of bonus to the liaison agent—Rs. 60.32 lakhs—Clarification—Reg.
	(c) Paragraph No.	4.6
	(d) Report No. and Year	Chapter-IV C & AG Report for the year ended 31-3-2005
II	(a) Date of receipt of the Draft	10-4-2006
	(b) Paragraph/Review in the Department	
III	Gist of Paragraph/ Review	The Company entered into (April 2003) an annual Fuel Supply Agreement (FSA) with Singareni Collieries Company Limited (SCCL). As per the contract SCCL was to ensure the quality and grade of coal with reference to specified formula based on the ash and moisture content in the coal. For ensuring the grade and quality the FSA also provided for payment to SCCL guarantee charges at five per cent of the basic price of coal. For movement of coal from SCCL under the above contract, the Company appointed (March 2003) Naresh Kumar & Co. Pvt. Limited (NKC), Secunderabad as the liaison/ service agent. Ignoring the fact that SCCL had to ensure grade and quality of coal on payment of prescribed guarantee charges under the agreement, the Company included an overlapping provision for payment of bonus of Rs. 23 per MT to the liaison agent, NKC, for every percentage decrease in ash content for the quantity of coal received.



The liaison agent transported 89,903 MT of coal under the contract during the period April 2003 to April 2005 and was paid bonus aggregating Rs. 60.32 lakh.

Thus, the Company's failure to exclude overlapping provisions in the work order of service agents with reference to the FSA resulted in avoidable payment of Rs. 60.32 lakh towards bonus for ensuring quality of coal. Management stated (June 2005) that the FSA specified that the ash content in the coal would be in the range of 18 to 25 per cent and even one per cent reduction in ash content was very significant and hence bonus clause for ash reduction was included. The reply is not acceptable in view of the fact that agreement with SCCL for supply of coal had a provision for ensuring grade and quality at prescribed charges ; the role of the transportation agent in this regard, had ,therefore, been rendered redundant.

The matter was reported to the Government in June 2005, their reply has not been received (September 2005).

- |    |     |   |     |
|----|-----|---|-----|
| IV | (a) | Does the Department agree with the facts and figures included in the paragraph ?                      | Yes |
|    | (b) | If not, please indicate areas of disagreement and also attach copies of relevant documents in support | yes |

V (a) Does the Department agree with the Audit conclusions ? No

(b) If not, please indicate specific areas of disagreement with reasons for disagreement and also attach of relevant documents, where necessary ?

As required company has signed fuel Supply Agreement (FSA) originally in December, 2002 and the same was renewed in March 2003 for a further period of two years. As per the FSA company has to pay guarantee charges amounting to 5% of the basic price of the coal to SCCL. It may be clarified that this payment of guarantee charge is for guaranteeing the grade of coal only ie. C grade coal as per the agreement. But coal having ash content in the range 18 to 25% is classified as C grade coal. Therefore by the guarantee clause what is being ensured is that coal supplied will be having ash content in the range of 18 to 25% only.

The ash content in the coal is very significant for Malabar Cements Limited as the raw material mined from the captive limestone mine is silicious and the silica contribution from the coal ash is above 60%. The Company has to add additional sweetener limestone for neutralizing additional silica. Considering the cost of coal and cost of sweetener even 1% reduction in the coal is very significant.

In the contract with M/s. Nares Kumar & Co. for liaison activities connected with the movement of coal includes a bonus clause also, which envisaged payment of bonus at the rate of Rs. 23/MT for every percentage reduction of ash content below 25 %.

It may be explained that the FSA specifies only that ash content in the coal would be in the range of 18 to 25%. Hence as per the FSA the colliery can supply coal having ash

upto 25% and still can invoice as C grade coal. But as already point out even 1% reduction in ash content in coal is very significant and quite relevant for Malabar Cements and hence the bonus clause for ash reduction.

It may be appreciated that only with considerable effort at supply point, improvement in quality coal can be obtained. The coal quality is varying from different operating benches and different stacks due to the contamination with materials like shale, clay etc. The role of liaison agent comes in collecting inside information from SCCL about the quality of coal that would be likely to be loaded at a particular point of time and scheduling the Company's despatches in such a way that within the available coal better quality is loaded to the Company. This requires considerable influence with the colliery officials and also substantial liaison work. If effort is not taken through the liaison agent by suitable incentive scheme to ensure lower level of ash content within the grade, the consequent cost to the company in terms of higher consumption of coal, higher consumption of sweetener and even clinker quality is quite substantial. The presumption that also with lower ash content, the result will be received without any effort is not realistic.

It is true that as per the earlier practice bonus clause was made applicable from the lower limit. i.e. Below 28% when the range was 28 to 32%. Collieries had fixed the ash level very conservatively at that time and ash as high as 32% was something which can happen rarely. Considering the special problems of the Company with silica, there is no point in

offering incentive for an ash content in the range of 28 to 32% and hence offered incentive from the lower limit of 28% only. But considering the quality of coal available in the country, the ash content now specified in the range of 18 to 25% is a quite good figure. For many cement manufacturing companies not having silica problems as the M.C.L., it is a quite comfortable range.

But in the case of this Company reduction even from 25% is very significant as already explained. Hence the Company has offered bonus clause from the upper limit of 25% itself. By extending the earlier logic and introducing the bonus clause from the lower limit of 18% is not practical as such quality coals is not supplied to cement industry at all and introducing such a clause will be as good as not having any incentive for bringing down the ash content. It may kindly be observed that inspite of the incentive offered the Company has been able to get only coal with an average ash content of 22% when the ash content of C grade coal is in the range of 18% to 25%.

The saving the Company derives in terms of reduction in coal consumption and reduction in sweetener consumption alone comes to Rs. 19 per T of clinker whereas the incidence of bonus per T of clinker works out to only Rs. 4. There is a net saving of Rs. 15 ton of clinker. Therefore it may be submitted that the incentive scheme is practical and reasonable and company has reaped considerable benefits.

Hence the explanation may be accepted.

VI	Remedial Action Taken	Nil
VII	Recovery of under-assessment short levy or other dues	Nil

## ഖണ്ഡിക

## വിശദീകരണം

- 4.12 (AR-2005-06) 6-7-2002-ന് കമ്പനി 120000 MT സിമന്റ് ഗ്രേഡ് ചുണ്ണാമ്പ് കല്ലിനായി 5 സ്ഥാപനങ്ങൾക്ക് ഓർഡർ നൽകുകയുണ്ടായി. ഇവരിൽ നിന്നും 34673.62 MT ചുണ്ണാമ്പ് കല്ലാണ് കമ്പനിയിൽ ലഭ്യമായത്. ചുണ്ണാമ്പു കല്ലിൽ സിലിക്കയുടെ അംശം 13% വരെ ആവാം എന്നു നിർദ്ദേശിക്കുന്നു. ഇത് 16% വരയാണെങ്കിൽ പെനാൾട്ടിയോടു കൂടി സ്വീകരിക്കുന്നതാണെന്നും നിർദ്ദേശിക്കുന്നു. സിലിക്കയുടെ അംശം 16%ത്തിൽ കൂടുകയാണെങ്കിൽ സപ്ലൈയർക്ക് ചുണ്ണാമ്പു കല്ലിന്റെ വിലയും, കടത്തുകുലിയും നൽകുന്നതല്ലെന്നും ചുണ്ണാമ്പ് കല്ല് തിരികെ നൽകുന്നതല്ലെന്നും വ്യവസ്ഥയിൽ പ്രതിപാദിക്കുന്നു.
- പ്രസ്തുത ഓർഡറിൽ 2383.93 MT ചുണ്ണാമ്പ് കല്ലിൽ സിലിക്കയുടെ അംശം 16%ത്തിൽ കൂടുതലായിരുന്നു.
- കരാർ വ്യവസ്ഥ 5 പ്രകാരം ചുണ്ണാമ്പ് കല്ലിന്റെ ഗുണനിലവാരം കമ്പനിയുടെ ലബോറട്ടറിയിൽ ISO വ്യവസ്ഥ പ്രകാരം ഓരോ ട്രക്കും ദിവസേന പരിശോധിക്കുന്നതാണ്. എന്നാൽ പാർട്ടികൾക്ക് പണം നൽകുന്നതിനായി 15 ദിവസത്തെ മൊത്ത ശരാശരി ഗുണനിലവാരം കണക്കിലെടുക്കുമെന്നും പ്രതിപാദിക്കുന്നു.
- ഈ കരാർ പ്രകാരം ചുണ്ണാമ്പ് കല്ല് സപ്ലൈയർമാർക്ക് 15 ദിവസത്തെ മൊത്ത ശരാശരിയുള്ള നിലവാരം കണക്കിലെടുത്താണ് പണം നൽകിയിരിക്കുന്നത്. ഇത് 5 സപ്ലൈയർമാർക്ക് മൊത്തം കരാർ കാലാവധിയിലാണ് നൽകിയിരിക്കുന്നത്. ഇത് തികച്ചും കരാർ വ്യവസ്ഥ പ്രകാരമാണ്. അതുകൊണ്ട് ആർക്കും അവിഹിതമായ ലാഭം നൽകിയിട്ടില്ല. കരാർ വ്യവസ്ഥ 2 വർഷത്തേക്കായിരുന്നു. ഈ രണ്ടു വർഷത്തിനുള്ളിൽ വളരെ കുറവ് ചുണ്ണാമ്പ് കല്ലിനു മാത്രമാണ് ഗുണനിലവാരത്തിൽ വ്യത്യാസം വന്നിരിക്കുന്നതും അതിനുള്ള പണം 15 ദിവസത്തെ മൊത്ത ശരാശരി കണക്കിലെടുത്താണ് നൽകിയിരിക്കുന്നതും.
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**INDUSTRIES DEPARTMENT****COMMITTEE ON PUBLIC UNDERTAKINGS (2006-08)****Report of the Comptroller & Auditor General of India for the year ended on  
31-3-2007 on Malabar Cements Limited action taken report**

<i>Para No.</i>	<i>Action Taken</i>
(1)	(2)
4.6 (AR 2006-07)	<p>The Company, engaged in the manufacture and marketing of Portland cement, was having a high tension (HT) service connection (Consumer Number 13/1335) for its mines with a contract demand of 1500 KVA (11 KV) in terms of the agreement entered into with the Kerala State Electricity Board (KSEB). As per the agreement, the Company was to pay the monthly electricity charge for the actual recorded maximum demand or 75 per cent of the contract demand or 50 KVA, whichever was higher. Further, the Company was allowed to increase/decrease the contract demand by giving six months written notice to the Board, specifying the required quantity of electrical power.</p> <p>A review of the actual monthly recorded maximum demand of the consumer during the period from April 2003 to February 2007 revealed that the same ranged between 471 KVA (April 2003) and 683 KVA (December 2003) as against the contract demand of 1500 KVA. Therefore, a contract demand of 700 KVA seems to be sufficient for the actual power requirements of the mines. The Management has not taken any steps to reduce the contract demand to the required level indicating the absence of corporate governance and internal control system in the company. Consequently, the Company has been paying an excess average electricity charge of Rs. 1.51 lakh per month for 557.51 KVA at Rs. 270 per KVA since April 2003.</p> <p>Thus, the failure of the company to get reduced the contract demand in terms of the provisions of the agreement with KSEB resulted in maintaining an unproductive high contract demand of 800 KVA for a period of 47 months from April 2003 to February 2007 incurring an avoidable extra payment of electricity charge to the tune of Rs. 70.75 lakh for</p>

(1)	(2)
	<p>26203 KVA (Annexure). The Management, while stating that the present actual maximum demand was in the range of 500-700 KVA, replied (December 2006) that the contract demand could be reduced from 1500 KVA to 1000 KVA considering the future requirements of the Company such as advancement of mining operations to deeper benches and for bringing water from mines to plants. The reply is not tenable as the Company did not take any timely action to get the contract demand reduced to 700 KVA taking into account the existing power requirements and that the demand could be increased at any time for future requirements by virtue of the enabling provisions of the agreement executed with KSEB.</p>

## ANNEXURE

**Statement shwoing the avoidable extra expenditure incurred by Malabar  
Cements Limited due to non-reduction of contract demand for its  
mines in line with the actual power requirements**

<i>Particulars</i>	<i>Contract demand at 1500 KVA</i>	<i>Contract demand at 700 KVA</i>
(1) Total recorded actual maximum demand for 47 months from April 2003 to February 2007	26672 KVA	26672 KVA
(2) 75 per cent of contract demand for 47 months from April 2003 to February 2007	52875 KVA (1500 * 75/100) * 47	24675 KVA (700 * 75/100) * 47
(3) 50 KVA for 47 months	2350 KVA	2350 KVA
(4) Higher of (1), (2) and (3)	52875 KVA	26672 KVA
(5) Billing demand charges @ Rs. 270/KVA (4 * Rs. 270)	Rs. 1,42,76,250	Rs. 72,01,440
(6) Excess demand charges due to non reduction of contract demand		Rs. 70,74,810