



TWELFTH KERALA LEGISLATIVE ASSEMBLY

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

EIGHTY SECOND REPORT

(Presented on 16th March 2010)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2010

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On

**Kerala Clays and Ceramic Products Limited based
on the Report of the Comptroller and Auditor General of
India for the year ended 31st March 2004 (Commercial)**

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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 Eighty Second Report on Kerala Clays and Ceramic Products limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2004 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended 31-3-2004 was laid on the Table of the House on 5-7-2005. 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 years 2008-2011.

This Report was considered and approved by the Committee at the meeting held on 13-1-2010.

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 Clays and Ceramic Products 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 Kerala Clays and Ceramic Products limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
16-3-2010.

*Chairman,
Committee on Public Undertakings.*

REPORT

KERALA CLAYS AND CERAMIC PRODUCTS LIMITED

AUDIT PARAGRAPH

The Company which acts as supplier of clay for manufacture of pesticides and insecticides had 34 acres of mining land at Nileshtar. In order to augment the resources of clay in connection with its expansion-cum-diversification programme, the Company decided (May 1994) to acquire 7.13 hectares of land adjacent to the above mentioned land and obtained (August 1994) sanction from Government.

The Company proposed the land acquisition on the ground that the clay reserve in the mines at the then existing production rate of 11,371 MT per annum would last for only two to four years. The land acquisition proceedings were, however, delayed due to non-finalisation of compensation payable and lapsed in April 1999. The Company, thereupon, initiated (May 1999) fresh acquisition proceedings through the District Collector, Kasaragod and acquired (December 2000) 1.46 hectares (3.65 acres) of land at a cost of Rs. 30.59 lakh.

Audit noticed that the Company was aware (1996) of the decline in demand for clay due to ban imposed by Government of India on certain pesticides which, in turn, affected the production from the Nileshtar mine. The production from this mine came down from 5,049 MT in 1995-96 to 1,010 MT in 1998-99 when the initial land acquisition proceedings fell through. Ignoring the ban on pesticides and resultant closing down of consumer industries, the Company initiated (May 1999) fresh proceedings and acquired (December 2000) additional land. This was also despite the fact that there was no need for augmenting mining resources in view of the low market demand.

In the absence of off take of clay, the production from the Nileshtar mine was only 253 MT during 2003-04 and the additional mining area acquired (December 2000) could not be utilised till date (September 2004). The Company had also not applied for mining licence in the newly acquired land so far (September 2004).

Thus, the decision of the Company to acquire additional 1.46 hectares of mining land when there was Government of India ban on consumer industries and consequent decline in the demand for clay resulted in unproductive investment of Rs. 30.59 lakh.

Government stated (August 2004) that considering the decline in demand for clay the area proposed for acquisition was reduced from 7.13 hectares to 1.46 hectares and the sale of clay during 1999-2000, 2000-01 and 2001-02 were 2,284 MT, 1,910 MT and 1,005 MT respectively which showed that there was

no major decline in the demand for clay. The reply is not acceptable since the decline in market demand is evident from the fact that Company's sale of clay came down from 5,551 MT in 1995-96 to 1,082 MT in 2002-03. Moreover, the Company had neither obtained mining licence nor started mining from the 1.46 hectares of land acquired in December 2000 indicating that the acquisition of land was not justified.

(Audit Paragraph 3.3 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2004.)

The notes furnished by Government on Audit Paragraph is given in Appendix II.

1. The Committee enquired why the Company acquired additional mining land when there was a declining trend in the demand for clay owing to the Government of India ban on consumer industries. The witness stated that the AG's contention in the audit para was not on loss or irregularities but on idle investment. As per AG's observation the investment made by the Company was not necessary. The witness stated that the observation was not significant as the money spend was for land acquisition. Though there was not much order from public sector undertakings at the time of the land acquisition, later the company could supply clay to a number of institutions including Malabar Cements Ltd. Now the Company is receiving orders from different institutions and even if 7 hectares had been acquired the company would have been able to find orders for it. The witness argued that companies always invest anticipating future orders. Therefore it is not an idle investment. These types of investments are necessary for the functioning of a company and therefore the acquisition could not be considered a wrong decision, he added.

2. When the Committee pointed out that production was declining during the period in which the purchase of land was made, the witness informed that production may fluctuate according to demand. But land cannot be acquired readily. The witness stated that lead time is essential for land acquisition and orders cannot be cancelled taking into account a temporary slowdown. The Committee enquired why the area of land proposed to be bought has been reduced. The witness informed that it was owing to lack of fund and increasing price of land.

3. Replying to a question on whether the acquired land is now being utilised by the Company, the witness stated that it being a land based industry whenever fund is available, land has to be bought and whenever there is order, minerals should be extracted. The witness informed the Committee that at present the land available with the Company is not adequate to meet the existing

demands. The witness added that the Company is looking for 100 acres of land rich in Bauxite at Perinthitta and if it can be secured the Company can meet its demand for 50 years. The witness further informed that the Government has prepared a detailed upgradation project and conducted a R&D study and that its final report is ready.

4. When enquired on the environmental problem in the mining sites the witness stated that there is such a problem in the Pazhayangady unit. When asked whether there is any waste treatment system in the Company the witness replied that there prevails only a system for disposal of waste water and that since every extract from the processes is utilized commercially there is hardly any need for any treatment system. The Committee accepted the evidence given by the witness.

Conclusion/Recommendation

5. **No comments.**

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
16-3-2010.

*Chairman,
Committee on Public Undertakings.*

APPENDIX I

Summary of Conclusions/Recommendations

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	5	Industries	No comments

APPENDIX II

I	(a) Department	Industries (H) Department
	(b) Subject/Title of the Review/Paragraph	Idle Investment
	(c) Paragraph No.	3.3
	(d) Report No. and Year	Report of the Comptroller and Auditor General of India ended on 31-3-2004 (Commercial)
II	(a) Date of receipt of the Draft	11-9-2005
	(b) Paragraph/Review in the Department	<p>Company applied for acquisition of 7.13 Hectares of additional mining area during the year 1994. At that time the production and Sales of China Clay from Nileshtar mine were more than 3,000 MTs. The acquisition proceedings were pending before the authorities for a long time and the same was lapsed in April 1999.</p> <p>M/s. Southern Pesticides Corporation and M/s. Hindustan Insecticides Limited, Kalamasseri, two Central Government Companies were purchasing major portion of China Clay produced from our Nileshtar mine. Due to the ban imposed by the Government of India on production of pesticides like BHC, DDT etc. The southern Pesticides Corporation stopped their production. M/s. Hindustan Insecticides Limited, Kalamasseri reduced the purchase of clay from the Company from 1996 onwards.</p> <p>During the year 1999-2000, the Company came to know that Hindustan Insecticides</p>

Limited, Rasayani require Indian Clay produced from Nileshtar unit. Company received order for 1600 MT of Indian Clay of Nileshtar mine during the year 1999-2000 from Hindustan Insecticides Limited Rasayani. During 1999-2000 Company again initiated fresh acquisition proceedings and based on the decision taken at the 73rd Board Meeting held on 9-8-2000 Company acquired 1.46 hectares of land adjacent to the present mining area in December 2000.

It may be noted that at present the clay bearing area available for mining is only 0.54 Hectares.

The details of production and sale of Chinaclay produced from Nileshtar mine from 1993-94 are given below :—

Year	Production	Sale
1994-95	3,405	4,160
1995-96	5,049	5,551
1996-97	4,804	3,297
1997-98	1,990	1,925
1998-99	1,010	1,145
1999-00	2,590	3,007
2000-01	2,600	2,717
2001-02	2,610	1,558
2002-03	925	1,082
2003-04	253	206
2004-05	294	472
2005-06	550	1,160

From the above it can be seen that the production and sale during 1998-99 were 1,010 and 1,145 MT respectively which increased in subsequent years due to the orders received from Hindustan Insecticides Limited. Rasayani (1600 MT during 1999-2000 MT during 2000-01 and 600 MT during 2001-02).

From 2002-03 to 2004-05 Company had not received any order from Hindustan Insecticides Limited, Rsasyani as they were getting clay at cheaper rates.

At the time of acquisition of additional mining area, about 130 employees were working in the Nileshtar mine and the land available for mining was limited.

It can also be seen that about 6 years had been taken to complete the land acquisition proceedings. Company applied for mining lease of the new area during August 2005 as the present area is only about 0.54 Hectares as given earlier.

Strict instruction has been given to the officers concerned to be more vigil in such deals future.

III Gist of Paragraph/Review

Idle investment—The decision of the Company to acquire additional mining land despite Government of India ban on consumer industries and decline in the demand for clay resulted in unproductive investment of Rs. 30.59 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 | N.A. |
| V | (a) Does the Department agree with the Audit conclusions ? | Yes |
| | (b) If not, please indicate specific areas of disagreement with reasons for disagreement and also attach of relevant documents where necessary ? | N.A. |
| VI | <i>Remedial Action Taken</i> | <p>Government endorse the views of the Company in the matter.</p> <p>The Managing Director and Senior Officers of the Company have been given directions to be more vigil in such deals in future and to safeguard the interest of the Company.</p> |
| VII | Recovery of underassessment short levy or other dues | N.A. |
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