



**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

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

**EIGHTY FIFTH REPORT**

(Presented on 16th March, 2010)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2010

TWELFTH KERALA LEGISLATIVE ASSEMBLY

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

**EIGHTY FIFTH REPORT**

**On**

**(Travancore Cochin Chemicals Limited based on the Report of the  
Comptroller and Auditor General of India for the years  
ended 31st March 2006 and 2007) (Commercial)**

## CONTENTS

	<i>Page</i>
Composition of the Committee	.. v
Introduction	.. vii
Report	.. i
Appendix I	
Summary of main Conclusions/Recommendations	.. 6
Appendix II	
Notes furnished by Government on the Audit Paragraph	.. 7

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. Babu

„ Adoor Prakash

*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 Eighty Fifth Report on Travancore Cochin Chemicals Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2006, 2007 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the years ended 31st March 2006, 2007 were laid on the Table of the House on 28-3-2007 and 26-2-2008. 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 2006-2008.

This Report was considered and approved by the Committee at its meeting held on 7-10-2007.

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 Travancore Cochin Chemicals 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 Travancore Cochin Chemicals 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

### TRAVANCORE COCHIN CHEMICALS LIMITED

#### AUDIT PARAGRAPH

#### **Wasteful expenditure**

The company had been engaged in the production of caustic soda and chlorine in their Membrane Cell Plant since May 1997. The anode and cathode meshes used in the membrane cells had a life of six years and were due (June 2003) for replacement. In this regard, the Company had the option of either replacing or recoating the meshes. The original supplier of the plant, however, recommended (November 2002) for replacement only. In spite of the recommendation of the supplier, the company considered the recoating as more economical. Instead of inviting tenders the Company made enquiries (October 2002) with an Italian firm Denora Elettrodi Spa (Denora) for recoating of cathodes and awarded (February 2003) the work for recoating of 516 cathodes at \$917 per mesh. It was noticed that Denora did not have previous experience in recoating of cathodes. One cathode handed over to the firm on a trial basis was also not received back and tested at Company's plant before issuing the final work order. The first lot of 65 meshes was received back (June 2003) after recoating and payment of Rs. 28.07 lakh was made.

As per the terms of the work order, the recoated meshes shall be guaranteed for satisfactory performance for a minimum period of six years and in the event of failure within the guarantee period, the firm shall provide compensation in the form of free recoating of deactivated meshes. The recoated meshes, however, did not yield the desired result after installation (August 2003) and recoating was declared (August 2003) as failure.

The Company returned (October 2003) two numbers of cathode meshes to Denora for analysing the causes of failure. Since no response was received the Company cancelled (December 2004) the work order without any financial obligation on the part of Denora. The bank guarantee provided by Denora for Rs. 2.80 lakh was also not invoked. The total wasteful expenditure incurred by the Company on recoating worked out to Rs. 38.60 lakh including freight, duties, etc.

Thus the decision of the Company to entrust the recoating of cathode meshes to a firm having no experience in the work resulted in wasteful expenditure of Rs. 38.60 lakh.

The Management stated (April 2006) that they made a trial with Denora to develop an alternate source of supply and these type of trials were advantageous to the Company in the long run eventhough every trial does not meet with immediate savings. The reply is not acceptable since development of alternate sources should have been made only through experienced firms in the work and by allowing the product development trial by the firm on Company's plant, no useful purpose was served. The Company also did not wait for the results of the trial by installing the mesh in Company's plant, before awarding the final contract.

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

(Audit Paragraph 4.3 contained in the Report of the Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March 2006.)

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

1. The Committee enquired why, inspite of the recommendation of the original supplier of the meshes for replacement, the company had considered recoating of the meshes as more economical and instead of inviting tenders, entrusted the work of recoating to an Italian firm, Denora which was inexperienced in this work thus causing loss of Rs. 38.60 lakh. The witness stated that the meshes are a component of an AGC plant commissioned in 1997. It is a monopoly company and their technology cannot be copied. They had quoted Rs. 5.87 crore for replacement. Since there was a dispute at that time over the quality of their membrane cell plant, the company has been looking for an alternate supplier. The company contacted the Italian company Denora, and its subsidiary company called Titanor Components and enquired whether they could recoat the cathodes and anodes of the meshes. The witness further informed that Denora took two meshes, conducted trial in their equipments, and finding it a success, agreed to take up the work of recoating. Then the meshes were sent to these companies for recoating cathode and anode respectively. After accepting the recoated meshes, when the company put them in use, it was found that the meshes did not perform as desired by the company. The energy component was found to be very high. The witness added that when the original supplier quoted for replacement, the company informed them that as their rate was high the company had to go for an alternate supplier. As a result of this the original supplier became willing to renegotiate and the rate was brought down from Rs. 5.87 crore to Rs. 4.24 crore.

2. The Committee enquired about the rate of the alternate supplier and wanted to know if the excess energy consumption was a violation of the

agreement. The witness responded in the affirmative and stated that the company badly needed an alternate supplier since the recoating is to be done once in 6 years. The Committee enquired whether the company knew that Denora had no previous experience in the field when it was entrusted with the work of recoating. The witness stated that though Denora is in this field their technology is different from that of the original supplier. The original supplier has its own technology and no one can do AGC anode except them and it is their monopoly.

3. The Committee wanted to know if it was better to replace the meshes instead of recoating them, why the company had taken such a decision. The witness stated that according to the original supplier's advice, replacement was more reliable than recoating. As it is their monopoly if the company did as per their instructions, there was no need for any risk. Replying to another question the witness stated that in 2003 when the company started the process of recoating, it had taken up the exercise of finding an alternate supplier. The next recoating is due only in 2009. The witness stated that when the equipment was purchased from the subsidiary company of Denora, the anode was uncoated and they had coated it at the company's site.

4. When enquired why the coated meshes did not yield the desired result, the MD stated that the criteria of it is voltage. If it is in the guaranteed voltage there is no problem and if the voltage is above it, even though the cell and plant work, the cost of electricity would increase. Considering the loss, the work order was awarded to the original supplier after negotiation. Since it is AGC, after replacement trial has been done only in a single cell. To a question of the Committee, the witness informed that the company has not claimed any compensation from Denora, as they had agreed to try and develop the technology on their own.

#### **Conclusions/Recommendations**

**5. The Committee finds that the Company has entrusted the work of recoating of the anode and cathode meshes to an inexperienced company, Denora, without inviting tender, ignoring the original suppliers recommendation of replacing the meshes instead of recoating, leading to the loss of Rs. 38.60 lakhs. The Committee notices that the company had ordered bulk quantities for trial attempt to an inexperienced company instead of providing an order for a small quantity on an experimental basis in order to develop an alternate supplier.**

**6. The Committee finds that the failure on the part of the officials of the company to take prompt and timely action and to comply with the**



**terms and conditions of the agreement led to a loss of Rs. 38.60 lakhs. The Committee therefore, recommends that the company should adopt proper plan before executing costly work orders and to take necessary steps for the proper monitoring of the purchase wing of the company to avoid instances like this in future.**

#### AUDIT PARAGRAPH

#### **Unauthorised Payments**

The Company having an accumulated loss of Rs. 13.84 crore as on 31 March 2005 had been paying production bonus to its employees under the monthly production bonus scheme. Provisions of the scheme specifically mentioned that the production bonus so paid was not to be considered as wages/salary for the purpose of benefits.

A team comprising representatives of the Management and the Employees' Unions arrived at (March 2005) a settlement for payment of monthly production bonus of Rs. 500 per employee for the year 2006 treating it as 'special pay'. Due to this, the special pay counted for payment of HRA, Provident fund contribution and gratuity necessitating extra payment to the employees. The payment so made from 1 April 2005 to March 2007 worked out to Rs. 17.22 lakh.

Audit noticed that the representatives of Management who approved and adopted the amendment to the scheme were not authorised by the Board of Directors of the Company. The decision of the team was also not placed before the Board for ratification. Even when the new bonus scheme was submitted (May 2006) to the Board for approval, the information that the bonus had been converted as special pay for purposes of other benefits was suppressed. The avoidable extra payment without proper authority is still continuing (June 2007).

Thus the unauthorized conversion of monthly production bonus into special pay resulted in avoidable extra payment of Rs. 16 lakh and recurring future liability.

Management stated (July 2007) that Rs. 500 was paid under the head monthly production bonus was the restructuring benefit sanctioned by the Company to take up additional work load which was later converted as special pay as pressurised by the Union. It was also admitted that the conversion done as per approval of the then Managing Director was not placed before the Board for approval. The reply is not tenable since the Circular issued (February 1987) by the Planning and Economic Affairs (BPE) Department, Government of Kerala prescribed that no Public Sector Undertaking shall implement or commit to

implement or negotiate any changes in the wage structure without obtaining the prior orders of the Government.

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

(Audit Paragraph 4.7—contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2007.)

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

7. The Committee enquired about the unauthorised payment of special pay by the company to its employees. The Managing Director, Travancore Cochin Chemicals Ltd. stated that it was regularised in the pay revision of 2004.

#### **Conclusion/Recommendation**

**8. No comments.**

Thiruvananthapuram,  
16-3-2010.

MANKODE RADHAKRISHNAN,  
*Chairman,*  
*Committee on Public Undertakings.*

## APPENDIX I

**Summary of main Conclusions/Recommendations**

<i>Sl. No.</i>	<i>Paragraph No.</i>	<i>Department Concerned</i>	<i>Conclusions/recommendations</i>
(1)	(2)	(3)	(4)
1	5	Industries	The Committee finds that the Company has entrusted the work of recoating of the anode and cathode meshes to an inexperienced company, Denora, without inviting tender, ignoring the original suppliers recommendation of replacing the meshes instead of recoating leading to the loss of Rs. 38.60 lakhs. The Committee notices that the company had ordered bulk quantities for trial attempt to an inexperienced company instead of providing an order for a small quantity on an experiemental basis in order to develop an alternate supplier.
2	6	„	The Committee finds that the failure on the part of the officials of the company to take prompt and timely action and to comply with the terms and conditions of the agreement led to a loss of Rs. 38.60 lakhs. The Committee therefore, recommends that the company should adopt proper plan before executing costly work orders and to take necessary steps for the proper monitoring of the purchase wing of the company to avoid instances like this in future.
3	8	„	No comments.

## APPENDIX II

## Action Taken Report

Sl. No.	Paragraph No.	Year	Action Taken
(1)	(2)	(3)	(4)
1	4.3	2006	<p>ആൽക്കലി ഉൽപ്പാദന രംഗത്തെ നൂതന സാങ്കേതിക വിദ്യ അവലംബിച്ച് 1997-ൽ കമ്പനിയിൽ സ്ഥാപിച്ച 16 മെമ്പ്രയിൻ സെൽ ഇലക്ട്രോലൈസറുകളിൽ മൊത്തം 480 കാഥോഡുകളും 480 ആനോഡ് ഘടകങ്ങളും സജ്ജീകരിച്ചിരുന്നു. ഈ കാഥോഡ് ആനോഡ് ഘടകങ്ങൾക്ക് നൽകിയിട്ടുള്ള പ്രത്യേക ഖന ലോഹ മിശ്രിത ലേപനത്തിന് വിതരണ കരാറുകാർ നൽകിയിട്ടുള്ള രേഖാപരമായ ഉറപ്പ് (Guarantee) ആറ് വർഷമായതിനാൽ ഈ ഘടകങ്ങൾ 2003-ൽ പുനർ ലേപനം നടത്തേണ്ടി വരുകയോ മോശമായവ മാറ്റി വയ്ക്കപ്പെടുകയോ ചെയ്യേണ്ടതായി വന്നു. ടി ജോലികൾക്കായി 2002 നവംബറിൽ യഥാർത്ഥ വിതരണക്കാരായ കനേ മാറ്റ്സു കോർപ്പറേഷനിൽനിന്നും മേൽനോട്ടനടപടി കൾക്കായുള്ള ചാർജ്ജ് 2,800,000 അടക്കം മൊത്തം ചെലവ് 19,56,74,000 വരുന്ന വിധം ദർഘാസ് കമ്പനിക്ക് ലഭിക്കുകയും ഉണ്ടായി.</p> <p>ഈ പ്രത്യേക സാങ്കേതിക വിദ്യയുടെ കുത്തക സ്വഭാവംമൂലം മത്സരാധിഷ്ഠിതമായ രീതിയിൽ ദർഘാസുകൾ ക്ഷണിക്കാൻ കമ്പനിക്ക് കഴിയുകയില്ല എന്ന വസ്തുത പരിഗണിച്ച് ഈ ജോലികൾ കാര്യക്ഷമമായി നിർവ്വഹിക്കാൻ പരിചയവും സാങ്കേതിക വിദ്യയുമുള്ള മറ്റൊരു ഏജൻസിയെ കണ്ടെത്തുക എന്ന ഉദ്യമത്തിന്റെ ഭാഗമായി ആൽക്കലി ഉല്പാദന രംഗത്ത് അറിയപ്പെടുന്ന ഇറ്റലി ആസ്ഥാനമായ ഡെനോറ എന്ന സ്ഥാപനത്തെ സമീപിക്കുകയും ഈ ജോലികൾ ഏറ്റെടുത്ത് നടപ്പിലാക്കാൻ അവർ സന്നദ്ധരാവുകയും ഉണ്ടായി.</p> <p>ഡെനോറ ഇറ്റലിയുമായുള്ള ധാരണ പ്രകാരം പരീക്ഷണാർത്ഥം കാഥോഡ് ഘടകങ്ങൾ പുനർലേപനം നടത്തുവാൻ ഡെനോറ ഇറ്റലിയേയും,</p>

(1)	(2)	(3)	(4)
			<p>ആനോഡ് ഘടകങ്ങൾ ഡെനോറയുടെ അനുബന്ധ യൂണിറ്റായി ഇൻഡ്യയിൽ പ്രവർത്തിക്കുന്ന ടൈറ്റനോർ കമ്പോണൻസ്, ഗോവ എന്ന സ്ഥാപനത്തേയും ഏൽപ്പിക്കുകയുണ്ടായി. കാഥോഡ് ഘടകങ്ങൾ പുനർലേപനം നടത്തുവാനായി ഡെനോറ ഇറ്റലിയുടെ ആദ്യഘട്ട പരീക്ഷണം പൂർണ്ണ വിജയം ആയില്ല എന്ന വസ്തുത നിലനിൽക്കേ ഈ രംഗത്ത് ഡെനോറയുടെ സാന്നിധ്യം കനേമാറ്റ്സു കോർപ്പറേഷനുമായി ടി.സി.സി. തുടർന്നു നടത്തിയ വിലപേശലിൽ സ്വാധീന ഘടകമാവുകയും അതിൻ ഫലമായി അവർ മുൻപ് സമർപ്പിച്ച ദർഘാസ് തുകയിൽനിന്നും ഗണ്യമായ കുറവു വരുത്തി 450 ആനോഡുകളും 450 കാഥോഡുകളും പുനർലേപനം നടത്തുവാനായി സുപ്പർവൈസറി ചാർജ് 28,00,000 അടക്കം മൊത്തം 14,25,00,000 -ന് ദർഘാസ് പുതുക്കി സമർപ്പിക്കുകയുണ്ടായി.</p> <p>ഡെനോറ ഇറ്റലിയുമായി ധാരണ പ്രകാരം ടി.സി.സി. ചെലവിട്ട 38.60 ലക്ഷം രൂപ പാഴ്ചെലവായി പരിഗണിക്കുകയാണെങ്കിൽകൂടി അതുമൂലം ഈ രംഗത്ത് കനേമാറ്റ്സു കോർപ്പറേഷൻ നിലനിർത്തിയിരുന്ന കുത്തക ധാരണകളെ മറികടന്ന് മൽസര ക്ഷമമായ രീതിയിൽ പുതുക്കി സമർപ്പിച്ച ദർഘാസ് മൂലം ടി. സി. സി.യ്ക്ക് ചെലവിനത്തിൽ ലാഭിക്കാൻ കഴിഞ്ഞത് 1.60 കോടി രൂപയാണ്.</p> <p>ഇതേസമയം പരിഗണിക്കപ്പെടേണ്ട മറ്റൊരു വസ്തുത ടൈറ്റനോർ കമ്പോണൻസ് ഗോവയിൽ നടത്തിയ ആനോഡ് ഘടകങ്ങളുടെ പുനർലേപനം കുറ്റമറ്റതും ഗുണപരമായ മേന്മ പുലർത്തിയെന്നതുമാണ്. അവർ അവലംബിച്ച സാങ്കേതിക വിദ്യയിൽ കനേമാറ്റ്സു കോർപ്പറേഷനും സംതൃപ്തി പ്രകടിപ്പിച്ചിട്ടുണ്ട്. കൂടാതെ ജപ്പാനിൽനിന്നും ലേപനം നടത്തി കൊണ്ടുവരേണ്ടിയിരുന്ന ചില ആനോഡ് ഘടകങ്ങളുടെ ലേപന പ്രക്രിയ കനേമാറ്റ്സു കോർപ്പറേഷന്റെ മേൽനോട്ടത്തിലും ഉറപ്പിലും ടൈറ്റനോർ കമ്പോണൻസ് ഗോവയിൽ വച്ച് നടത്താമെന്നും പുതുക്കിയ ദർഘാസ് പ്രകാരം വ്യവസ്ഥ ചെയ്തിരുന്നു.</p>

(1)	(2)	(3)	(4)
			<p>കാമോഡ് ഘടകങ്ങളുടെ പുനർ ലേപനത്തിൽ ഡെനോറ ഇറ്റലി നടത്തിയ ശ്രമ പരീക്ഷണങ്ങളുടെ ഫലപ്രാപ്തിവരെ കാത്തിരിക്കാതിരുന്നതിനുള്ള കാരണം ആനോഡ് കാമോഡ് ഘടകങ്ങളുടെ ഖന ലോഹ മിശ്രിത ലേപനത്തിന്റെ ടി സാമഗ്രികളുടെ ദാതാക്കൾ രേഖാപരമായി ഉറപ്പു നൽകിയിട്ടുള്ള പ്രവർത്തന കാലാവധിയായ ആറു വർഷങ്ങൾക്ക് ശേഷം (Guaranteed Service Life) ഏതു സമയത്തും സംഭവിക്കുന്ന തകരാറുമൂലവും പ്ലാന്റിന്റെ മൊത്തം ഉൽപ്പാദനം നിലച്ചു പോകാമെന്നതുമാണ്. ഈ വസ്തുതകൾ പരിഗണിച്ച് ഉൽപ്പാദന നഷ്ടമുണ്ടാകാത്ത വിധമുള്ള യൂക്തിപരമായ തീരുമാനം കമ്പനിക്ക് കൈക്കൊള്ളേണ്ടതായി വന്നു.</p>
2	4.7	2007	<p>The Company restructured the work force by which the number of employees has been reduced from 1125 to 736 and the surplus workmen were identified for redeployment. When the discussion, started there was an understanding with the union that a part of the savings accrued out of restructuring of employees strength and stoppage of overtime, would be given to the existing workmen as incentive to take up additional work load and to work in alternative and lower positions without any overtime. Accordingly the company had been paying Rs. 500 p.m. as production incentive. As this amount was the restructuring benefit and not the production incentive, later it was converted into special pay by the company, only for the existing workmen at the time of restructuring for taking additional workload and to work in alternative/lower positions. New recruits are not eligible for the special pay. This was approved and permitted to continue as such by the Government vide G.O. (Rt.) No. 39/2008/ID dated 15-1-2008.</p>

**Action Taken Statement on the Report of the Comptroller and Auditor  
General for the year ended on 31-3-2007 (Commercial) on para 4.7  
pertaining to the Travancore Cochin Chemicals Limited  
Un Authorised payments Reply-Reg.**

<i>Sl. No.</i>	<i>Para. No.</i>	<i>Reply</i>
(1)	(2)	(3)
1	4.7	<p>The Travancore Cochin Chemicals Limited was running on heavy loss during 1997-98 to 2002-2003. While giving package concessions for the revival of the Company vide G.O. (Ms) No. 4/2003/ID dated 6-1-2003. Government have stipulated certain austerity measures including reduction in employee-strength, overtime be done away with, and restrained the Company from filling up retirement vacancies etc.</p> <p>As directed by Government, the company has restructured its workforce by which the number of workmen has been reduced from 1125 to 736 and surplus workmen were identified for re-deployment.</p> <p>When the discussion started, there was an understanding with the Unions that a part of the saving accrued out of restructuring of employee strength and stoppage of overtime would be given to the existing workmen as incentive to take up additional workload and to work in alternate and lower positions without any overtime. This was implemented from January 2003. Accordingly the management had sanctioned an amount of Rs. 500 each to all workmen as a partial compensation of the increased work-load from January, 2003. Later the Unions pressurised the Management to merge the said amount to Basic Pay.</p> <p>After several round discussions with the Unions, it was decided to pay the amount as Special Pay to the existing workmen. New recruits are not eligible for this special pay.</p> <p>The said amount of Rs. 500 is not Monthly Production Bonus and it is the restructuring benefit sanctioned by the Company as per G.O. (Rt.) No. 39/2008/ID dated 15-1-2008 to take up additional workload and to work in alternate and lower positions without any overtime, which was later converted as special pay.</p>