



**FOURTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2016-2019)**

**THIRTY THIRD REPORT**  
(Presented on 18th May, 2017)

**SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM**

**2017**

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2016-2019)**

**THIRTY THIRD REPORT**

**On**

**KERALA ELECTRICAL AND ALLIED ENGINEERING  
COMPANY LIMITED**

**(Based on the Report of the Comptroller and Auditor General  
of India for the year ended 31 March, 2010)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

**COMPOSITION OF THE COMMITTEE**

*Chairman :*

Shri C. Divakaran.

*Members :*

Shri T. A. Ahammed Kabeer

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri S. Rajendran

Shri Thiruvanchoor Radhakrishnan

Shri P. T. A. Rahim

Shri Raju Abraham

Shri Sunny Joseph

Shri C. F. Thomas

Shri P. Unni.

*Legislature Secretariat :*

Shri V. K. Babu Prakash, Secretary

Smt. P. K. Girija, Additional Secretary

Shri P. B. Suresh Kumar, Deputy Secretary

Smt. Deepa V., Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the Report on its behalf, present this Thirty Third Report on Kerala Electrical and Allied Engineering Company Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010 relating to the Public Sector Undertakings of the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended on 31<sup>st</sup> March, 2010 was laid on the Table of the House on 28-6-2011. 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 2014-2016 at its meeting held on 6-1-2016

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 26-4-2017.

The Committee places on record its appreciation for the assistance rendered by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wishes thank to the officials of the Industries Department of the Government Secretariat and Kerala Electrical and Allied Engineering Company Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government, Industries and Finance Departments and the officials of the Kerala Electrical and Allied Engineering Company Limited who appeared for evidence and assisted the Committee by placing their views before it.

Thiruvananthapuram,  
26th April, 2017.

C. DIVAKARAN,  
*Chairman,*  
*Committee on Public Undertakings.*

**REPORT**  
**ON**  
**KERALA ELECTRICAL AND ALLIED ENGINEERING**  
**COMPANY LIMITED**

**AUDIT PARAGRAPH**

**2.1 Introduction**

**2.1** The Kerala Electrical and Allied Engineering Company Limited (Company) was incorporated in June 1964. Its core areas of business are electrical, mechanical and structural engineering and manufacturing engineering equipments, fittings and electrical accessories. The Company has five manufacturing units situated in different parts of the state viz., Mamala (Distribution transformers and Civil / Structural works), Kundara (Train lighting Alternators), Kasaragod (General Purpose Alternators), Olavakkod (Fuse Units and Switch gears) and Edarikkod (Brushless Auto Alternators) catering to the vital sectors of Railways, Electricity Boards and Electrical consumers. The Company is under the administrative control of Industries Department, Government of Kerala.

The overall administration of the Company is vested with the Board of Directors, consisting of 13 Directors including Managing Director and Chairman appointed by the Government of Kerala. The Managing Director is the Chief Executive of the Company assisted by officers and staff. The Company also has Regional Offices in Delhi, Mumbai, Kolkata, Chennai, Bangalore and Thiruvananthapuram for marketing and servicing activities.

**SCOPE OF AUDIT**

**2.2** The Company is a major industrial concern of the Government of Kerala. The Company has been running in loss since 1987-88 except for two years in 1989-90 and 1996-97. The Company has earned profit during 2007-08, 2008-09 and 2009-10 as per provisional accounts. The accumulated loss as at the end of 31-3-2010 was ₹86.02 crore.

The performance review conducted during February 2010 to May 2010 covers the operational activities of the Company at its manufacturing units at Mamala, Kundara, Kasaragod, Olavakkod and Edarikkod for the five years 2005-2010. In order to ascertain the causes for consistent loss and suggest scope for improvement of operations the Company was selected for Performance Review.

Before taking up the review an entry meeting was conducted (February 2010) to discuss the scope of Audit, Audit objectives/criteria/methodology and major areas for Audit. The meeting was attended by the Secretary to Government of Kerala, Industries Department and the Managing Director of the Company.

The working of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India (Commercial), Government of Kerala for the year ended 31 March, 1996. The Report was discussed by the Committee on Public Undertakings (COPU) and their recommendations were included in its 53rd Report (2001-2004) which was presented to the Legislature on 20th January, 2004. The action taken on the recommendations was placed in the Legislature on 22nd March, 2005.

Major recommendations of COPU and the action taken thereon/progress thereof are mentioned below:

Para No.	COPU Recommendation	Action taken/Progress
1	2	3
29	Company should conduct a proper market survey and put in all out effort to sell their product in the domestic market. Prospects of exporting its products may also be explored	<ul style="list-style-type: none"> <li>The Company has conducted a study through M/s. Deloitte to assess the marketability and scope for diversification during 2008-2009. Action on their report is awaited.</li> <li>The Company achieved export orders valuing 5.42 crore during the last five years.</li> </ul>
30	While preparing the budgeted sales, the capacity of machinery, average sales	<ul style="list-style-type: none"> <li>The Company has prepared the budget (production/sales)based on the expected sales (requirement and</li> </ul>

1	2	3
	during the past five years, the expected sales during the year etc. should be taken into account.	demand pattern of the Indian Railways and KSEB)
31	The number of employees was disproportionately high compared to the actual output in Kasargod unit and suggested austeritiy measures for recruitment to the need.	<ul style="list-style-type: none"> <li>• Against the strength of 1010 employees in 2005-2006 the present strength was 947 in 2009-2010, in the Company as a whole</li> <li>• The Company has recruited 60 need based employees during the review period.</li> <li>• In respect of Kasargod unit the strength in 2005-2006 was 238 which reduced to 220 in 2009-2010.</li> <li>• The Company has not assessed the manpower requirement and no sanctioned strength is fixed.</li> <li>• The Company appointed (June 2010) Kerala State Productivity Council for conducting organisation study at Mamala and Kundara units. Their study is in progress.</li> </ul>
34	The viability of the Edarikkode project on brushless auto alternator should be assessed and if it is found financially and industrially viable, steps should be taken to revive the project and make it functional immediately.	<ul style="list-style-type: none"> <li>• The Company constituted (March 2005) a Committee for revival of project. As the marketability of the product was doubtful the Company decided to use the facility for other activities to supplement the production of Mamala unit. The Commercial production however, from this unit is yet to commence</li> </ul>

### AUDIT OBJECTIVES

2.3 We have selected the Company for performance review as it failed to mobilise sufficient working capital and suffered loss due to lack of professionalism in managing various resources to improve the productivity. The audit objectives of the performance review were to ascertain whether;

- the available resources were utilised economically, efficiently and effectively;



- the procurement and contract management system was efficient and performance oriented; financial resources were correctly estimated, mobilised and utilised;
- the efficiency of the marketing system was ensured for timely supply of quality product at competitive price and timely realisation of dues;
- there was effective manpower management; and
- the Management Information System/Internal Control/Internal Audit system/Corporate Governance practices were effective.

#### AUDIT CRITERIA

2.4 The topic was selected for Performance Audit Review to assess the performance and suggest improvements. To achieve this end the following audit criteria were adopted:

- targets fixed by the Company in production/material/sales budgets;
- norms in respect of consumption of material and power;
- procurement, sales and credit policy;
- systems and procedures for correct estimation, mobilisation and utilisation of funds;
- human resource policies of the Company; and
- policies and guidelines prescribed for Management Information System/Internal Control/Internal Audit/Corporate Governance

#### AUDIT METHODOLOGY

2.5 Audit adopted the following methodologies:

- review of Board minutes, agenda notes and minutes of other committee meetings;
- scrutiny of production/material/sales budgets;
- analysis of production reports/statements;
- scrutiny of purchases/work contracts/transportation arrangements;
- scrutiny of sales orders and sales realisation particulars;

- examination of records in respect of estimation, mobilisation and utilisation of funds;
- review of MIS reports/Internal Audit Reports/Study Reports/Project Reports/Annual Accounts; and
- interaction with the officials of various divisions/departments.

### Financial Position and Working Results

2.6 Financial position and working results of the Company during the five years 2005-2010 are given below:

(₹ in crore)

Particulars	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
<b>Liabilities</b>				Provisional	
Share capital and Advance	71.38	71.38	87.15	87.15	87.15
Reserves and Surplus	0.16	3.66	3.66	3.66	3.66
Borrowings	45.36	47.53	29.45	29.82	28.01
<b>Total</b>	<b>116.90</b>	<b>122.57</b>	<b>120.26</b>	<b>120.63</b>	<b>118.82</b>
<b>Assets</b>					
Net fixed assets	4.07	2.98	2.42	2.21	2.57
Project work in progress	5.39	5.60	5.89	6.14	6.14
Net current assets	14.00	17.77	21.13	24.86	24.09
Miscellaneous expenses not adjusted	2.66	1.77	0.88	.....	.....
Accumulated loss	90.78	94.45	89.94	87.42	86.02
<b>Total</b>	<b>116.90</b>	<b>122.57</b>	<b>120.26</b>	<b>120.63</b>	<b>118.82</b>
<b>Net Worth</b>	<b>(-)19.24</b>	<b>(-)19.41</b>	<b>0.87</b>	<b>3.39</b>	<b>4.79</b>

### Working Results

Particulars	2005-2006	2006-2007	2007-2008	2008-2009 (Provisional)	2009-2010
<b>Income</b>					
Gross Sales/ Works contract, other income	59.44	83.49	101.03	106.10	105.65
Increase/ (Decrease) in stock	6.80	(8.39)	2.65	0.62	(1.90)
<b>Total</b>	<b>66.24</b>	<b>75.10</b>	<b>103.68</b>	<b>106.72</b>	<b>103.75</b>
<b>Expenditure</b>					
Materials Consumed	34.03	37.84	58.47	60.74	61.40
Employee costs	17.88	15.85	13.19	16.70	18.90
Others	29.03	25.07	27.52	26.76	22.05
<b>Total</b>	<b>80.94</b>	<b>78.76</b>	<b>99.18</b>	<b>104.20</b>	<b>102.35</b>
<b>Profit/(Loss)</b>	<b>(14.70)</b>	<b>(3.66)</b>	<b>4.50</b>	<b>2.52</b>	<b>1.40</b>

The accounts of the Company are in arrears from 2007-2008 onwards. Acute shortage of manpower in accounts department was attributed as one of the reasons for delay in finalisation of accounts. We observed that to make the accounts up-to-date a Chartered Accountant was also engaged on contract basis.

It could be seen from the table that:

- the accumulated loss, which was ₹ 90.78 crore in 2005-2006 marginally decreased to ₹ 86.02 crore in 2009-2010, mainly due to increase in sales and profit in operation in Mamala and Kasaragod units.
- the income from operating activities gradually increased from ₹ 59.44 crore in 2005-2006 to ₹ 105.65 crore in 2009-10. Correspondingly, the value of raw materials consumed also increased from ₹ 34.03 crore in 2005-2006 to ₹ 61.40 crore in 2009-2010.

## AUDIT FINDINGS

2.7 Audit findings emerging from the performance review were reported to the Management/Government of Kerala in July 2010 and were discussed in an exit meeting (August 2010), with the Secretary (I P), Industries Department to Government of Kerala, the Chairman and the Managing Director of the Company. The views expressed in the meeting have been taken into consideration while finalising the performance review.

### ***Investment in Edarikkod unit***

2.8 The Edarikkod unit of the Company was established (1995) to manufacture Brushless Auto Alternators (BAA) with a total investment of ₹ 3.18 crore. The investment (including pay and allowances of workers in the project ₹4.48 crore up to March 2003) without assessing the marketability of the product and ensuring availability of funds was commented in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March, 2003. The COPU which discussed the lack of progress of the project based on the Report recommended (March 2005) to assess the financial and industrial viability of the project and if it was viable, steps should be taken to revive the project and make it functional immediately.

The Company, thereafter, constituted (March 2005) a Committee for revival of the unit and procured (June 2005) machinery and attempted production activities. The attempt also did not meet with success due to lack of sufficient orders and skilled manpower. Even though there were insufficient jobs for existing manpower, the Company kept on posting more staff / workers from other units in excess of requirement. We observed that the Company invested ₹ 37.14 lakh in machinery and incurred expenditure of ₹ 1.39 crore (Salary ₹ 1.25 crore and Power charges ₹ 14.79 lakh) during 2004-2010.

Management stated (August 2010) that the production of distribution transformers from Edarikkod unit started from December 2009 at the rate of 100 numbers per month. The GoK sanctioned (March 2010) ₹ 3.00 crore for revival of the unit and had released ₹1.46 crore. We observed that the transformers were produced on contract basis to supplement the orders of Mamala unit due to

favourable order position in that unit during 2009-2010 which can not be expected to be a permanent feature.

[Audit Paragraph 2.8 contained in the Report of the Comptroller & Auditor General of India for the year ended 31st March, 2010.]

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

The Committee enquired about the progress of revival package of the Edarikkod Unit according to the recommendations of CoPU in 2005. The witness replied that Government of Kerala had sanctioned ₹ 3 crore each for the partial upgradation of Edarikkode and Kundara Units. He added that after 2009-2010, Edarikkode Unit had attained the production of almost ₹ 10 crore.

### **Conclusion/Recommendation**

**No Comments.**

#### **Production**

##### ***Production planning***

**2.9** Production planning is a process used by manufacturing companies to optimise the efficiency of their process. Each unit prepared annual production plan based on the delivery schedule of pending and anticipated orders but:—

- Plant capacity was restricted by the low productivity of machineries and equipments and bottleneck in operations;
- All machines did not operate at evenly balanced speed and efficiency, resulting in imbalance between the work loads of different machines. The flexibility of the plant dependent upon its ability to adapt to the introduction of new products, changes in the product mix to increase the production were not present. The Management stated (August 2010) that upgradation of existing machinery could not be done due to shortage of funds. We observed that shortage of funds were due to poor recovery of dues from customers and inability to raise loans from commercial banks.

[Audit Paragraph 2.9 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2010].

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

The Committee pointed out that due to the failure on the part of the company to replace the ageing machinery, even minimum production efficiency could not be achieved in operations.

### **Conclusion & Recommendation**

**1. The Committee observes that plant capacity in KEL units is restricted due to improper and non optimal functioning of its machinery. Therefore the Committee recommends that KEL should take measures to upgrade machinery & equipments in order to increase plant capacity in all its units.**

**2.10** Unit-wise production performance against the budgeted and installed capacity during the five years 2005-2010 are given in *Annexure 7*.

It could be seen from the Annexure that:

- The Company itself had set the budgeted production to the installed capacity ranging between 41 and 54 per cent in Kundara (Alternators), 59 and 84 per cent in Mamala (Transformers) and 25 and 31 per cent in Kasaragod (General Purpose Alternators). The Company knew of low demand for its products and low market share which made it keep its budgeted production low.
- The actual production was also at variance with the budgeted production. It was ranging between 68 and 117 per cent in Kundara (Alternators), 78 and 179 per cent in Mamala (Transformers), 30 and 102 per cent in Olavakkod (Switch Gears) and 75 and 116 per cent in Kasaragod (General Purpose Alternators).
- The actual production to installed capacity ranged between a poor 6 and 21 per cent in Olavakkod (Switch Gears), 48 and 146 per cent in Mamala (Transformers), 37 and 59 per cent in Kundara (Alternator) and 21 and 29 per cent in Kasaragod (General Purpose Alternators).

The Kundara unit was having a Foundry Division with an induction type foundry (installed capacity 1500 Metric tonne per annum) since 1985. The foundry was producing castings for axle/alternator pulleys for train lighting alternators for captive consumption and requirements of Kasaragod unit as also sale of raw casting to few private parties. The details of capacity utilisation, cost of production per Kilogram (Kg.) and the selling price per Kg. of the foundry during the five years 2005-2010 are given in *Annexure 8*.

We observed that the average capacity utilisation was a dismal 28 per cent of the installed capacity during the five years 2005-2010. The foundry was working for only single shift per day. The cost of production varied from ₹ 39.65 to ₹ 54.88 per Kg. while the selling price varied from ₹ 37 to ₹ 55 per Kg. during 2005-2010. The castings produced by the unit were costlier than the prevailing market rate and did not find market. The increased cost of inputs also affected the profitability.

We observed that the Management did not take initiative either to increase the production and diversifying casting range or to ascertain whether it would be profitable for the Company to make itself or buy the castings. Since the casting is the input for manufacture of train lighting alternator, procuring castings from the market at cheaper price would have resulted in cost reduction, competitive pricing and increased profitability.

Management stated (August 2010) that procuring casting from the market at cheaper rates would adversely affect quality of their products. We noticed that Kasaragod unit has been procuring machined castings from private parties and no instances of quality complaints were reported so far (October 2010).

[Audit Paragraph 2.10 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010].

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

The Committee observed that the Company did not have an idea about the profitability of the castings produced by the units and remarked that the castings could have been procured from the market at cheaper rates.

### **Conclusion & Recommendations**

**2. The Committee finds that the Company lacked any idea about the profitability of castings produced by the units. The Committee recommends that the Company should either take measures to increase production of castings or procure them from the market at cheaper rates.**

#### ***Shortfall in production targets and commercial losses***

2.11 Production though below capacity, the Company still did not adhere to delivery schedules fixed by the customers. The Company faced penalty /liquidated damages by the customers (referred to in paragraph 2.25). The Company also lost price variation benefits due to delay in supply (referred to in paragraph 2.23) indicating improper management of resources to ensure uninterrupted production.

[Audit Paragraph 2.11 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2010].

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

The Committee is concerned to note that the Company faced penalty/liquidated damages from customers due to delay in supply.

### **Conclusion & Recommendations**

**3. The Committee recommends that KEL units should scrupulously adhere to delivery schedule fixed by customers.**

#### ***Plant and machine efficiency***

2.12 Investment in plant and machinery and expenditure on repairs and maintenance during the five years 2005-2010 are given below:



(₹ in lakh)

Particulars <sup>2</sup>	Kundara	Mamala	Kasargod	Olavakod
Written down value of plant and machinery (31 <sup>st</sup> March, 2005) <sup>3</sup>	9.83	31.83	213.73	2.24
Additions	15.36	23.60	23.28	.....
Expenditure on repairs and maintenance	5.52	1.44	18.67	.....

There was no substantial upgradation of plant and machinery in Kundara, Mamala and Olavakkod units during the review period. Kundara unit with its foundry of 1947 make machinery was taken over at the instance of Government of Kerala (GoK) in 1963 and was diversified (1974) into the production of Brushless Alternators for Indian Railways and was upgraded to a mechanised one in 1985. The plant layout is not sequential to facilitate movement of raw materials to stage of completion without interference of back tracking to minimise the movements of material handling. A proposal submitted (2008) by the Company for standardisation and modernisation of the Kundara plant involving investment of ₹ 14.88 crore was yet (October 2010) to get approval of GoK. Mamala and Olavakkod also had similar problems. As the Company had not modernised the machinery and reengineered the processes in the units, even the minimum production efficiency could not be achieved in operations.

[Audit Paragraph 2.12 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2010].

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

The Committee is concerned to note that even minimum production efficiency could not be achieved in operations due to the failure of the Company to modernise the machinery and upgrade the process in its units.

### Conclusion & Recommendations

4. The Committee observes that there was no substantial upgradation of plant and machinery in KEL units during the audit period. The Committee recommends that the Company should take steps to modernise the machinery and re-engineer the processes in its units in order to increase production efficiency in operations.

#### Materials management

2.13 To ensure uninterrupted production, various materials used as inputs, such as raw materials, consumables and spares are required to be purchased and made available to the production shop as and when needed. Therefore, efficient management of input materials is of paramount importance for maximising productivity.

The Company had not framed any definite policy for procurement of raw materials and components required in bulk for use with a view to reduce procurement cost. Each unit used to make assessment of the requirements of major raw materials based on production requirement for next two to three months. Enquiries were issued to suppliers as per the list maintained by the purchase department. Limited offers only were received in the case of high value items like lamination, torroidal core etc., as the source of supply was limited. Purchase Committee (PC) was constituted at unit level for making purchase of raw materials valuing upto ₹ 2 lakh and approval of Corporate Office was sought for purchases exceeding ₹ 2 lakh.

Consumption of raw materials was ₹ 42.98 crore and ₹ 81.20 crore at Kundara and Kasaragod units during the review period and it was ₹ 108.05 crore during the last four years ending 2009-10 at Mamala unit.

[Audit Paragraph 2.13 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2010].

The Notes furnished by Government on Audit Paragraph in Appendix II.

The Committee noticed that consumption of raw materials was for ₹ 42.98 crore at Kundara Unit and for ₹ 81.20 crore at Kasaragod Unit. The Committee was at concern to note that the Company did nothing to reduce the procurement cost. The witness replied that Kundara Unit of the Company was basically unviable and even though full capacity was utilized, turn over of ₹ 2 crore could only be achieved from that unit and 60% of the amount invested for the unit was being utilized for disbursing salary and allowance to its labourers. By downsizing the employee strength and through the upgradation of plant and machinery the unit could be made viable. In order to curtail number of employees by implementing VRS in the particular unit, the Company had submitted a proposal of ₹ 18.5 crore which was under consideration of Government. To a query of the Committee, the witness replied that the Kasaragod Unit of the Company was taken over by BHEL.

### **Conclusion & Recommendations**

5. **The Committee is concerned that the Company has not framed a definite policy for procurement of raw materials in bulk with a view to reduce procurement cost. The Committee recommends that the company should frame appropriate policies and systems for procurement and material management.**

#### ***Systemic lapses in purchase***

2.14 The systemic deficiencies such as lack of purchase policy, lapses in placement of purchase orders etc., highlighted at Paragraph No. 2B.6.1 in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March, 1996 are yet to be addressed. Although the value of consumption of raw materials and components had increased from ₹ 34.03 crore in 2005-06 to ₹ 61.40 crore in 2009-10 formal contracts were not entered into with the suppliers to ensure legal validity. The purchase orders did not contain any standard terms and conditions to safeguard the interest of the Company.

We also noticed that the Company paid liquidated damages to its customers for belated supply for want of materials, which could not be passed on to its

suppliers due to absence of proper procurement policy. The deficiencies in the procurement system resulted in the Company incurring extra expenditure in the following instances:—

- Supply of 200 Kilo Litre (KL) of Transformer Oil (TO) to meet the production schedule during January to March 2008 at Mamala unit was not done at agreed rate. The party supplied only 20 KL at the agreed rate and the balance 180 KL was supplied up to July 2008 at higher rate resulting in extra expenditure of ₹ 22.36 lakh.

- In Kundara (Alternator division) considerable delay ranging even up to eight months in getting 'torroidal core' after placement of orders were observed. Similarly there was delay ranging upto six months in getting 'laminations' from regular suppliers. The delay in supply/short supply resulted in interruption of production and loss of 6508 mandays due to idling.

We observed that the unit did not pursue with the suppliers vigorously to minimise delay. The Management replied (August 2010) that working capital shortage was one of the major constraints for timely placement of orders. We observed that the Company had sufficient working capital to manage its raw material requirement but the system of prioritisation of payments to suppliers was not effective due to delay in receipt of payments from its customers.

[Audit Paragraph 2.14 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010].

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

The Committee was concerned to note that the Company faced penalty/liquidated damages from customers due to delay in supply.

### **Conclusion & Recommendations**

**6. The Committee is concerned that the Company faced penalty/liquidated damages from customers due to delay in supply. The Committee points out that the improper management of input**

**materials causing shortfall in the supply of raw materials is the cause of the Company's failure in ensuring uninterrupted production and recommends to take steps to wipe out the flaws in procurement system of raw materials so as to ensure its uninterrupted supply.**

2.15 Inventory control techniques mainly consist of classification of inventory, fixation of minimum, maximum; re-order levels and economic ordering quantity of each item of inventory, identification of slow/nonmoving/obsolete item of inventory, minimising inventory carrying cost and disposal of obsolete/undesired items of inventory etc.

A system of annual physical verification of stock of finished goods and raw materials was in place in all the four units of the Company. Obsolete/slow moving materials valuing ₹ 23.40 lakh were accumulated in two units (Kundara and Kasaragod) for more than five to ten years despite having a system for identifying the same. The Company replied (August 2010) that action to dispose of the materials is being taken.

The Company had been catering to the requirement of various products from institutional as well as individual customers according to their specifications. However, non/delay in lifting of finished goods by the customers within the agreed period in Kundara, Mamala and Olavakkod units led to accumulation (ten to 108 months) of finished goods resulting in blocking of funds amounting to ₹ 86.97 lakh with interest burden of ₹ 40.81 lakh (Annexure 9).

[Audit Paragraph 2.15 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010].

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

The Committee observed that materials valuing ₹ 23.40 lakh were accumulated in Kundara and Kasargod units even after 10 years and delay in lifting of finished goods by the customers within the agreed period in various units resulted in blocking of funds. The Committee was of the opinion that if the Company took necessary steps to remove the accumulated goods within a particular period, a sum of ₹ 127.78 lakhs could have been saved by the Company.

### **Conclusion & Recommendations**

**7. The Committee observes that delay in lifting of finished goods by customers has led to accumulation of obsolete/slow moving materials valuing ₹ 23.40 lakh in Kundara and Kasargod units. The Committee is of the opinion that a sum of ₹ 127.78 lakhs could have been saved by the Company if it had taken necessary steps to remove these accumulated goods. The Committee insisted to avoid such instances in future.**

#### ***Excess consumption of raw materials***

2.16 The norms for consumption of raw material are fixed at unit level. A comparison of actual consumption of major raw materials with the norm fixed revealed that there was excess consumption in respect of four major raw materials in Kundara and Kasaragod units valuing ₹ 1.29 crore during the five years 2005-2010.

Company replied (August 2010) that the raw material might have been consumed for repair and supply of spares used for failed product in Kundara unit. These items could not be segregated and properly accounted for. Out of the total excess consumption of ₹ 1.29 crore 60 per cent pertained to Kasaragod unit. The Management assured (August 2010) that the reasons for excess consumption would be analysed.

[Audit Paragraph 2.16 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010].

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

### Conclusion & Recommendations

#### No Comments.

#### Marketing

#### *Sales performance*

2.17 The budgeted sales, actual sales, sales to major customers, profit/loss in four manufacturing units during 2005-2010 were as follows:

( ₹ in crore)

Year	Particulars	Units			
		Kundara	Mamala	Kasaragod	Olavakkod
2005-06	Budgeted Sales	15.47	29.61	19.10	2.50
	Actual Sales	14.06	22.38	20.36	0.74
	Percentage of actual sales to Budgeted Sales	90.88	75.58	106.60	29.60
	Sales to major customers	11.91	10.34	14.65	..
	Percentage of sales to major customers to total sales	85	46	72	..
	Profit/(loss)	(0.40)	0.35	(0.73)	(0.35)
	2006-07	Budgeted Sales	15.46	29.37	22.55
Actual Sales		15.52	25.00	39.45	0.62
Percentage of actual sales to Budgeted Sales		100.38	85.12	174.94	24.80
Sales to major customers		14.79	9.82	34.56	..
Percentage of sales to major customers to total sales		95	39	88	..
Profit/(loss)		(3.65)	(4.20)	4.78	(0.59)
		Budgeted Sales	20.82	36.58	26.65
	Actual Sales	18.49	34.58	39.49	2.72

2007-08	Percentage of actual sales to Budgeted Sales	88.81	94.53	148.18	84.21
	Sales to major customers	15.07	20.73	35.46	..
	Percentage of sales to major customers to total sales	82	60	90	..
	Profit/(loss)	0.33	1.10	3.20	(0.13)
2008-09	Budgeted Sales	22.77	42.35	34.00	3.00
	Actual Sales	20.24	45.20	33.14	2.43
	Percentage of actual sales to Budgeted Sales	88.89	106.73	97.47	81.00
	Sales to major customers	17.11	19.27	28.70	..
	Percentage of sales to major customers to total sales	85	43	87	..
	Profit/(loss)	0.04	2.19	0.65	(0.36)
2009-10	Budgeted Sales	21.94	47.77	40.76	4.00
	Actual Sales	16.34	63.36	16.71	2.11
	Percentage of actual sales to Budgeted Sales	74.48	132.64	41.00	52.75
	Sales to major customers	11.52	41.30	7.54	..
	Percentage of sales to major customers to total sales	71	65	45	..
	Profit/(loss)	(2.97)	7.27	(2.91)	0.01

It could be seen from the above that provisional accounts of Mamala, Kundara and Kasaragod units had shown operational profits during 2007-2008 and 2008-2009. The achievement of sales in Kundara ranged between 74.48 and 100.38 per cent of targeted sales during the period 2005-2010. Mamala unit achieved more than the targeted sales during 2008-2009 (106.73 per cent) and 2009-2010 (132.64 per cent) and consistently managed higher sales except during 2005-2006 (75.58 per cent) due to reduction in orders from KSEB. Olavakkod unit achieved sales of 29.60 per cent and 24.80 per cent to the budgeted sales during 2005-2006 and 2006-2007 respectively. Better demand from KSEB and



private customers during 2007-2009 increased the actual sales up to 84.21 per cent and 81 per cent of budgeted sales respectively but it came down to 52.75 per cent in 2009-2010. Kasaragod unit achieved 174.94 per cent and 148.18 per cent against the targeted sales during 2006-2007 and 2007-2008 respectively due to the increase in orders from Railways. In 2008-09 and 2009-2010, however, the actual sales decreased to 97.47 per cent and 41.00 per cent respectively due to reduction in orders from Railways.

We observed that the marketing departments of units did not evolve new strategies to increase the customer base with attractive yet remunerative pricing and credit policy. We recommend that the Company should follow market savvy techniques to stay in competition.

[Audit Paragraph 2.17 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010].

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

The Committee noticed with concern that the marketing department failed to introduce customised marketing technique through remunerative pricing and credit policy. The Committee was of the opinion that for the existence of the Company in the competitive world the Company should follow proper marketing strategies.

### **Conclusion & Recommendations**

**8. The Committee observes that the marketing departments of the Company have not evolved new strategies to increase the customer base with attractive and remunerative pricing and credit policy. The Committee recommends that the Company should follow proper marketing strategies and take effective steps to widen the customer base for its products by creating awareness of the quality and brand name of its products.**

#### ***Poor success rate in tenders***

**2.18** The Company had not formulated any policy/guidelines for participating in tenders invited by State Electricity Boards / Utilities, Railways and other customers. Each unit participated independently in tenders floated by the

institutional customers like Indian Railways, State Electricity Boards/Utilities, etc., for supply of standardised products and quoted on the basis of estimate prepared by their marketing departments. We noticed that the success rate in tenders in respect of Mamala unit (Transformer) was 4 to 16 per cent, Kasaragod unit (Alternators) was 6 to 25 per cent and that of Kundara unit was 11 to 27 per cent during the review period. The data in respect of Olavakkod unit was not available. The Company replied (August 2010) that the poor success rate was due to stiff competition from private sector enterprises. It is observed that the Company is losing on orders because of higher fixed costs.

We recommend that the Company must follow a pragmatic policy and may quote for tender above its marginal cost so as to fetch orders and ensure contribution towards recovery of fixed cost as well.

[Audit Paragraph 2.18 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010].

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

The Committee noticed that the Company had not formulated any guidelines for participating in tenders and lost on orders due to the higher fixed costs. The Committee recommends that the Company should always quote for tender above its marginal cost.

### **Conclusion & Recommendations**

**9. The Committee is of the opinion that the Company has not formulated any policy/guidelines for participating in tenders. The Committee feels that the success rate of the Company in tenders is generally low due to higher fixed costs. The Committee recommends that the Company should always quote for tender above its marginal cost in order to fetch sufficient orders.**

#### ***Non- diversification of customer base***

**2.19** The three units viz., Mamala, Kundara and Kasaragod were dependent only on single customer for its sales. In respect of Olavakkod unit the orders were

evenly received from KSEB and private customers.

- Mamala unit derived above 57 per cent of its sales from KSEB during the years 2007-08 and 2009-10. The second major customer of the unit was Tamil Nadu Electricity Board (TNEB) with average share of around 20 per cent of the total sales except in 2007-2008.
- Kundara unit derived 83 per cent of its sales from Indian Railways during 2005-2010. The revenue from sale of castings to Kasaragod unit was on an average three per cent of the total sales. The revenue from other sources constituted an average 14 per cent of the total sales.
- Kasaragod unit derived 86 per cent of its sales from Railways except in 2009-2010 when the sales declined to 45 per cent of the total turnover due to reduction in orders.

The dependence on single customer for the bulk of the sales revenue poses a high risk to the sustainability of the units in the present environment. For example, the sales of Kasaragod unit for the year 2009-10 took a hit due to reduced orders from Indian Railways. We recommend that the Company must expand its customer base to survive in the competitive market.

The Company had not taken any effective action to increase its market share by resorting to marketing/advertisement campaigns etc., in trade journals or Industry manuals etc., to create awareness and interest in its products. The Company is having Regional Offices at Mumbai, Chennai, Delhi, Kolkata, Bangalore and Thiruvananthapuram for marketing and liaisoning purpose and incurred ₹ 2.75 crore towards salaries and administration expenses for the review period of 2005-2010. Apart from this an amount of ₹ 1.33 crore was paid as sales commission to marketing agents. It was noticed that Mumbai and Delhi offices had not procured orders during the review period. Orders were procured through the efforts of marketing departments at unit level by participating in tenders and through private marketing agents appointed on commission basis. The expenditure amounting to ₹ 91.58 lakh on salary and establishment expenses (Delhi ₹ 57.64 lakh and Mumbai ₹ 33.94 lakh) for the five years (2005-2010) did not prove fruitful. The Management failed to monitor the performance of these offices and

the purpose for which these were setup. Management stated (August 2010) that after sales services were being attended to from these offices and staff strength were minimal. We suggest that the Company may fix targets for these offices and a managerial decision may be taken for cost reduction in unproductive areas of marketing.

[Audit Paragraph 2.19 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010].

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

The Committee is surprised that the Company depends only on a single customer for the bulk of its sales revenue and observes that the Company cannot sustain in a competitive environment depending only on a single customer. The Committee also noticed that the Company pays more attention to giving salary and allowances to its officials instead of taking necessary steps to increase its market share.

### **Conclusion & Recommendations**

**10. The Committee is surprised to note that the Company generally depends on a single customer for the bulk of its sales. The Committee is concerned that the Company's regional offices at Mumbai and Delhi had not procured any orders for the Company despite the huge expenditure on salary and establishment expenses at these offices. The Committee recommends that the Company must expand its customer base in order to survive in a competitive market.**

#### ***Diversification activities***

**2.20** The Company appointed (June 2008) M/s Deloitte Touche Tohmatsu India Pvt. Ltd. Chennai to conduct a focused study on the diversification options available for the Company to achieve sustained growth and profitability at a fee of ₹ 11.75 lakh. The study report submitted (March 2009) by M/s Deloitte suggested five diversification options viz., manufacturing of electric motors, power

transformers, 'electrics' for locomotives, wind electric generators and industrial fans / blowers involving capital investment of ₹ 193.23 crore.

The report of M/s Deloitte highlighted the lack of value engineering in products by comparing the gross weight of various ranges of alternators manufactured by the Company to that of its competitors such as Stanford, Elgi and Kirloskar and found that it was in excess by seven per cent to 36 per cent. The consultant had worked out an increase of 26 per cent profit by saving two per cent in material cost by value engineering. The annual savings on material cost was estimated at ₹ 1.17 crore. Management stated (August 2010) that a proposal had been submitted to GoK for financing the diversification and steps have been taken for reduction of raw material cost by negotiating price of supplies.

We observed that though the Company analysed and found the recommendations of consultant financially and technologically feasible (March 2009), it had neither fixed any time frame for implementation of these recommendations nor discussed it with staff.

[Audit Paragraph 2.20 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2010].

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

The Committee observed that the Company had appointed M/s. Deloitte Touche Tohmatsu India Pvt. Ltd., Chennai at a fee of ₹ 11.75 lakh to conduct a focused study on diversification options available for the Company to achieve sustained growth and profitability. According to the study report of the consultant the Company could increase profit by 26% by saving 2% in material cost by value engineering. The Committee was aggrieved to note that even though the Company analyzed and found the recommendation of the consultant financially and technologically feasible, it had neither fixed any time frame for implementing the recommendations nor took any serious discussion on the recommendation.

### Conclusion & Recommendations

11. The Committee notes that the Company had appointed a consultant (M/s. Deloitte Touche Tohmatsu India Pvt. Ltd.) to conduct studies on diversification options available for the Company and found its recommendations financially and technologically feasible. The Committee is surprised to note that the Company is hesitant about implementing these recommendations. The Committee recommends that the Company should conduct a serious discussion on the above recommendations and fix a time frame for implementing the same.

#### *Pricing policy and costing system*

2.21 The Company had not adopted any standard scientific mechanism for evaluation of the terms and conditions of purchase orders of customers while accepting their offer. Each unit finalised the selling price on the basis of rough estimate prepared for the purpose of quotation and subsequent negotiations conducted with the customers but not with reference to actual cost data.

We observed that the Company accepted many works and purchase orders from customers and suffered direct loss due to poor evaluation of terms and conditions and bad costing while bidding:

- The Transformer Division of Mamala unit incurred loss of ₹ 62.78 lakh (Annexure 10) in three cases due to increase in cost of raw materials during execution of orders whereas the price variation was limited to ten per cent.
- Structural Division, Mamala received (September 2008) an order for 26 rail bogie frame from BEML at ₹ 1,32,500 per frame with an estimated contribution of ₹ 3,645 per frame. However, the actual cost of fabrication of a bogie frame came to ₹ 1,76,855 resulting in loss of ₹ 11.53 lakh due to underestimation of labour man hour rate and overheads.

[Audit Paragraph 2.21 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2010].

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

The Committee noticed that each unit of the Company fixed the selling price without taking into account the actual cost data. Moreover the Company accepted works and purchase orders from customers without adopting any standard scientific mechanism for evaluating the terms and conditions of purchase order resulting in direct losses to the Company.

### **Conclusion & Recommendations**

12. **The Committee observes that the Company has not adopted any standard scientific mechanism for evaluation of terms and conditions of purchase orders of customer while accepting their offers. The Committee recommends that the Company should negotiate against unfavorable purchase order conditions imposed by customers and fix selling prices with reference to actual cost data while accepting offers.**

#### ***Unconditional acceptance of tender conditions***

2.22 Structural Division (Mamala) undertook fabrication, supply and erection of various gates on dams/reservoirs. Successful execution of such works within the stipulated period was dependant on completion of civil/electrical works which required involvement of various agencies. Therefore, before undertaking such works, the division had to guard against any possible loss on account of delay in completion due to reasons beyond its control.

We observed that in at least two cases the division accepted the tender conditions without safeguarding its financial interest and resulted in revenue loss of ₹ 41.04 lakh.

- The 'Gate works' of Upper Tunga Project Dam (UTP) for Karnataka Neeravari Nigam Limited (KNNL) - Omission to include enabling provisions for reimbursement of extra expenditure on account of price escalation from the customer resulted in avoidable expenditure of ₹ 20.44 lakh.

- The works of design, fabrication, supply, erection, testing and commissioning of automatic tilting shutters of Bihar State Hydro Electric Power Corporation (BSHEPC), Patna resulted in revenue loss of ₹ 20.60 lakh.

[Audit Paragraph 2.22 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010].

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

The Committee was aggrieved to note that the Structural Division of the Company at Mamala accepted the tender conditions without safeguarding its financial interest and the Company did nothing to minimize the delay which resulted in extra expenditure to the Company.

### **Conclusion & Recommendations**

13. **The Committee is aggrieved to note that the Structural Division of the Company at Mamala accepted tender conditions without safeguarding the financial interests of the Company resulting in revenue loss of ₹ 41.04 lakh to the Company. The Committee insists that the Company should avoid such instances in future.**

#### ***Loss of price variation claims***

2.23 As per the terms and conditions of supply of distribution transformers (Mamala unit) to KSEB, the Company is eligible for price variation (PV) up to a maximum of 10 per cent plus or minus on the basic price of the transformer on account of increase/decrease in price of raw materials during the scheduled period of supply. The Company could not supply the items in time due to non-availability of working capital for procuring raw materials resulting in loss of price variation claims amounting to ₹ 73.41 lakh in five supplies (Annexure 11).

[Audit Paragraph 2.23 contained in the Report of the Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March 2010].

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

The Committee was concerned to note that the non-availability of working capital for procuring raw materials in time resulted in a loss of price variation to a tune of ₹ 73.41 lakhs.



### Conclusion & Recommendations

14. The Committee is distressed to note that the Mamala unit of the Company failed to supply distribution transformers to KSEB in time resulting in loss of price variation claims amounting to ₹ 73.41 lakh to the Company. The Committee observes that the delay was caused due to non-availability of working capital for procuring raw materials. Therefore the Committee directs the Government to allocate adequate funds for meeting the working capital requirement of the Company.

#### *Loss of revenue due to refixation of price:*

2.24 KSEB placed (November 2006) orders for supply of fuse units at ₹ 3.06 crore and additional order (July 2008) valuing ₹ 73.98 lakh (Olavakkod unit). In the event of delay in supply beyond the scheduled delivery period, the price of such materials will be refixed taking into account the market price of such materials on the date of actual supply or at the same price as per the purchase order whichever is lower. On account of the delay in supplying the materials, KSEB invoked the price refixation clause and refixed the price of both the orders and recovered ₹ 55.64 lakh resulting in revenue loss to the Company. The reason attributed for delay was non-availability of funds for procuring raw materials. We observed that the unit had requested for advance of ₹ 50 lakh from KSEB in March 2007 after three months from receipt of PO and the same was received (June 2007) after expiry of delivery schedule.

[Audit Paragraph 2.24 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010].

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

The Committee is concerned to note that the Company incurred a revenue loss of ₹ 55.64 lakh as the price of orders were fixed by KSEB on account of delay in supplying materials within the scheduled delivery period.

### Conclusion & Recommendations

15. The Committee is distressed to note that the delay in supply of fuse units to KSEB by Olavakkod unit of the Company enabled KSEB to invoke a price refixation clause in the agreement resulting in a revenue loss of ₹ 55.64 lakh to the Company.

#### *Loss due to production delays*

2.25 The Company was continuously facing working capital shortage, still it manufactured the products before getting firm commitment from customers and obtaining approval from regulatory authorities. We noticed that due to this anomaly ₹ 15.20 lakh was blocked up.

- The Bangalore Electric Supply Company (BESCOM) placed (August 2003) an order for supply of 1,500 Nos. and additional order (September 2003) for supply of 500 Nos. of 15 KVA distribution transformers at ₹ 19,910 per transformer (Mamala unit). As per the contract, 200 transformers per month had to be supplied from October 2003 and to complete the supply of 1000 numbers by February 2004 and 500 transformers against extension order by May 2004. The division supplied only 115 transformers till December 2004. Hence BESCOM short closed (March 2005) the purchase orders and encashed (April 2005) the Bank guarantee amounting to ₹ 50,000. Due to short closure of the order 80 transformers not lifted by BESCOM costing ₹ 15.20 lakh are remaining in stock for more than five years (March 2005-May 2010) resulting in blocking of funds.
- There was failure in keeping up the delivery schedules of KSEB and Indian Railways resulting in levy of liquidated damages (LD). On retention of LD, the respective units appealed to the concerned parties citing reasons for delay in supply. Upto 2007-2008 the Indian Railways had released ₹ 1.25 crore considering the merit of the case. It was noticed that no refund was received since September 2008 though the unit took up the matter with customer. The table below indicates the amount of LD levied for the supplies made upto 2009-2010.

Unit	Supplies prior to 31-3-2005	2005-06	2006-07	2007-08	2008-09	2009-10	Total
	(₹ in lakh)						(₹ in crore)
Kundara (Railways)	76.93	44.79	32.27	55.65	10.93	3.37	2.24
Kasaragod (Railways)	Nil	5.87	26.43	0.94	4.12	2.50	0.40
Mamala (KSEB)	22.56	6.21	23.91	4.39	0.24	Nil	0.57
<b>Total</b>	<b>99.49</b>	<b>56.87</b>	<b>82.61</b>	<b>60.98</b>	<b>15.29</b>	<b>5.87</b>	<b>3.21</b>

The factors affecting the timely execution of supply orders included shortage of raw materials / components. The procurement was done in small quantities due to working capital constraints depriving the Company of benefit of reduced prices due to bulk buying.

We also observed that the Company was forced to accept orders from its consumers in order to keep its labour force engaged and minimise losses despite knowing that the conditions in POs were not favourable to it.

[Audit Paragraph 2.25 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2010].

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

The Committee is distressed to note ~~that the~~ Company took up orders without obtaining working capital requirement and availability of raw materials which resulted in blocking up of ₹ 15.20 lakh. Low working capital forced the Company to procure small quantities rather than procuring large quantities and reduced rates.

### Conclusion & Recommendations

16. The Committee is distressed to note that the Company took up orders without adequate working capital requirement and availability of raw materials which resulted in blocking up of ₹ 15.20 lakh to the Company. The Committee also observes that low working capital forces the Company to produce raw materials in small quantities rather than in large quantities at reduced rates. The Committee recommends that the Company should mobilise sufficient working capital by taking effective action for timely recovery of dues pending from customers.

### Credit Policy

2.26 The Company had not formulated a corporate credit policy. The units accept purchase orders from the customers and sales effected on the terms and conditions as specified therein, individually and are not part of larger policy. We noticed:

- absence of a simple penalty clause for delay in receipt of sale proceeds.
- non-enforcement of partial advance payment along with PO clause and balance before taking delivery. In the case of limited orders, no price variation clause was included. Units relaxed the terms to maintain sufficient order level. Absence of these terms and conditions resulted in delay in lifting / non lifting of finished goods as discussed in paragraphs 2.25 supra and delay in sales realisation etc. In five cases (Annexure 12) the Company sustained interest loss of ₹ 24.48 lakh due to delay in realisation of dues / delay in lifting.
- There was accumulation of sundry debtors (March 2010) amounting to ₹ 49.90 crore. The unit /age-wise position of debtors is given below:

(₹ in crore)

	<b>Kasaragod</b>	<b>Kundara</b>	<b>Mamala</b>	<b>Olavakkod</b>	<b>Total</b>
<1 year	5.95	6.71	23.12	0.66	36.44
1 to 2 years	0.34	1.23	1.09	0.47	3.13
2 to 3 years	0.44	1.35	1.64	0.01	3.44
>3 years	1.13	1.64	4.08	0.04	6.89
<b>Total</b>	<b>7.86</b>	<b>10.93</b>	<b>29.93</b>	<b>1.18</b>	<b>49.90</b>

There was no substantial reduction of old debts in respect of Mamala and Kasaragod units leading to working capital crunch at these units. Out of ₹ 4.08 crore pending for more than three years in respect of Mamala unit an amount of ₹ 1.19 crore was pending for recovery from KSEB (retention money, price variation claim etc.) for more than three to ten years. Similarly an amount of ₹ 63.97 lakh due from private parties is pending for more than one to three years (Kasaragod, Kundara and Mamala) indicating that management failed to take possible action for improving recovery of dues. The Company replied that a provision for doubtful debts amounting to ₹ 4.18 crore had been created.

We recommend that the Management should take a critical view of its debtors and make greater efforts to realise its dues.

[Audit Paragraph 2.26 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2010].

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

The Committee notices with concern that the marketing department failed to introduce customised marketing techniques through a corporate credit policy.

### Conclusion & Recommendations

17. The Committee observes that the Company has not formulated a corporate credit policy. The Committee is concerned at the accumulation of Sundry debtors and recommends that the Company should take a critical view of its debtors and make greater efforts to realise its dues.

#### Financial Management

##### *Estimation of Funds Requirement*

2.27 To assess the fund requirements, the Company prepared annual financial budgets based on projections regarding purchases, sales and capital expenditure in respect of all manufacturing units.

2.28 Details of working capital of the Company during 2005-10 were as given below: (₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Current Assets</b>			(based on provisional figures)		
Inventory	26.66	18.77	23.16	23.72	20.75
Sundry debtors	18.78	27.06	31.63	41.56	49.90
Cash and bank	0.96	1.41	0.69	0.72	0.81
Loans and advances	4.79	4.43	3.21	2.23	2.16
<b>Total(A)</b>	51.19	51.67	58.69	68.23	73.62
<b>Current liabilities</b>					
Sundry creditors	14.75	10.10	14.64	16.52	23.01
Other current liabilities	16.81	17.11	16.57	19.81	19.00
Provisions	5.63	6.71	6.35	7.03	7.44
<b>Total(B)</b>	37.19	33.92	37.56	43.36	49.45
<b>Working Capital (A-B)</b>	14.00	17.75	21.13	24.87	24.17

In order to tide over the poor working capital position, the Company had cash credit and bill discounting arrangement with a consortium of banks. Accordingly, the units availed the facility to the maximum limit throughout the period. The present Cash Credit (CC) limit of ₹ 15.15 crore was obtained during 1996-97 when the turn over was ₹ 65.88 crore. This limit could not be increased in spite of 60 per cent increase in turn over as the Company was unable to finalise its accounts in time. Low CC limits contributed to paucity of working capital leading to delay in procurement of raw materials for production and opportunities foregone. Other reasons for working capital deficit were poor operational performance and poor recovery of dues from customers.

[Audit Paragraph 2.27 & 2.28 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010].

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

### **Conclusion & Recommendations**

**18. The Committee notices that the low Cash Credit (CC) limits of the Company contributes to paucity of working capital leading to delay in procurement of raw materials for production and loss of opportunities.**

#### ***Non-remittal of statutory dues***

**2.29** As per the provisions of Employees Provident Funds & Miscellaneous Provisions Act, 1952, the employer has to remit the EPF contribution (Employer/Employees' share and administrative expenses) of a particular month by 15th calendar day of the next month.

**2.30** Payment of contribution for the period from April 2005 to January-2010, in respect of three units (Mamala, Kundara and Olavakkod) was continuously defaulted. As per provisions of the EPF Act (section 7 Q), simple interest at the rate of 12 per cent per annum is chargeable for delay in payment of contribution from the due date to the actual date of payment and damages are also leviable (section 14B) for default in payment of contribution at the rate ranging

from 5 per cent to 37 per cent per annum depending upon the period of default. We calculated the liability of the Company for the period April-2005 to Jan-2010 for the damages and penalty as ₹ 1.04 crore.

[Audit Paragraph 2.29 & 2.30 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010].

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

### Conclusion & Recommendations

19. The Committee observes that the payment of EPF contribution of employees in respect of Mamala, Kundara and Olavakkod units of KEL was continuously defaulted for the period from 2005 to 2010, leading to a loss of ₹ 1.04 crore as penal interest and damages levied on the Corporation.

### Manpower Management

2.31 The existing and effective man power of the Company for five years 2005-2010 was given below:

(Manpower in nos)

(Value of production ₹ in crores)

Unit	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Kundara	Existing Man power	370	371	356	350	344
	Effective Man power	346	349	338	332	324
	Value of production	15.44	14.66	21.87	21.70	15.34
Mamala	Existing Man power	293	311	299	293	282
	Effective Man power	279	298	289	284	269
	Value of production	30.28	25.43	41.18	48.40	61.40



<b>Kasaragod</b>	Existing Man power	238	235	230	229	220
	Effective Man power	202	192	192	197	194
	Value of production	17.33	37.37	37.77	32.83	14.72
<b>Olavakkod</b>	Existing Man power	32	36	37	36	34
	Effective Man power	28	30	33	32	30
	Value of production	0.78	0.74	3.29	2.76	1.96
<b>Edarikkod</b>	Existing Man power	5	5	6	6	6
	Effective Man power	25	14	12	13	24
	Value of production	Nil	Nil	Nil	Nil	Nil
<b>Regional Offices and Registered Office</b>	Existing Man power	72	64	64	64	61
	Effective Man power	39	37	39	38	26
<b>Total</b>	Existing Man power	1010	1022	992	978	947
	Effective Man power	919	920	903	896	867

The Company employed 867 employees against the existing strength of 947 as at the end of 31 March 2010. The Company has not done any periodic assessment of the manpower needs and has not fixed any sanctioned strength based on the requirement so far.

It could be seen that the management failed to deploy the manpower at various units in a scientific manner based on the requirements so that overstaffing

or understaffing at units could be avoided. Management had not formulated any policy for redeploying employees between units. Employees were transferred from one unit to another on ad hoc basis. Terms and conditions of services / pay and allowances / incentives to staff and workers, production norms etc. are defined and determined based on Long Term Agreement (LTA) entered into between management and staff/worker's associations. We observed no uniformity of pay and service conditions between units resulting in disparity among employees affecting redeployment. Management commissioned (June 2010) a study by Kerala State Productivity Council to go into job evaluation, assessment of human resources requirement etc.

[Audit Paragraph 2.31 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010].

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

The Committee directed to implement VRS in all Public Sector Undertakings where staff strength in excess including Kundara unit of KEL. The Committee was displeased to note that many daily wage workers were made permanent, based on Cabinet decisions which is against the good interest of the Public Undertakings.

### **Conclusion & Recommendations**

20. The Committee observes that the Company has not conducted a periodic assessment of the manpower needs of the Company and has not fixed any sanctioned strength based on its requirements leading to manpower availability in excess of requirements. The Committee directs to implement VRS in those units where staff strength is in excess, including Kundara unit. The Committee also recommends to stop the practice of making daily wage workers permanent.

### **Low Employee Productivity**

**2.32** One of the major factors that influenced rate of production was work norms fixed in LTA. A comparison of standard mandays required for production with actual mandays utilised including overtime during the five years ending 31/03/2010 are given in Annexure 13. It could be seen from the annexure that average mandays utilised was in excess of standard mandays required for actual production by 107 per cent in Kasaragod, 51 per cent in Mamala and 31 per cent in Kundara during the five years 2005-2010. Despite availability of excess manpower the Company paid overtime wages amounting to ₹ 5.78 crore (2005-2010) which was avoidable. It was further observed that there was no maximum limit fixed for engaging employees on overtime in violation of Section 64 (4) (iv) of Factories Act 1948 which had the impact of low productivity during normal working hours. Instances of abnormal overtime hours worked by employees were noticed. On a test check 53 instances were noticed in Mamala and Kundara units, where overtime worked by an employee in a month (March 2010) ranged from 100 hours to an impossible 204 hours and 101 hours to 190 hours respectively. These number of OT hours were against working hours norms settled in Factories Act.

[Audit Paragraph 2.32 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010].

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

### **Conclusion & Recommendations**

**21.** The Committee notes that the average mandays utilised in KEL units was in excess of standard mandays required for actual production during the period 2005-10. The Committee observes that no maximum limit was fixed for engaging employees on overtime in violation of Section 64(4)(iv) of Factories Act, 1948 which led to low productivity during normal working hours.

## **Internal Controls and Management Information System**

**2.33** Internal Controls and Management Information Systems, financial management, purchase, sales management procedures etc., were found inadequate. Also internal audit did not cover major functional and critical areas like production, yield, material consumption and wastage, productivity as compared to norms as per LTA, break down of machineries and overtime payment, identification of obsolete / non-moving stock of raw materials and finished goods etc. The internal audit reports were not put up to the Board in the absence of Audit Committee for taking corrective action.

[Audit Paragraph 2.33 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010].

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

### **Conclusion & Recommendations**

**22. The Committee observes that Internal Controls and Management Information Systems are inadequate in the company. The Committee recommends that internal audit in the company should cover major functional and critical area like production, yield, material consumption, etc. and internal audit reports should be put up to the Board for taking corrective action.**

### **General Recommendations**

**23. The Committee remarks that unnecessary strikes of trade unions should be avoided at least in loss-making PSUs.**

Thiruvananthapuram,  
26th April, 2017

C.DIVAKARAN,  
*Chairman,*  
*Committee on Public Undertakings.*

## APPENDIX I

## SUMMARY OF MAIN CONCLUSIONS / RECOMMENDATIONS

<b>Sl. No.</b>	<b>Para No.</b>	<b>Department Concerned</b>	<b>Conclusions/Recommendations</b>
1	2	3	4
1	1	Industries	The Committee observes that plant capacity in KEL units is restricted due to improper and non optimal functioning of its machinery. Therefore the Committee recommends that KEL should take measures to upgrade machinery and equipments in order to increase plant capacity in all its units
2	2	Industries	The Committee finds that the Company lacked any idea about the profitability of castings produced by the units. The Committee recommends that the Company should either take measures to increase production of castings or procure them from the market at cheaper rates.
3	3	Industries	The Committee recommends that KEL units should scrupulously adhere to delivery schedule fixed by customers.
4	4	Industries	The Committee observes that there was no substantial upgradation of plant and machinery in KEL units during the audit period. The Committee recommends that the Company should take steps to modernise the machinery and re-engineer the processes in its units in order to increase production efficiency in operations.

1	2	3	4
	5	Industries	The Committee is concerned that the Company has not framed a definite policy for procurement of raw materials in bulk with a view to reduce procurement cost. The Committee recommends that the company should frame appropriate policies and systems for procurement and material management.
6	6	Industries	The Committee is concerned that the Company faced penalty/liquidated damages from customers due to delay in supply. The Committee points out that the improper management of input materials causing short fall in the supply of raw materials is the cause of the Company's failure in ensuring uninterrupted production and recommends to take steps to wipe out the flaws in procurement system of raw materials so as to ensure its uninterrupted supply.
7	7	Industries	The Committee observes that delay in lifting of finished goods by customers has led to accumulation of obsolete/slow moving materials valuing ₹ 23.40 lakh in Kundara and Kasargod units. The Committee is of the opinion that a sum of ₹ 127.78 lakhs could have been saved by the Company if it had taken necessary steps to remove these accumulated goods. The Committee insisted to avoid such instances in future.
8	8	Industries	The Committee observes that the marketing departments of the Company have not evolved new strategies to increase the customer base with

1	2	3	4
			attractive and remunerative pricing and credit policy. The Committee recommends that the Company should follow proper marketing strategies and take effective steps to widen the customer base for its products by creating awareness of the quality and brand name of its products.
9	9	Industries	The Committee is of the opinion that the Company has not formulated any policy/guidelines for participating in tenders. The Committee feels that the success rate of the Company in tenders is generally low due to higher fixed costs. The Committee recommends that the Company should always quote for tender above its marginal cost in order to fetch sufficient orders.
10	10	Industries	The Committee is surprised to note that the Company generally depends on a single customer for the bulk of its sales. The Committee is concerned that the Company's regional offices at Mumbai and Delhi had not procured any orders for the Company despite the huge expenditure on salary and establishment expenses at these offices. The Committee recommends that the Company must expand its customer base in order to survive in a competitive market.
11	11	Industries	The Committee notes that the Company had appointed a consultant (M/s. Deloitte Touche Tohmatsu India Pvt. Ltd.) to conduct studies on

1	2	3	4
			diversification options available for the Company and found its recommendations financially and technologically feasible. The Committee is surprised to note that the Company is hesitant about implementing these recommendations. The Committee recommends that the Company should conduct a serious discussion on the above recommendations and fix a time frame for implementing the same.
12	12	Industries	The Committee observes that the Company has not adopted any standard scientific mechanism for evaluation of terms and conditions of purchase orders of customer while accepting their offers. The Committee recommends that the Company should negotiate against unfavorable purchase order conditions imposed by customers and fix selling prices with reference to actual cost data while accepting offers.
13	13	Industries	The Committee is aggrieved to note that the Structural Division of the Company at Mamala accepted tender conditions without safeguarding the financial interests of the Company resulting in revenue loss of ₹ 41.04 lakh to the Company. The Committee insists that the Company should avoid such instances in future.
14	14	Industries	The Committee is distressed to note that the Mamala unit of the Company failed to supply distribution transformers to KSEB in time



1	2	3	4
			<p>resulting in loss of price variation claims amounting to ₹ 73.41 lakh to the Company. The Committee observes that the delay was caused due to non-availability of working capital for procuring raw materials. Therefore the Committee directs the Government to allocate adequate funds for meeting the working capital requirement of the Company.</p>
15	15	Industries	<p>The Committee is distressed to note that the delay in supply of fuse units to KSEB by Olavakkod unit of the Company enabled KSEB to invoke a price refixation clause in the agreement resulting in a revenue loss of ₹ 55.64 lakh to the Company.</p>
16	16	Industries	<p>The Committee is distressed to note that the Company took up orders without adequate working capital requirement and availability of raw materials which resulted in blocking up of ₹ 15.20 lakh to the Company. The Committee also observes that low working capital forces the Company to produce raw materials in small quantities rather than in large quantities at reduced rates. The Committee recommends that the Company should mobilise sufficient working capital by taking effective action for timely recovery of dues pending from customers.</p>
17	17	Industries	<p>The Committee observes that the Company has not formulated a corporate credit policy. The Committee is concerned at the accumulation of</p>

1	2	3	4
			Sundry debtors and recommends that the Company should take a critical view of its debtors and make greater efforts to realise its dues.
18	18	Industries	The Committee notices that the low Cash Credit (CC) limits of the Company contributes to paucity of working capital leading to delay in procurement of raw materials for production and loss of opportunities.
19	19	Industries	The Committee observes that the payment of EPF contribution of employees in respect of Mamala, Kundra and Olavakkod units of KEL was continuously defaulted for the period from 2005 to 2010, leading to a loss of ₹ 1.04 crore as penal interest and damages levied on the Corporation.
20	20	Industries	The Committee observes that the Company has not conducted a periodic assessment of the manpower needs of the Company and has not fixed any sanctioned strength based on its requirements leading to manpower availability in excess of requirements. The Committee directs to implement VRS in those units where staff strengths in excess, including Kundara unit. The Committee also recommends to stop the practice of making daily wage workers permanent.
21	21	Industries	The Committee notes that the average mandays utilised in KEL units was in excess of standard mandays required for actual production during the period 2005-2010. The Committee observes that no

1	2	3	4
			maximum limit was fixed for engaging employees on overtime in violation of Section 64(4)(iv) of Factories Act, 1948 which led to low productivity during normal working hours.
22	22	Industries	The Committee observes that Internal Controls and management information systems are inadequate in the company. The Committee recommends that internal audit in the company should cover major functional and critical area like production, yield, material consumption, etc. and internal audit reports should be put up to the Board for taking corrective action.
23	23	Industries	The Committee remarks that unnecessary strikes of trade unions should be avoided at least in loss-making PSUs.

## APPENDIX-II

## NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Para No.	Action taken
2.1	N.A
2.2	N.A
2.3	N.A
2.4	N.A
2.5	N.A
2.6	N.A
2.7	N.A
2.8	<p>Edarikode Unit of KEL has adequate basic infrastructure like electric sub-station, captive DG set etc. required for manufacture of conventional and star rated transformers up to 500kVA. The order position is sufficient to run the unit at its full capacity in 2013-14. However, for the sustainability of the unit and to take advantage of the available built up infrastructure at the premises, and to add overall value to the Unit, it is proposed to manufacture Foil wound &amp; Conventional Cast resin Transformer-Unitised Sub Station (CRT-USS)with augmentation of some facilities and machinery. Market study points to a clear shift to cast resin transformers from conventional oil cooled transformers.</p> <p>Company has put up a detailed proposal to Government for setting up a separate</p>

		<p>Division for the manufacture of Cast Resin transformers. Government has agreed to the proposal and sanctioned Rs. 8.5 Crores. On the above Company has received Rs.4.5 Crores as first installment in March 2013. The project is in progress.</p> <p>When the new facility attains its full capacity in the 6<sup>th</sup> year, a turnover of Rs.30 Crores and a profit of Rs.2.52 Crores are estimated.</p>
2.9		<p>Up-gradation of Plant and Machinery is presently being done only on need based manner. Due to shortage of funds, total up-gradation of plant and machinery could not be done at the units. Productivity of the existing machinery is very low due to ageing and obsolescence.</p> <p>The Company has received Rs. 3 Crores in March 2012 as investment loan for Kundara Unit for purchase of machinery. The amount has been utilized for purchasing machinery for balancing the production line and to enhance production capacity.</p> <p>The proposal for upgradation and line balancing of existing Transformer division of Mamala Unit with an outlay of Rs.500 Lakhs was not considered by Govt. due to lack of funds.</p> <p>For collection of over dues, special efforts are being taken, but such collections are required for the day-to-day operations of the units and no surpluses are available for plant upgradation.</p>

	K	Also, with the present financial position of the Company, Banks are reluctant to give any loan for plant upgradation.
2.10	r	<p>To take care of the fluctuating market demand for different products from time to time, it is proposed to diversify the product range. For Mamala Unit, Power Transformer project with an outlay of Rs. 1250 lakhs has been approved by the Government and Project is under progress.</p> <p>The proposal for the revival of Kundara is under active consideration of Govt. The foundry unit at Kundara is presently having an outdated, energy intensive furnace and the production cost with this furnace are much more than industrial norm. Replacement of this furnace with a modern, energy efficient furnace is included in the revival proposal under consideration.</p> <p>The Foundry at Kundara is one of the very few Railway approved Foundries in India. Though the production costs are high, to ensure timely availability of quality castings for the production of Alternators, it is essential to operate the foundry. Once the new furnace is in place, castings can be produced competitively. However, when the foundry is under maintenance or when the unit is unable to arrange raw materials on account of working capital shortage, to meet urgent requirements, castings are procured from other RDSO approved vendors. But, as the production capacity of such RDSO approved vendors are limited, fully depending on such vendors is not advisable.</p>

2.11		<p>Due to working capital crunch, on many occasions, materials could not be arranged for the uninterrupted working at shop-floor that resulted in delayed delivery of products and imposition of LD and non-receipt of eligible higher price as per PVC, etc. Action has now been taken to ensure correct material flow at shop-floor to ensure delivery of goods promptly as per customer requirements to avoid LD.</p>
2.12	A	<p>Since inception, no substantial up-gradation of plant and machinery could be done at Kundara, Mamala and Olavakkod due to lack of sufficient funds. Company had submitted various proposal to the Government for the revamping of Mamala and Kundara Units. As a temporary measure, the Company received Rs. 3 Crores as investment loan for Kundara Unit for purchase of machinery. The amount has utilized for replacement of obsolete machinery. Restructuring proposal for the Unit is under active consideration of the Government.</p> <p>The proposal for the modernisation of Transformer division of Mamala Unit with an outlay of Rs.500 Lakhs was not considered by Govt. due to lack of funds.</p>
2.13	X	<p>Company is having a purchase procedure and inventory management system. To make the inventory management more systematic, implementation of an Enterprise Resource Planning system is proposed and action is already initiated for the implementation.</p> <p>To make the material procurement activities of the Company more transparent and efficient, the e-procurement portal of the Government is</p>

		utilized wherever feasible.
2.14	✓  ✓	<p>Purchase policy and procedures in conformance with the ISO 9001 standard are in place and being followed in all units. Limits for cash purchase, limits for unit level purchase etc. are specified in this policy. Also, as per this policy, for purchase above Rs. 2 lakhs, corporate approval is required and the Corporate Purchase committee at the registered office scrutinizes all such purchases.</p> <p>Also, the Company is following e-procurement system for all tenders above Rs.25 lakhs from March 31<sup>st</sup> 2013.</p>
2.15	✓ ✓	The Company is in the process of implementing ERP package, so that entire activities of the company including inventory management can be efficiently planned, monitored and controlled.
2.16	✓  ✓	The variations are attributable to consumption of material for spares supplied against order and the material consumed for repairs. The process of segregating such raw material consumption in activities other than production of machines is being implemented for better assessment of raw material consumption.
2.17	✓	Greater thrust was given to canvassing private order apart from the traditional institutional orders for transformers. To avoid over dependence on KSEB, attention was also given to procuring orders from neighbouring Electricity Boards like Tangedco in Tamilnadu and Escoms in Karnataka. As a result, against tenders floated by Nadu Generation and Distribution company and Escoms in Karnataka, substantial orders are started receiving for transformers of various ratings. Further tenders are under final stages and more orders in our favour are expected shortly.



		<p>Structural Division of Mamala Unit are getting orders of different types of bridges from State Disaster Management Department, Tourism Department, PWD, Panchayath in addition to gate works for Pazhassi project.</p> <p>Also, diversification projects are under implementation to start manufacturing of new products like Cast Resin Transformers at Edarikkode and Power Transformers at Mamala.</p>
2.18		<p>Employee Cost and other manufacturing cost of the Company are higher than that of other private competitors. Competitors are mainly relying on contract work-force available at a much cheaper rate. When the Company participates in tenders with a price covering all its costs including overheads, it may not succeed in securing orders. Hence in most of the cases a price above variable cost ensuring contribution towards fixed cost is quoted.</p> <p>As a corrective measure, at Kundara Unit, it is proposed to reduce the employee strength and to outsource all non-critical activities, so that the unit can focus only on its core area. By this cost of production can be reduced, production volume can be increased and unit can be made profitable.</p>
2.19		<p>To avoid over dependence on KSEB, attention was also given to procuring orders from neighbouring Electricity Boards like Tangedco in Tamilnadu and Escoms in Karnataka. As a result, against tenders floated by Nadu Generation and Distribution company and Escoms in Karnataka, substantial orders are started receiving for transformers of various ratings. Further tenders are under final stages and more orders in our favour are</p>

		<p>expected shortly.</p> <p>Government has approved the Company's proposal to set up a division at Edarikode Unit to Manufacture Cast resin Transformers and Unitized sub-station (CRSS) up to 1600 KVA at an estimated cost of Rs. 8.5 Crores and released Rs. 4.5 Crores in March 2013 as investment loan for setting up a plant at Edarikode Unit. The work has already started for setting up the Plant.</p> <p>Government has also approved another proposal to set up a division at Mamala Unit to Manufacture Power Transformer up to 10 MVA, with an outlay of Rs. 12.5 Crores and released Rs. 4.0 Crores in March 2013 as investment loan for setting up a plant and the project implementation is under progress.</p> <p>When these projects are commissioned, company can accommodate the fluctuation in market demand for other products like Distribution Transformers and Train Lighting Alternators.</p> <p>Company is maintaining Regional offices to comply with the purchase order condition for Railways, RCF &amp; ICF, where it is mandatory to have service personnel situated at all major cities. For quite sometime these offices were utilised for marketing purpose of company's products especially DG sets. When Company stopped assembling of DG sets, personnel engaged in marketing were redeployed to other units and only skeleton required for after sales service is retained. The office in Mumbai which had 6 personnel including one General Manager in 2005, has only one person in worker category at present. Delhi office which had four personnel including one General Manager has only two workers at present. At</p>
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		present all these offices are manned by service technician/unskilled workers and as such the expenses on this account had been reduced significantly.
2.20	✓	In March 2013, Government has approved two of the company's proposals; 1. to set up a division at Mamala Unit to Manufacture Power Transformers up to 10 MVA at an estimated cost of Rs. 12.5 Crores and 2. Cast Resin Transformer & Unitised sub-stations up to 1600 KVA at Edarikkode with an out lay of Rs. 8.5 Crores. These projects are under implementation and expected to be completed by March 2014.
2.21	✓	The company has already initiated steps for introducing a costing system at all the units and work in this regard is in progress. The company is also implementing project management systems at Structural Division of Mamala unit for evaluation of each project from the tendering stage itself. However, it is pertinent to mention here that in the ultimate analysis, the prices of products are driven by the market and the company has little choice but to match the prices of the competitors. If not, the company will be left with insufficient orders. However, when a proper costing and cost control system is in place and also when the project management system is implemented, Company will be able to canvas orders competitively and run in profit.
2.22	✓	The customers of the Company being Governmental organizations, have

		definite purchase policies and procedures. In their tenders, the company cannot insist their payment conditions, as they are liable to be rejected and hence in normal circumstances the company cannot insist on their credit terms by specifying maximum credit limit. Also the company cannot negotiate the tender conditions with Railways and Electricity Boards. Majority of the customers being Government Institutions like Railways, State Electricity Boards etc. the company cannot insist for relaxation of purchase order conditions in its favour.
2.23	✓	The delay in supply is on account of non-availability of sufficient working capital for procuring the raw materials in time. Even though the company has taken the matter up with KSEB for releasing the PV claim, but the same has not been released by KSEB till date on the basis of purchase order conditions
2.24	✓	The Unit has already taken up the matter with KSEB as well as with the Government. High Power Committee has taken decision in our favour and decided to permit Rs 2.15 Crores
2.25	✓	At the Units operating in loss, non availability of raw materials on account of working capital crunch is a perennial issue. Shop floor activities are interrupted on many occasions due to material shortage and resulted in delayed delivery of products and consequent imposition of LD and non-receipt of eligible higher price as per PVC etc.
2.26	✓	The customers of the company being Government Organizations have definite

		purchase policies and procedures. As such, in their tenders, the company could not insist their payment conditions, as their tenders are liable to be rejected and hence in normal circumstances the company cannot insist on their credit terms by specifying maximum credit limit. Also the company cannot negotiate the tender conditions with Railways and Electricity Boards. Majority of the company's customers being Government institutions like Railways, SEB's etc. they cannot insist for relaxation of purchase order conditions in their favour
2.27		Even though the Company has sufficient orders at present in Mamala, Kundara and Palakkad Units to execute, the sanctioned Cash Credit limit by the Consortium banks are insufficient. Efforts are being taken to enhance the Cash Credit limit commensurate with the turnover envisaged.
2.28		To alleviate the working capital crunch, concerted efforts are being taken to realize the long outstandings to the maximum possible.
2.29		The Company is paying dues of EPF on a current and regular basis except at Kundara Unit. Pending dues of Kundara Unit are being cleared in monthly instalments. Eventhough the company has requested financial assistance from Government for clearing the old statutory dues as a part of the revival package, the Working Group denied the proposal and directed the company to generate own fund for this purpose.
2.30		The dues for the period from April 2005 to January 2010 have already been cleared. Now the Company is paying dues of EPF on a monthly basis except at Kundara Unit. Pending dues of Kundara Unit are being cleared in monthly instalments.
2.31		The employee cost of the Company is high compared to Industrial standards.

		<p>Rationalization of employee strength is in progress. New recruitments are not being done</p> <p>deliberately against the workmen and officers getting superannuated, to reduce the employee cost. In the new projects under implementation also, new recruitment is not envisaged and only deployment of redundant employees from other unit is planned. Also, outsourcing is planned and being implemented as an alternative, to enhance the productivity and increase the turnover.</p>
2.32	✓	<p>Productivity prevailing at the Units is far below the Industrial norms. Work Study and implementation of Incentive scheme are being initiated to enhance the productivity. Also to limit the over time hours as stipulated in the Factories Act, outsourcing of non critical components is being enhanced to the maximum extent possible.</p>
2.33		<p>Actions are initiated for the implementation of an Enterprise Resource Planning (ERP) system in the Company. On implementation of the ERP system, functioning of all departments including FINANCE, PURCHASE &amp; SALES MANAGEMENT will become more efficient. Proper Management Information System (MIS) reports can also be generated from the ERP system for efficient monitoring and control of the operations of the Company as a whole.</p>

**Annexure 7**  
**Statement showing unit-wise production performance of Kerala Electrical and Allied Engineering Company Limited**  
*(Referred to in paragraph 2.10)*

Unit Product	Kundara		Mamala		Olavakkod	Kasargod
	Brush less Alternators	Castings	Distribution transformer	Structural and civil work	Electrical accessories	DG sets and Alternators
Installed capacity	2040 nos (15900 KW)	1500 MT	5 lakh KVA	1200 MT	4.44 lakh nos	3000 nos
Budgeted Production	960*	Not budgeted	419750 KVA	₹ 670 lakh	₹ 250 lakh	781
Actual Production	9604.26 KW 808 nos (₹ 15.09 crore)	407 MT (₹ 35.46 lakh)	327175KVA (₹ 2463.98 lakh)	323.51 MT (₹ 563.88 lakh)	42546 nos (₹ 78.33 lakh)	858 (₹ 1732.64 lakh)
% of budgeted production to installed capacity	47	NA	84	NA	NA	26
% of actual production to budgeted production	90	NA	78	84	31	110
% of actual production to installed capacity	43	27	65	27	10	29
Budgeted Production	840	₹ 15 lakh*	296385 KVA	₹ 815.04 lakh	₹ 250 lakh	737
Actual Production	9646.9 KW 859 nos (₹ 14.53 crore)	347 MT (₹ 13.38 lakh)	239858KVA (₹ 2121.80 lakh)	319.83MT ₹ 421.14 lakh	26701 nos (₹ 74.15 lakh)	858 nos (₹ 2776.51 lakh)
% of budgeted production to installed capacity	41	NA	59	NA	NA	25
% of actual production to budgeted production	102	89	81	52	30	116
% of actual production to installed capacity	42	23	48	27	6	29
Budgeted Production	900	₹ 24 lakh	351480 KVA	₹ 1015.32*	₹ 323 lakh	751
Actual Production	19561.9KW 766 nos (₹ 21.69 crore)	433 MT (₹ 18.49 lakh)	416467 KVA (₹ 3777.26 lakh)	251.15 MT (₹ 340.66 lakh)	93948 nos (₹ 328.94 lakh)	641 nos (₹ 3777.35 lakh)
% of budgeted production to installed capacity	44	NA	70	NA	NA	25
% of actual production to budgeted production	85	77	118	34	102	85
% of actual production to installed capacity	38	29	83	21	21	21

\* Budgeted production represents number of alternators only whereas actual production (in KW) includes alternators and spares, hence not comparable

\*\* Installed capacity in value terms is not ascertainable hence not comparable

\*\* Figures include value of civil work undertaken from 2007-08 onwards

Unit Product	Kundara		Mamala		Olavakkod	Kasargod
	Brush less Alternators	Castings	Distribution transformer	Structural and civil work	Electrical accessories	DG sets and Alternators
Installed capacity	2040 nos (15900 KW)	1500 MT	5 lakh KVA	1200 MT	4.44 lakh nos	3000 nos
Budgeted Production	1105	₹ 60 lakh	363980 KVA	₹ 1010.76	₹ 300 lakh	916
Actual Production	13391.2KW 753 nos (₹ 21.64 crore)	432 MT (₹ 5.76 lakh)	479054 KVA (₹ 4364.65 lakh)	114.4MT (₹ 475.06 lakh)	95293 nos (₹ 275.51 lakh)	696 (₹ 3283.14 lakh)
% of budgeted production to installed capacity	54	NA	73	NA	NA	31
% of actual production to budgeted production	68	10	131	47	92	76
% of actual production to installed capacity	37	29	96	10	21	23
Budgeted Production	1030	750 MT	409459 KVA	₹ 650 lakh	₹ 370 lakh	849 Nos
Actual Production	1199.65 KW 1207 nos (₹ 15.34 crore)	452 MT	731545 KVA (₹ 5593.42 lakh)	418.18 MT (₹ 546.75 lakh)	₹ 195.89 lakh	637 nos (₹ 1472.02 lakh)
% of budgeted production to installed capacity	50	50	82	NA	NA	28
% of actual production to budgeted production	117	NA	179	84	53	75
% of actual production to installed capacity	59	30	146	35	NA	21



**Annexure 8**  
**Statement showing capacity utilisation of Kundara Foundry unit of Kerala**  
**Electrical and Allied Engineering Company Limited**  
*(Referred to in paragraph 2.10)*

Year	Installed Capacity (MT)	Actual Production (MT)	% of actual production to installed capacity	Raw Material cost for Production (₹)	Wages & overtime (₹)	Power Charges (₹)	Maintenance Exps. (₹)	Total Cost of Production (₹)	Total Cost/ Kg (₹)	Selling Price per Kg (₹)
15-06	1500	407	27	7179480	3736421	5219296	3494	16138691	39.65	37
16-07	1500	347	23	7342520	4291847	4658329	2250	16294946	46.96	37
17-08	1500	433	29	8862510	5134809	5222336	11600	19232255	44.42	45
18-09	1500	432	29	11547360	6014507	6123340	25000	23710207	54.88	49
19-10	1500	452	30	11114680	5227167	3389187	0	19731034	43.65	55

**Annexure 9**  
**Statement showing finished goods in stock of Kerala Electrical and Allied Engineering Company Limited**  
*(Referred to in paragraph 2.15)*

Unit	Item	Qty.	Value ₹ in lakh	Lying since	As on	Delay in Months	Interest @ 14.5% (₹ in lakh)
dara	83 KVA GFA	1	0.55	31/03/2006	31/03/2010	48	0.32
dara	SKW Alternator	1	1.57	31/03/2006	31/03/2010	48	0.91
dara	2.5 KW Alternator	20	14.75	31/12/2008	31/03/2010	15	2.66
akkod	Items	21	0.73	31/03/2006	31/03/2010	48	0.42
ala	BPL (1263)/1999-2000	1	4.25	31/03/2001	31/03/2010	108	5.55
ala	BESCOM (2008)	80	15.20	31/03/2005	31/03/2010	60	11.02
ala	ICOM Tele Ltd (2088)	1	0.60	31/03/2005	31/03/2010	60	0.44
<b>I(A)</b>			<b>37.65</b>				<b>21.32</b>

**Finished goods lifted after a minimum of Ten months from date of production (Mamala)**

Unit	SO	Customer	Qty.	Value ₹ in lakh	Ready on	Lifted	Delay in Months	Interest @ 14.5% (₹ in lakh)
ala	1874	KPTCL/2000-01	3	2.28	Jan-02	Feb-08	73	2.01
ala	1909	Agricultural University/2000-01	5	8.00	Jan-02	Nov-06	58	5.61
ala	2067	Quilon consulting Enge/ 2001-02	1	1.47	Jan-03	Feb-07	49	0.87
ragod	A25507	Bharat Heavy Electricals Ltd	1	13.85	May-06	Sept-09	40	6.69
ala	2262	Guruvayoor Devaswam/2003-04	1	7.57	Mar-06	Mar-08	24	2.20
ala	2343	Ananthapuri Hospital/2006-07	1	13.85	Jan-08	Dec-08	10	1.67
ala	2474	N Sreekandan/2006-07	1	2.30	Mar-08	Aug-09	16	0.44
<b>B</b>				<b>49.32</b>				<b>19.49</b>
<b>I(A+B)</b>				<b>86.97</b>				<b>40.81</b>

## Annexure 10

Statement showing loss incurred due to increase in cost of raw materials in  
Kerala Electrical and Allied Engineering Company Limited  
(Referred to in paragraph 2.21)

Qty. (Nos)	KEL Readiness date	Raw Material cost per Transformer at the time of tender ₹	Price variation in % of R.M. at the time of readiness	Price Variation of Raw material ₹	Total RM cost ₹	Other Cost per Transformer ₹	Total Cost per Transformer ₹	Total cost of supplied Transformer (₹ in lakh)
KSEB PO TCM 172/2004-05/4548 dated 17.01.2005								
6	Apr-05	78455	26.75	20987	99442	4637.45	104079.45	6.25
41	May-05	78455	30.63	24031	102486	4637.45	107123.45	43.92
24	Jun-05	78455	30	23537	101992	4637.45	106629.45	25.59
29	Jul-05	78455	37.16	29154	107609	4637.45	112246.45	32.55
100							Total Cost ₹	108.31
							Sales price	100X96309
							Loss	12.00
							Add penalty	2.49
							Total loss	14.49
KSEB PO TCM 210/05-06/5117 dated 24.01.2006								
12	Aug-06	78455	62.99	49419	127874	4637.45	132511.45	15.90
13	Sep-06	78455	63.32	49678	128133	4637.45	132770.45	17.26
25							Total Cost ₹	33.16
							Sales price	25X96309
							Loss	9.08
							Add penalty	1.01
							Total loss	10.09
KSEB PO TCM 153/05-06-3872 dated 11.11.2005								
40	Feb-06	46115	67.51	31132	77247	7903	85150	34.06
34	Mar-06	46115	66.11	30487	76602	7903	84505	28.73
24	May-06	46115	74.22	34227	80347	7903	88245	21.18
28	Jun-06	46115	76.37	35218	81333	7903	89236	24.99
74	Jul-06	46115	78.66	36274	82389	7903	90292	66.81
200							Total Cost ₹	175.77
							Sales price	200X69500
							PV claimed	5.14
							Total revenue received	144.14
							Loss	31.63
							Add penalty	6.57
							Total loss	38.20
<b>Grand total</b>								<b>62.78</b>

## Annexure 11

**Statement showing delay in supply of distribution transformers and consequent loss of price variation in Kerala Electrical and Allied Engineering Company Limited**  
(Referred to in paragraph 2.23)

Sl. No.	KSEB Purchase order	Delivery schedule	Actual Delivery	No of Transformers	Basic Rate of Transformer (₹)	Price variation in %	Maximum on Price variation % eligible	Price variation eligible per transformer (₹)	Revenue foregone (₹ in lakhs)
Supply of 800 nos 160 KVA									
	TA.32/Ele 20/2003-04/Retender I KEL (118)/4272 dated 7-2-2004	March 2005	April 2005	160	69500	26.97 (March 2005)	10	6950	11.12
			May 2005	46	69500	26.97	10	6950	2.78
			Total	206					6950
Supply of 200 nos 160 KVA (25% additional quantity against the above order)									
	TCM 153/05-06/3872 dated 11-11-2005	March 2006	May 2006	10	69500	67.51 (March 2006)	10	6950	0.70
			June 2006	14	69500	67.51	10	6950	0.97
			July 2006	58	69500	67.51	10	6950	4.03
			Aug 2006	44	69500	67.51	10	6950	3.06
			Total	126					6950
Supply of 1400 nos 100 KVA									
	TA.32/TCM 106/2005-06/2623 dated 24-8-2005	June 2006	July 2006	100	63675	21.15 (June 2006)	10	6367.50	6.37
			Aug 2006	100	63675	21.15	10	6367.50	6.37
			Sept 2006	102	63675	21.15	10	6367.50	6.49
			Oct 2006	110	63675	21.15	10	6367.50	7.00
			Nov 2006	133	63675	21.15	10	6367.50	8.47
			Dec 2006	63	63675	21.15	10	6367.50	4.01
	Total	608					6367.50	38.71	
Supply of 100 nos 250 KVA									
	No TCM 172/2004-05/4548 dated 17-1-2005	June 2005	May-2005	47	96309	30 (June 2005)	10	9630.90	4.53
			June-2005	12	96309	30	10	9630.90	1.16
			July-2005	12	96309	30	10	9630.90	1.15
			Aug-2005	29	96309	30	10	9630.90	2.79
			Total	100					9630.90
Supply of 25 nos of 250 KVA (25% additional quantity against the above order)									
	TCM 210/2005-06/5117 dated 24-1-2006	March 2006	Aug-2006	12	96309	51.62 (March 2006)	10	9630.90	1.16
			Sep-2006	13	96309	51.62	10	9630.90	1.25
			Total	25					9630.90
<b>Total loss</b>									<b>73.41</b>

## Annexure 12

**Statement showing loss of interest due to delay in collection of sales proceeds and  
delay in lifting finished goods in Kerala Electrical and Allied Engineering  
Company Limited  
(Referred to in paragraph 2.26)**

Order date	Date of delivery	Value (₹)	Amount received (₹)	Date of receipt	Delay in days	Interest loss @ 14.50% (₹ in lakh)
<b>A. Delay in collection of sales proceeds</b>						
<b>1. Rail Coach Factory, Kapurthala. (Kasaragod unit)</b>						
21/05/2007	31/10/2007	1365287	0		882	4.78
06/08/2007	17/11/2007	1365287	1337244	20/03/2010	854	4.63
06/02/2008	10/07/2008	1341142	1341142	23/03/2010	621	3.31
<b>2. Paras Electricals Ltd (Kandara unit)</b>						
31/03/2005		414387	0	0	1826	3.01
31/07/2007	22/04/2008	2910959	2910959	12/06/2008	51	0.59
	28/06/2008	1801686	1500000	31/10/2008	125	0.89
	balance	301686	301686	16/01/2009	202	0.24
	30/08/2008	1801686	1000000	09/06/2009	283	2.03
	balance	801686			295	0.94
<b>3. Paras Electricals (Kasaragod unit)</b>						
17/02/2009	31/03/2009	487548	0		365	0.71
<b>4. Amith Industrial suppliers (Mamala unit)</b>						
17/07/2008	31/10/2008	1030000	1000000	21/01/2009	82	0.34
	balance	930000	0		648	2.39
<b>B. Delay in lifting finished goods</b>						
Order date	Ready on	Amount blocked (₹)	Amount received (₹)	Date of lifting/receipt	Delay in days	Interest loss @ 14.50% (₹ in lakh)
<b>5. Kizhakkebhagam Agro Mills (Mamala)</b>						
14/11/2007	0	0	25000	16/11/2007	-49	0
	04/01/2008	715000	345000	31/01/2008	27	0.08
	31/01/2008	370000	100000	25/08/2008	207	0.30
	25/08/2008	270000	100000	05/09/2008	11	0.01
	05/09/2008	170000	170000	13/08/2009	342	0.23
<b>Total</b>						<b>24.48</b>

**Annexure 13**  
**Statement showing excess man days with reference to actual production in**  
**Kerala Electrical and Allied Engineering Company Limited**  
*(Referred to in Paragraph 2.32)*

	2005-06	2006-07	2007-08	2008-09	2009-10	Total
<b>Kundara (Alternator Division)</b>						
Actual production In number	2134	2144	2347	2976	2266	11867
Actual production In KW	9604	9647	10562	13391	10199	53403
Mandays required	43056	43257	47353	60044	45719	239429
Actual mandays	55200	55800	52500	51900	50700	266100
OT days	8306	7167	10865	10983	9213	46534
Total mandays	63506	62967	63365	62883	59913	312634
Excess mandays	12144	12543	5147	-8144	4981	73205
Percentage of excess mandays to total required mandays						31
<b>Mamala (Transformer Division)</b>						
Actual production In number	2716	1615	3079	2443	6257	16110
Actual production In KVA	327175	239858	416467	479054	730545	2193099
Mandays required	31113	20359	37289	35977	71589	194327
Actual mandays	50700	53100	51900	51000	49500	256200
OT days	5326	2744	10163	9192	9172	36597
Total	56026	55844	62063	60192	58672	292797
Excess mandays	24913	35485	24774	26215	-12917	98470
Percentage of excess mandays to total required mandays						51
<b>Kasaragod</b>						
Actual production In number	858	858	641	696	621	3674
Mandays required	21184	22642	20090	19692	17745	101353
Actual mandays	37500	36300	39600	39900	39900	193200
OT days	4910	5855	2513	1633	1519	16430
Total	42410	42155	42113	41533	41419	209630
Excess mandays	21226	19513	22023	21841	23674	108277
Percentage of excess mandays to total required mandays						107

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