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FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2023-2026)**

TWELFTH REPORT
(Presented on 1-2-2024)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2024

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TWELFTH REPORT
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On

The action taken by Government on the Recommendations contained in the Thirty Third Report of the Committee on Public Undertakings (2016-2019) relating to Kerala Electrical and Allied Engineering Company Limited, based on the Report of the Comptroller and Auditor General of India for the year ended 31st March 2010

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COMMITTEE ON PUBLIC UNDERTAKINGS

(2023-2026)

COMPOSITION

Chairman:

Shri E. Chandrasekharan.

Members:

Shri A.P. Anilkumar

Shri Anwar Sadath

Shri Ahammad Devarkovil*

Shri T. V. Ibrahim

Shri P. Mammikutty

Shri K. P. Mohanan

Shri D. K. Murali

Shri P. Nandakumar

Shri Kadakampally Surendran

Shri P. Ubaidulla.

Legislature Secretariat:

Shri Shaji C. Baby, Secretary-in-charge

Shri Venugopal R., Joint Secretary

Smt. Jayasree M., Deputy Secretary

Shri Mohanan O., Under Secretary.

* In the vacancy of Shri K.B. Ganesh Kumar sworn in as Transport Minister w.e.f. 16-1-2024

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2023-2026) having been authorised by the Committee to present the Report on their behalf, present this Twelfth Report on the Action Taken by Government on the Recommendations contained in the Thirty Third Report of the Committee on Public Undertakings (2016-2019) relating to Kerala Electrical and Allied Engineering Company Limited, based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2010.

The Statement of Action Taken by the Government included in this Report was considered by the Committee at its meetings held on 4-1-2019 and 7-6-2022.

This Report was considered and approved by the Committee at its meeting held on 26-8-2023.

The Committee place on record their appreciation for the assistance rendered to them by the Accountant General (Audit), Kerala, in the examination of the Action Taken Statements included in this Report.

Thiruvananthapuram,
1st February 2024.

E. CHANDRASEKHARAN,
*Chairman,
Committee on Public Undertakings.*

REPORT

This Report deals with the action taken by Government on the recommendations contained in the Thirty Third Report of the Committee on Public Undertakings (2016-2019) relating to Kerala Electrical and Allied Engineering Company Limited, based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2010.

The Thirty Third Report of the Committee on Public Undertakings (2016-2019) was presented to the House on 18th May 2017. The Report contained 23 recommendations and the Government furnished replies to all the recommendations.

The Committee considered the replies received from the Government at its meetings held on 4-1-2019 and 7-6-2022.

The Committee accepted the replies to the recommendations in Para Nos. 2, 3, 6, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 21, 22 and 23 without remarks. These recommendations and the replies furnished by the Government form Chapter I of this Report.

The Committee accepted the replies to the recommendations in Para Nos. 1, 4, 5, 7, 11 and 20 with remarks. These recommendations, the replies furnished by the Government and remarks of the Committee form Chapter II of this Report.

CHAPTER – I

REPLIES FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE WITHOUT REMARKS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations	Action Taken by the Government
(1)	(2)	(3)	(4)	(5)
1	2	Industries Department	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.	As the cost of castings produced at the Foundry division of Kundara unit in more than that of the other market players, it is not feasible to cater to the general market. Hence the Foundry unit is being utilized to cater to only the captive requirement of Company.
2	3	Industries Department	The Committee recommends that KEL units should scrupulously adhere to delivery schedule fixed by customers.	Due to working capital crunch, on many occasions, raw materials could not be arranged for the uninterrupted working at shop- floor that resulted in delayed delivery of products. 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.
3	6	Industries Department	The Committee is concerned that the Company faced penalty/liquidated damages from customers due to delay in	Due to working capital crunch, on many occasions, raw materials could not be arranged for the uninterrupted working at

			<p>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.</p>	<p>shop- floor which resulted in delayed delivery of products and imposition of LD. Action has been taken to ensure correct material flow at shop-floor in order to make delivery of goods promptly as per customer requirements to avoid LD.</p>
			<p><u>Additional Information sought by the Committee on Para Nos. 2, 3 & 6</u></p> <p>Committee observes that the action taken report furnished on these paragraphs according to are not the recommendations and hence directed to furnish reply by including the upto date details.</p>	<p>2) Foundry Division of the Kundara Unit was primarily engaged in the production of main components of the brushless alternator being manufactured at the Unit for Indian Railways. Castings, including alternator pulleys, were produced from the foundry of this division. A Mains Frequency Induction Furnace is installed in this foundry. As the metal takes longer to melt in Mains Frequency Induction Furnace, electricity consumption per Kg output is high and the productivity is low. For melting a kilogram of metal in the furnace, electricity charge is around ₹10 to ₹12. At the same time, as the casting suppliers are using high frequency induction furnace their electricity consumption costs only ₹ 4 to ₹ 6 per Kg output. Hence, buying casting from outside is much profitable than producing in</p>

				<p>our foundry. As it is not viable to run profitably, the foundry operation has been temporarily stopped.</p> <p>3,6) KEL's Mamala unit received orders worth ₹88 crores during 2017-18 from M/s .Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) for the supply of transformers and expecting additional 25% orders. But in the absence of working capital, company had applied for a loan of ₹ 40crore from KSPIFC. But after complying all the procedural formalities of KSPIFC, company received the loan only after six months. Due to this delay, company couldn't achieve full production to meet the delivery schedules and incurred of LD during this period. After getting the loan, materials are made available and the transformers are supplied. Also, action has been taken to get LD waived. The company has already completed orders worth ₹ 88crore.</p>
4	8	Industries Department	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 company has already decided to strengthen the Marketing Department and to spend more for advertisement and publicity to improve awareness and create brand equity for their products. The company has

			<p>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.</p>	<p>intensified market efforts outside the state and as a result of this now orders are being received for transformers from Karnataka, Tamilnadu etc.,</p>
5	9	Industries Department	<p>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.</p>	<p>The manufacturing cost of the Company is 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. The Company's customers being Governmental Organizations have definite purchase policies and procedures. Also company cannot negotiate the tender conditions with Railways and Electricity Boards, Majority of customers being Government Institutions like Railways, SEBS etc. company cannot insist for relaxation of purchase order conditions in their favour.</p>

6	10	Industries Department	<p>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.</p>	<p>As major customers of the company are Government Establishments, order booking are through tender/ e-tender and hence involvement of regional offices in order canvassing is minimal. Regional offices are utilized mainly to liaison with customers and to attend to any service calls. The regional offices of the company are also entrusted with the payment follow up in respect of their region.</p> <p>The company has taken numerous steps to expand its customer base as per the recommendation of the committee. As part of this exercise company have also intensified market efforts outside the state and as a result of this now orders are being received for transformers from Karnataka, Tamilnadu etc. Recently company has received bulk transformer orders worth Rs.3.2 crores from a private party at Karnataka. The structural division at Mamala unit is receiving orders from various Government departments like PSC, SC/ST, LSGD, Tourism and various universities for the execution of various works like bridges, construction works, interior works etc. Kundara unit is also getting orders like DG set, High mast lighting system, solar panel related works.</p>
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				As part of developing new products/strategies to increase turnover and customer base, company had commissioned new plant at Edarikode unit for the manufacture of Cast Resin Transformers.
7	12	Industries Department	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.	The customers of the company being Government Organizations have definite purchase policies and procedures. In their tenders, if a bidding company should insist payment conditions different from the tender conditions, their tenders are liable to be rejected and hence in the normal circumstances company cannot insist its credit terms by specifying maximum credit limit. Also company cannot negotiate the tender conditions with Railways and Electricity Boards. Neither can it insist for relaxation of purchase order conditions in its favour.
8	13	Industries Department	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.	In the case of structural works, the delay in completion is mainly on account of the delay in civil works. Claims for price escalation are being submitted on completion of the project. In most of the cases, the Division gets the additional claims. However, if Price Variation clause or any other conditions are stipulated while quoting, quotations are liable to get rejected. Presently, while participating in tenders, the company's interests are safeguarded to the maximum extent.

9	14	Industries Department	<p>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.</p>	<p>The delay in supply is on account of non availability of sufficient working capital for procuring the raw materials in time. Even though company have pursued the matter with KSEB for releasing the PV claim, the same has not been released by KSEB till date on the basis of purchase order conditions. Due to working capital crunch, material could not be arranged for the uninterrupted working at shop floor on many occasions and which had resulted in delayed delivery of products and consequent imposition of LD and non-receipt of eligible higher price as per PVC, etc.</p> <p>Action has now been taken to ensure correct material flow at shop floor and to ensure delivery of goods as per customer requirements to avoid LD. Decision has also been taken not to accept orders that may not be profitable just for the sake of engaging workforce.</p> <p>The proposals submitted by the company for working capital support, extension of Government Guarantee and fresh Government Guarantee are under the consideration of Govt. Government have released an amount of Rs.1 crore to the company for settling PF dues.</p>
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10	15	Industries Department	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.	The unit has already supplied full fuse units to KSEB and taken up the matters with KSEB as well as with high Power Committee and the request has been rejected by the High Power Committee.
11	16	Industries Department	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>Action has now been taken to ensure correct material flow at shop floor and to ensure delivery of goods as per customer requirements to avoid LD. Decision has also been taken not to accept orders that may not be profitable just for the sake of engaging workforce.</p> <p>Majority of the customers being Government Institutions like Railways, SEBS etc. collection at each unit is monitored by the Head Office on a daily basis. The performance of collection is also reviewed with the Unit Heads and other Officers frequently. The regional offices of the company are also entrusted with the payment follow up in respect of their region. Company have also engaged marketing agents for the speedy collection of payments.</p>

12	17	Industries Department	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.	Majority of the customers being Government Institutions like Railways, SEBs etc. collection at each unit is monitored by the Head Office on a daily basis. The performance of collection is also reviewed with the Unit Heads and other Officers frequently. The regional offices of the company are also entrusted with the payment follow up in respect of their region. Company have also engaged marketing agents for the speedy collection of payments.
13	18	Industries Department	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.	Even though the turnover and operations have increased much during the last four years, company could not enhance the working capital limits sanctioned by the consortium of banks, on account of negative net worth. The company is still operating with a CC limit of ₹17.65 crores only, in spite of the fact that the turnover has exceeded ₹100 crores during the last three years as against an average annual turnover of only ₹ 55 crores during the years preceding the previous three years Company have approached various banks and financial institutions to take over existing loan with less interest rate. But the request of the company was turned down due to negative net worth.

14	19	Industries Department	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.	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 installments.
15	21	Industries Department	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 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.	On many occasions, due to working capital crunch, material could not be arranged for the uninterrupted working at the shop-floor that has resulted in idling/ underutilization of manpower. Ironically, on arrival of material, workmen are engaged on overtime to meet the production targets. Action has now been taken to ensure correct material flow at shop-floor and to limit the OT as stipulated in the Factories Act.
16	22	Industries Department	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.	Company have already initiated Enterprises Resource planning (ERP) software system at Mamala unit and its implementation is in progress. In the implementation of ERP system is envisaged for making the MIS, finance, purchase & sales management more efficient. Company have already constituted Audit committee and holding meeting periodically to review audit qualifications.
17	23	Industries Department	The Committee remarks that unnecessary strikes of trade unions should be avoided at least in loss- making PSUs.	Company is regularly giving awareness to employees by conducting periodic training programs.

CHAPTER – II

REPLIES FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE WITH REMARKS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations	Action Taken by the Government
(1)	(2)	(3)	(4)	(5)
1	1	Industries Department	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	Up-gradation of Plant & Machinery is presently being done only on a need based manner. Due to shortage of funds, total up-gradation of plant and machinery could not be done Govt. have sanctioned an amount ₹ 18 crores towards refurbishment and modernization of plants to replace the old and obsolete machinery being used at manufacturing units at Kundara and Mamala (vide G.O(Rt) No.1120/17/ID dated 3-8-17. Out of this an amount of Rs 3.60 crores has been released during September 2017. The modernization work is currently in progress.

2	4	Industries Department	<p>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.</p>	<p>Since inception, no substantial up-gradation of plant & machinery could be done at Kundara, Mamala and Olavakkod due to lack of sufficient funds. Government have sanctioned an amount 18 crores in Sept.2017 towards refurbishment and modernization of plants to replace the old and obsolete machinery being used at the manufacturing units in Kundara and Mamala. Out of this, an amount of Rs 3.60 crores has been released during September 2017. The modernization work at Kundra and Mamala unit is in progress.</p>
			<p><u>Additional Information sought by the Committee on Para Nos. 1 & 4</u></p> <p>Committee expresses its displeasure that the company could not utilize the fund allotted by Government vide order dated 3-8-2017 in a proper way. Committee observes that when fund is allotted for modernisation of the company the utilization of the same must be specific and the resultant upgradation percentage should be mentioned in the action taken report. Hence the committee recommended for clear and specific reply on the recommendations of committee.</p>	<p>In the budget for the year 2017-18 an amount of ₹18crore was allotted for the renovation/ diversification of Kundara and Mamala Units of Company. Out of this, ₹5.6crore had been allotted as first instalment (₹ 3.23 crore for Kundara Unit and ₹ 2.37crore for Mamala Unit). Work is being carried out on priority basis with the available funds. The details of machines purchased is included as Annexure. The company has utilized the fund only for the purpose of the above revival diversification activities. Approximately 25% of the renovation/diversification work envisaged has been completed. The company's turnover in 2017-18 has increased from ₹ 95.53crore to ₹169crore in 2018-19.</p>

Remarks : The Committee observe that even though ₹ 18 crore was allocated in the 2017-18 budget, only ₹ 5.6 crore was spent for the renovation/diversification of Kundara and Mamala units and that only 25% of the work was completed. The Committee direct to furnish a detailed report on whether entire work was completed and whether the remaining ₹12.4 crore of the budget allocation has been utilized for the purpose.

3	5	Industries Department	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.	Due to the variant and diverse nature of raw materials required for the units, there is only limited commonality of purchased items. As such the purchases have been decentralized to the respective units. The company is also planning to implement ERP package in all units. The ERP implementation process at Mamala unit is in progress. If the financial resources of the company permit, the entire activities of the company including purchases can be monitored and managed more effectively. Preliminary discussion in this regard is in progress.
4	7	Industries Department	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.	In certain cases, finished goods are stocked without consideration of delivery requirements of the customers and in anticipation of orders, just to avoid idling of workmen at unit. Action has already been taken to dispose non moving materials lying in all units.

Remarks: The Committee notice that KEL does not have a proper marketing and management policy for the procurement and utilization of raw materials required for the unit. The Committee also opine that lack of scientific approach in the company's operations led to the situation of piling up of the produced stocks. The Committee recommends that earnest steps should be taken for making the units profitable by avoiding the pitfalls and rectifying the mistakes.

5	11	Industries Department	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.	Based on the report of M/s. Deloitte, Government have sanctioned an amount of ₹ 8.50 crores vide G.O(Rt)No.359/13//ID dated 15-3-2013 for setting up cast resin transformer plant at Edarikode unit and ₹12.50 cores vide G.O(Rt) No.66/2013/ID dated 15-1-13 for setting up power transformer plant at Mamala unit. The Edarikode unit has been commissioned and started commercial production during April 2016. The work for the manufacture of power transformer plant at Mamala unit is in progress and is expected to be commissioned during December 2017.
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Remarks : The Committee is of the opinion that KEL being a production-based industrial unit, work load on the administrative side is minimum. Hence, a study should be conducted by the management to prune its administrative staff strength for establishing a scientific and modern office management procedures and action taken on the study report should be reported to the Committee within no time.

6	20	Industries Department	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.	Kasaragod Unit of the Company has been hived off and transferred to a Joint Venture Company of Kerala Government and BHEL. All the employees who have given their willingness to join the JV Company have been relieved from the parent company. It is observed that a large number of workmen and officers from Mamala and Kundara units are getting superannuated within a couple of years. In this situation, as their overheads are high compared to competitors making it difficult to compete in the market, the Company shall not recruit new employees in the vacancies arising out of retirements. Instead, outsourcing may be an alternative to
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				maintain productivity levels. With due consideration to the proposed outsourcing strategy, efforts have been initiated to assess the jobs and redeploy manpower accordingly.
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Remarks : The Committee is of the view that an extensive work study should also be conducted taking into account the excess manpower, obsolete technology and retain minimum staff by introducing VRS and redeployment.

Thiruvananthapuram,
1st February 2024.

E.CHANDRASEKHARAN,
Chairman,
Committee on Public Undertakings.