FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

PUBLIC UNDERTAKINGS
(2023-2026)

SEVENTY EIGHTH REPORT

(Presented on 27th January, 2026)

SECRETARIAT OF THE KERALA LEGISLATURE

THIRUVANANTHAPURAM

2026

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On

Oil palm India Limited, Kerala State Warehousing Corporation & Kerala Shipping and Inland Navigation Corporation Limited

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2019)

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COMMITTEE ON PUBLIC UNDERTAKINGS
(2023-2026)

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INTRODUCTION

I, the Chairperson, Committee on Public Undertakings (2023-2026) having been authorised by the Committee to present the Report on its behalf, present this 78th Report on Oil palm India Limited, Kerala State Warehousing Corporation & Kerala Shipping and Inland Navigation Corporation limited based on the report of the Comptroller and Auditor General of India for the year ended 31st March, 2019 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Report of the Comptroller and Auditor General of India was laid on the Table of the House on 10.06.2021. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings (2023-2026) at its meeting held on 22.05.2024 and 07.08.2024.

This Report was considered and approved by the Committee (2023-2026) at its meeting held on 30.12.2025.

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

The Committee wishes to express thanks to the officials of the Finance Department, Agriculture and Coastal and Inland Navigation Department of the Secretariat, Oil palm India Limited, Kerala State Warehousing Corporation & Kerala Shipping and Inland Navigation Corporation 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, Finance, Agriculture and Coastal and Inland Navigation Department and the officials of Oil palm India Limited, Kerala State Warehousing Corporation & Kerala Shipping and Inland Navigation Corporation limited who appeared for evidence and assisted the Committee by placing their views before the Committee.

Thiruvananthapuram,
27th January, 2026.

E. CHANDRASEKHARAN,
Chairperson,
Committee on Public Undertakings.

REPORT

ON

Oil Palm India Limited (OPIL), Kerala State Warehousing Corporation (KSWC) & Kerala Shipping and Inland Navigation Corporation Limited.

Audit Paragraph (2018-19)

5.3 Operation of Modern Rice Mills by Public Sector Undertakings

Non-procurement of adequate quantity of paddy by the PSUs led to underutilisation/ idling of paddy processing capacity established by incurring ₹21.85 crore. Further, only a meagre quantity of the total rice produced was channelled through Public Distribution System, leading to non-achievement of the objectives of providing fair price for paddy to the farmers and rice at reasonable rates to the consumers.

The Government of Kerala (GoK) accorded (between January 2000 and January 2017) approval for establishing five Modern Rice Mills (MRMs) with the objective of ensuring fair price for paddy to the farmers and providing rice at reasonable rate to the consumers. Establishment and operation of the MRMs were entrusted to four Public Sector Undertakings (PSUs), viz., Kerala State Warehousing Corporation (KSWC), Oil Palm India Limited (OPIL), Kerala Agro Industries Corporation Limited (KAICO) and Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited (KELPALM). None of these PSUs had any previous experience in operating MRMs. The details of MRMs are indicated in **Table 5.1**

Table 5.1: Details of MRMs planned/established by GoK up to 2018-19

Sl. No.	Location of MRM (District in brackets)	Project cost	Actual cost incurred	Installed capacity	Time of completion	PSUs to which operation was entrusted
		(₹ in crore)		MT/year		
1	Thakazhi (Alappuzha)	1.70	0.54	12,000	Abandoned	KSWC
2	Vaikom (Kottayam)	8.00	9.91	12,000	May 2012	OPIL
3	Alathur (Palakkad)	1.26	2.40	6,000	November 2008	KSWC and OPIL
4	Sulthan Bathery (Wayanad)	0.25	0.46	300	January 2019	KAICO
5	Kallepully (Palakkad)	9.61	1.61	14,400	Under construction	KELPALM
Total		**20.82**	**14.92**	**44,700**		

As of March 2019, only the MRM at Vaikom was in operation. The MRM at Thakazhi was abandoned (March 2005) after completion of the civil works [1] due to labour dispute. The MRM at Alathur commenced operation under KSWC in November 2008 but was closed down in June 2010 due to paucity of working capital and lack of qualified technical staff. The MRM was again operated, this time by OPIL from September 2018 to December 2018 and thereafter remained inoperative. The MRM at Sulthan Bathery, though completed in January 2019, is yet to commence operations as rectification works for defects noticed during trial run (March 2019) were continuing as of December 2019. The MRM at Kallepully is under construction as of March 2019.

1 The building was being used as a godown by KSWC.

Audit analysed the working of the MRMs at Vaikom and Alathur which were in operation during the period 2014-15 to 2018-19 and noticed the following:

5.3.1 Underutilisation of production and storage capacity

The Detailed Project Report (DPR) of MRM at Vaikom stated that paddy was readily available in the surrounding area of the MRM and was to be procured directly from these farmers. Further, GoK authorised (February 2011) OPIL to procure paddy in the same manner as it was being done by The Kerala State Civil Supplies Corporation Limited[2] (Supplyco). The DPR envisaged *90 per cent* capacity utilisation to be achieved by the third year of operation.

OPIL, however, could not procure the required quantity of paddy for operating the MRM at 90 per cent capacity even after seven years of operation. During the period 2014-15 to 2016-17, the capacity utilisation of Vaikom MRM ranged between 40.11 per cent (2015-16) and 59.20 per cent (2016-17). The low capacity utilisation was attributed to the inadequate storage facility. Accordingly, as approved (August 2013) by GoK, OPIL constructed (February 2016) a silo[3] storage facility having capacity to store 5,000 MT in one paddy season[4] at a total cost of ₹9.37 crore. The silo was put to use from 30 September 2016 to 23 December 2017 and was idling thereafter. Audit observed that even after commissioning of the silo, procurement of paddy did not improve and the capacity utilisation reduced to 42.72 per cent in 2017-18 and to 34.55 per cent in 2018-19. The investment made in the construction of silo, therefore, proved unfruitful despite OPIL's claim (September 2016) that *100 percent* capacity utilisation was attainable with the commissioning of the silo.

2 A State Public Sector Undertaking acting as an agency for procurement of paddy from the farmers and distribution of rice through the Public Distribution System (PDS) in Kerala.
3 A silo is a tall tower used for storing grain, cement etc.
4 Paddy harvesting seasons are October to December and February to April every year.

OPIL attributed shortfall in procurement of paddy from 2017-18 onwards to shortage of working capital due to non-receipt of State Incentive Bonus (SIB)[5] from GoK. Audit observed that though OPIL claimed the SIB from time to time, GoK released only ₹0.43 crore in 2014-15 and ₹2.17 crore in 2018-19. As of March 2019, an amount of ₹18.72 crore was yet to be received from GoK on account of SIB. The delay in releasing SIB, thus, affected the working capital position of OPIL and led to low procurement of paddy leaving the capacity of the MRM and the silo underutilised.

The GoK confirmed (September 2020) that the underutilisation of production capacity was due to absence of storage facility up to 2016-17 and thereafter due to lack of working capital and stated that GoK decided (August 2020) to release ₹8.63 crore to OPIL as part of SIB. GoK also stated that as envisaged in the DPR, OPIL was ready to procure paddy from the local farmers. But the variety of paddy available in the Kuttanad (Alappuzha) region was mainly 'Unda' and it was not economically viable for OPIL to procure this variety alone.

The reply was not acceptable as the MRM was established to support the local farmers by providing a ready market for their paddy. Also, the primary objective of MRM was to make use of the paddy available in the surrounding area as envisaged in the DPR.

5.3.2 Sale of rice

Ensuring availability of rice at reasonable rates to the consumers was one of the objectives of establishing the MRMs. As per the DPR of MRM at Vaikom, rice was to be distributed in the open market as well as through the Public Distribution System (PDS).

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5 SIB is the difference between the Minimum Support Price for paddy fixed by Government of India and the price at which GoK authorised OPIL to procure paddy from the farmers.

OPIL sold rice in the open market at the price fixed by it from time to time based on market conditions, including the price of its competitors. Up to 2016-17, OPIL sold the entire quantity of rice (14,811.28 MT) in the open market without resorting to sales through PDS. GoK also did not ensure that the MRM effected sales through PDS until October 2017 when a meeting was convened between the Minister for Agriculture and the Minister for Food and Civil Supplies wherein it was decided to sell the entire quantity of rice produced at the MRM through Supplyco. The MRM, however, sold only 3,839 MT of rice to Supplyco during 2017-19 while 5,741.18 MT was sold in the open market. Thus up to 2018-19, out of the total sales of 24,391.46 MT, 84.26 *per cen*t was sold in the open market against the objective envisaged in the DPR. As the price of rice sold in open market was fixed based on market conditions, the objective of ensuring availability of rice at reasonable rates to the consumers could not be achieved.

The GoK replied (September 2020) that the processing charges (₹2.14 per kg) paid by Supplyco for rice sold under PDS was meagre considering the overall cost of production. At certain stages, deviating from the DPR, the Company was constrained to resort to open market sale so as to run the company in a profitable manner.

The reply was not acceptable as since inception, all the rice produced by the MRM was sold in the open market. The direction (October 2017) of the GoK to sell all the rice produced by the MRM through PDS was also not complied with as it sold 60 per cent of rice produced during 2017-19 in the open market.

5.3.3 High level of immature paddy

As per the norms[6] fixed by Food Corporation of India (FCI), immature, shrunken and shrivelled grains in the paddy should not exceed three per cent of the total quantity of the paddy procured from farmers.

In the case of paddy procured by the MRM at Vaikom during 2014-19, the percentage of immature paddy, however, ranged between 5.83 per cent (2015-16) and 9.86 per cent (2017-18) with an average of 8.01 per cent. Considering the average cost of paddy procured during this period, the excess immature paddy over the norm resulted in extra expenditure of ₹3.18 crore. It was further noticed that OPIL did not reduce the procurement price of paddy in proportion to the excess immature paddy, though it did so in the case of excess moisture content of the paddy.

The GoK replied (September 2020) that OPIL categorised all the impurities in the paddy as immature paddy and its total percentage was within the norm of 13 *per cent* fixed by FCI. Though the impurities in the paddy available in Alappuzha and Kottayam districts were comparatively high, OPIL procured paddy in order to protect the interests of farmers.

The reply was not acceptable. Since FCI prescribed separate norms for each category of impurity, OPIL should have categorised the impurities in line with the FCI norms. Even while accepting paddy with high impurities from farmers, OPIL should have reduced the procurement price of such paddy in proportion to the excess immature paddy as it did in the case of excess moisture content.

5.3.4 Loss due to reduced yield

As per the DPR of MRM at Vaikom, 68 per cent yield was to be achieved from the paddy processed by it.

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6 Foreign matter - two *per cent,* Damaged, discoloured, sprouted and weevilled grains – five *per cent*, Immature, shrunken and shrivelled grains - three *per cent*, Admixture of lower class – six *per cent* and Moisture content - 17 *per cent.*

The actual yield achieved by the MRM during the period 2014-15 to 2018-19, however, ranged between 56.11 *per cent* and 61.48 *per cent* only. Considering the yield as per the DPR, there was shortage in yield to the tune of 2,394.14 MT of rice valuing ₹7.35 crore[7]. OPIL, however, did not analyse the reasons for low yield and take corrective action to achieve the yield envisaged in the DPR.

The GoK replied (September 2020) that the target depicted in DPR would vary based on the actual situation of each project. The actual yield ranged between 56.11 *per cent* and 61.48 *per cent* was quite near to the target of 68.00 *per cent* in DPR.

The reply was not acceptable as operation of the MRM would not be economically viable without ensuring the yield envisaged in DPR. Further, the yield showed a declining trend warranting action from OPIL to analyse the reasons for such decline.

5.3.5 Operational performance

The operational performance of MRM at Vaikom during 2014-15 to 2018-19 was as indicated in **Table 5.2**:

Table 5.2: Operational performance of MRM at Vaikom

(₹ in crore)

Particulars	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Total revenue	12.47	12.21	18.07	15.19	11.98
Total expenses	13.13	13.09	18.89	15.79	15.16
Loss	0.66	0.88	0.82	0.60	3.18
Loss as a percentage of total revenue	5.29	7.21	4.54	3.95	26.54

Audit observed that the MRM incurred loss in all the years since 2014-15 and the same increased every year resulting in an accumulated loss of ₹6.14 crore as of March 2019. The MRM incurred loss even after selling 84.26 *per cent* of the rice

7 Based on the average sales realisation during 2014-15 to 2018-19.

through open market at competitive rates. The major reasons that contributed to this loss was shortage in the yield of rice (average yield of 58.93 *per cent* during 2014-15 to 2018-19) and underutilisation of production capacity.

The GoK replied (September 2020) that except during 2018-19, the loss incurred was not extensive. From 2013-14 to 2018-19, OPIL could fully recover the depreciation during three years and the operational result before providing for depreciation was nominal in two years. The loss during 2018-19 was attributed to the non-release of SIB. In the Exit Conference, OPIL stated (September 2020) that it had to match the price of rice according to the market which led to the loss. OPIL accepted that low capacity utilisation was one of the major reasons for the loss.

The reply was not acceptable. The MRM incurred loss on account of underutilisation of capacity and low yield while OPIL did not take measures to improve the utilisation of production capacity of the MRM and investigate the reasons for low yield.

5.3.6 Lack of continuity in revival activities

The MRM at Alathur was implemented at a total cost of ₹2.40 crore with an installed capacity of 6,000 MT *per annum*. Since commissioning in November 2008, the MRM was operated for a period of 19 months till June 2010 and processed 738 MT of paddy. The effective utilisation, thus, worked out to 7.77 *per cent* of installed capacity. Audit observed that neither GoK nor KSWC took the initiative to revive the MRM until June 2018, when GoK decided to entrust the operation of the MRM to OPIL for a period of one year. Regarding the future operation of the MRM, KSWC decided (October 2018) to conduct a technical evaluation using an external agency and assess the present value of the mill based on the direction of GoK. Though KSWC overhauled the MRM incurring ₹17 lakh before handing it over,OPIL operated the MRM only for a period of 81 days[8] and

8 24 September 2018 to 13 December 2018.

processed 294.44 MT of paddy. As the revival activities were not followed up by technical evaluation and arrangements for continuing the operations, the MRM remained idle thereafter leaving the investment of ₹2.57 crore unfruitful.

Though the MRM at Alathur was not in operation since June 2010, KSWC did not temporarily disconnect the high tension electrical service connection of the MRM until a firm decision on the continued operation was taken. As a result, KSWC incurred electricity charges of ₹33 lakh for the service connection from October 2010 to September 2018.

The GoK replied (September 2020) that OPIL could operate the MRM only for a short period due to lack of sortex machine, weigh bridge, storage facility etc. The MRM needed complete overhauling and KSWC entrusted an expert from Kerala Agriculture University to conduct a technical evaluation and further action would be taken based on the evaluation report. It was also replied that steps have been taken to minimise the electricity charges of the MRM in view of its non-functioning. If the service connection was disconnected, restoration of the same would take time and cost.

The reply was not acceptable as no initiative was taken by KSWC or GoK to revive the MRM until June 2018. Though KSWC decided (October 2018) to conduct a technical evaluation, the report was not yet received (September 2020). Further, for a period of eight years, electricity charges were paid though the MRM remained unused.

Thus, non-procurement of adequate quantity of paddy by the PSUs led to underutilisation and/ or idling of paddy processing capacity established by incurring ₹21.85 crore[9]. Further, only a meagre quantity of the total rice produced was

9 Cost incurred for establishing MRMs at Alathur (₹2.40 crore) and Vaikom (₹9.91 crore), construction of silo in the MRM at Vaikom (₹9.37 crore) and overhauling of MRM at Alathur (₹0.17 crore).

channelled through the Public Distribution System. These led to non-achievement of the objectives of providing fair price for paddy to the farmers and rice at reasonable rates to the consumers.

Recommendation 5.3: GoK may ensure a support ecosystem to the PSUs selected for operating the MRMs to tackle the problems associated with the new line of business. For instance, a back-to-back arrangement with the Supplyco could have provided operational synergy to achieve the intended objectives of the MRMs.

[The Audit paragraph 5.3 to 5.3.6 contained in the report of the C &AG for the year ended 31 March 2019.]

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

<u>Discussion and findings of the committee</u>

5.3. Operation of Modern Rice Mills by Public Sector Undertakings

5.3.1.Underutilisation of production and storage capacity

The Committee was informed about the audit observation that the non procurement of adequate quantity of paddy by the PSUs led to underutilisation of paddy processing capacity and only a meagre quantity of the total rice produced was channelled through Public Distribution System, leading to non achievement of objectives of providing fair price for paddy to the farmers and rice at reasonable rates to the consumers. It was also added that the establishment and working of the Modern Rice Mills at Thakazhi, Vaikom, Alathur, Sultan Bathery and Kallepully was entrusted to KSWC, OPIL, KAICO and KELPALM.

In response to a query from the Committee about the currently functioning mills, the Managing Director of OPIL informed that only the Rice Mill at Vechur, Vaikom is currently operational.When the Committee inquired about the operational status of the rice mill at Sultan Batheri, the Special Secretary of the Agriculture Department stated that KAICO was entrusted to establish the mill but it has not yet begun operating.

The Committee inquired about the current status and staff strength of rice mills, which were set up to benefit the farmers and wanted to ensure a steady supply of quality rice to consumers. The Managing Director, KSWC informed that the workforce in the rice mills comprised regular employees of KSWC as well as temporary staff. He further stated that the temporary employees were terminated following a High Court order and the mill was shut down in 2019.

<u>Observation/Recommendation of the Committee</u>

1. The Committee recommends to accelerate the procedures envisaged in the DPR for the attainment of objectives of MRM at Vaikom by increasing the capacity utilization.

5.3.2. Sale of rice

The Committee enquired about the audit reference that instead of selling the whole quantity of rice through PDS as per the direction of GoK, the Company sold major quantity of rice in the open market during 2017-19. The Managing Director, OPIL informed that the decisions of the meeting convened in the presence of Hon’ble Ministers for Agriculture and Food and Civil Supplies had been implemented and they are procuring paddy from the farmers at the rate suggested by the government ie at ₹ 28.32 per Kg which includes the support price announced by the Central Government in accordance with the State Incentive policy set by the State Government.

He added that although the rice mill was commissioned with the technical assistance of KITCO and started functioning in 2012, it could not achieve full capacity due to the lack of storage facility and absence of experienced employees. He also informed that Mill at Vaikom was started by appointing the employees of OPIL on deputation. The rice produced by the Company is being supplied to Supplyco, and the turnover of the rice mill amounts to ₹ 12-13 crore. However, the delay in getting reimbursement amount from the GoK under the State Incentive policy is adversely affecting the working capital of the Company. The Managing Director also informed that fund of OPIL is often allocated to support the operational costs of the mills. Currently, ₹16 crore is pending in terms of State Incentive Bonus and payment for rice supplied to Supplyco. The Managing Director stated that the Mill could not achieve its full capacity due to financial hardship.

To a query of the Committee about the brand name under which the rice is sold, the Managing Director stated that the rice is marketed through Supplyco in two varieties,'VADI' and 'UNDA' under the brand name 'Kuttanadan Rice'.

The Committee enquired whether the rice produced by the company is being supplied to Supplyco. The Managing Director informed that the rice is not fully supplied to Supplyco, and the Company is selling a portion of the rice directly through outlets of Police Canteen and Horticorp, under the brand name 'Kuttanadan Rice' and the Company has tied up with co-operative outlets including supermarkets and Triveni stores.

In response to the Committee's query about the current stock levels of rice, the Managing Director stated that the rice stock of the Company is minimal and currently, the storage capacity is limited to 150 tons. He further stated that the Company is not allowed to procure paddy from outside Kerala, whereas private mills are actively purchasing paddy and rice at lower prices from both external sources and local paddy farmers within Kerala. Supplyco offers the same price for rice purchased from private companies as well as rice procured from OPIL. However, by buying rice at the government-fixed price and selling it at the price set by Supplyco, the Company incurs loss due to increased production cost.

In response to the Committee's query about profitability of OPIL, the Managing Director clarified that the Company runs in profit while the rice mill is working at loss.

The Committee enquired about the difference in the price of rice and its production cost. The Managing Director explained that the production cost for processing of Paddy to rice is about ₹56 per Kg. But by selling the rice the Company gets only ₹ 52 per Kg which includes ₹ 40 per Kg from Supplyco and ₹ 12 per Kg as subsidy from the State Government and the Company incures a loss of ₹ 4 per kilo. At the same time the Company sells Kuttanadan rice in the open market for ₹ 61 per Kg. He added that about 90% of the rice produced is being sold to Supplyco and the Company is running the rice mill by the profit earned through the selling of oil.

To a query of the Committee the Managing Director informed that other agencies procure rice from other states for ₹20 per Kg and that the Company never purchased rice from other states and they procure only the rice certified by the Agriculture officer.

<u>Observation/Recommendation of the Committee</u>

2. The Committee noted that instead of selling the entire quantity of rice through the Public Distribution System as per the directions of Government of Kerala, the Company sold a major quantity of rice in the open market during 2017-19. The Committee also observed that since the price of rice sold in the open market is determined by market conditions, the objective of ensuring the availability of rice at reasonable rates to consumers could not be achieved.

Therfore, the Committee recommends that all rice produced by the MRMs should be sold through the PDS, to enable the consumers to purchase rice at reasonable rates.

3. The Committee observes that an amount of ₹ 16 crore is pending to OPIL in terms of State Incentive Bonus and payment of rice supplied to Supplyco. So the Committee recommends that the Government should grant this amount to OPIL as soon as possible.

5.3.3.High level of immature paddy

To a query of the Committee about the difference in quality of rice produced within the state and outside the state, the Managing Director replied that the rice from other state gives more yield while that of Kuttanad consists of more chaff. He added that as per the guidelines of FCI the chaff content may be upto 13%.

The Committee accepted the reply. Hence no remarks.

5.3.4 Loss due to reduced yield

5.3.5 Operational Performance

To a query of the Committee the witness informed that about 600 metric tons of rice is being procured from the farmers monthly. Then the Committee discussed about the ways to make the company profitable in running the rice mill. The Committee pointed out the possibility of procuring 1000 metric tons of paddy from farmers inside Kerala and also 1000 metric tons from farmers outside the State so that the company could make profit. The witnesses supported the idea by stating that the paddy procured from farmers inside Kerala could be sold under the brand name ‘Kuttanadan rice’ and those procured from outside the State could be sold in another brand name. But some members of the Committee aroused doubts about this idea claiming that it may lead to a situation that the company may procure paddy mostly from outside the State.

The Committee observed that the MRMs were established with a view to support the farmers of Kerala and to distribute good quality rice at reasonable price with the subsidy from the Government. But unfortunately the company could not completely procure paddy from the farmers and they are selling about 84.26% of rice produced through open market. In order to overcome the situation the company would procure at least 1000 metric ton paddy from the farmers inside Kerala. The Committee decided to examine the possibility of procuring paddy from outside the state only after ensuring the procurement from farmers.

To a query of the Committee the Senior Audit Officer informed the Committee that KELPALM spent about ₹ 1.61 crore for the rice mill in March 2019. He added that the audit only examined the working of MRMs that started operation. The Committee opined that it may be desirable to visit the four MRMs that are not working so far.

The Managing Director, Oil Palm informed the Committee that the cumulative loss of the company by running the MRM is ₹ 21.5 crore and an amount of ₹ 16 crore is pending as State Incentive Bonus. He added that the turn over of the company is ₹ 70 crore and they are running the rice mill with the profit from selling oil.

Based on the above discussion, the Committee recommends the Company to increase the paddy procurement from the indigenous farmers from 600 metric ton to 1000 metric ton.

Observations/Recommendations of the Committee

4. The Committee observed that the MRM at Vaikom incurred loss even after selling 84.26 *per cent* of the rice through open market at competitive rates in all the years since 2014-15 and the same increased every year resulting in an accumulated loss of ₹ 6.14 crore as of March 2019. The Committee noted that the MRM incurred loss due to underutilisation of production capacity and low yield of rice. Hence, the Committee recommends the Company to take measures to improve the utilisation of production capacity and to investigate the reasons for low yield of rice.

5. The Committee noted that the Company procures about 600 metric tons of rice monthly from the farmers. Hence the Committee recommends the Company to increase the paddy procurement from the indigenous farmers from 600 metric ton to 1000 metric ton.

Kerala State Warehousing Corporation

5.3.6 Lack of Continuity in revival activites

The Committee sought clarification regarding the audit observation that the Corporation incurred electricity charge of ₹33 lakh for the service connection from October 2010 to September 2018 for the mill at Alathur and enquired why the Company decided not to disconnect electricity. The Executive Engineer, KSWC replied that the mill is completely non operational since 2019 and the Company after consulting the KSEB authorities decided not to disconnect electricity as it may incur huge loss to KSWC. The Company lowered electricity consumption to minimum level and are remitting minimum charge of ₹ 13000 per month. The Committee was not satisfied with the reply and observed that if the Company disconnected eletricity and reconnected when the mill started working there might not be this much loss. But the Company could not restart the working of the mill for a very long period and they had not disconnected electricity which led to huge loss to the Company.Then the witness explained that the godowns of warehousing corporation adjacent to the rice mill is working with the electricity from the mill and that initially the electricity charge was 40,000/-per month which was later reduced to 13,000/- per month.

The Committee enquired whether the Company could assure that the mill would start working in the near future. The witness replied that the Company had invited EOI and a company named Relay Cart was ready to take over the mill and they installed machines. But at the same time ‘Alathur Co-operative Marketing Society’ approached the Company to take over the mill. KSWC gave priority to them since being a co-operative society. But at last the co-operative society was not ready to take over the mill and Relay Cart also left the project. The Committee criticized the company for the delay in taking appropriate decision about the working of the mill.

The Committee enquired about the decision taken in the meeting convened in the presence of Hon’ble Minister for agriculture on 15.05.2024. The witness replied that the decision was to invite EOI from Companies which are ready to invest fund for the renovation of the mill and to start its operation. He added that about ₹ 2 crore is needed for the renovation which includes the establishment of sortex machine which cost ₹ 50 lakh and also for the revival of other equipments.

To a query of the Committee the witness replied that EOI was published in Malayala Manorama newspaper and in its website and a copy of the same was sent to all rice mills and that they have directly discussed with the owners of rice mills like Pavizham and Periyar. He added that it was also mentioned in the EOI that the companies would renovate the mill and share the dividend with KSWC.

The Committee observed that an inexcusable delay occured on the part of the Company in restarting the rice mill. So the Committee directed the Company to submit a report to the Agriculture Department detailing the actions taken in accordance with the meeting convened on 15.05.2024, the current status of mill and a copy of EOI. The Committee recommended to accelerate the procedures to reopen the mill as soon as possible.

Observation/Recommendation of the Committee

6. The Committee vehemently criticizes the officials of KSWC for not disconnecting the electricity connection of MRM at Alathur though the mill was not in operation since 2010 incurring electricity charge of ₹33 lakh from October 2010 to September 2018.

7. The Committee observed that an inexcusable delay occured on the part of the Company in restarting the rice mill. So the Committee directs the Company to submit a report to the Agriculture Department detailing the actions taken in accordance with the meeting convened in the presence of Hon'ble Minister for Agriculture on 15.05.2024, the current status of mill and a copy of EOI. The Committee also recommends to accelerate the procedures to reopen the mill as soon as possible.

General Recommendations

8. The Committee observes that GoK accorded sanction to establish five MRMs with the objective of ensuring fair price for paddy to the farmers and providing rice at reasonable rate to the consumers. But unfortunately only the MRM at Vaikom is currently operational. The Committee observes that selecting the PSUs having no previous experience in operating the MRMs led

to the failure of the project. So the Committee recommends that GoK should be more vigilant in selecting the agencies for such projects in future.

9. The Committee observes tht the only operational MRM at Vaikom could not assure selling of rice through PDS as per GoK directions and the reason is attributed to the financial hardship of the Company. So the Committee recommends to ensure financial assistance to the Company by granting State Inentive Bonus on time.

10. The Committee observes that the MRM at Alathur which commenced in November 2008 was operational only for a period of 19 months till June 2010 by KSWC and later handed to OPIL which operated it for a period of 81 days and due to lack of revival activities it remains idle till date. The Committee observes that there was lack of expertise in handling the matter. So the Committee recommends that both the Department and the Company should be more vigilant while executing such projects in future.

Kerala Shipping and Inland Navigation Corporation Limited

5.8 Avoidable loss

Venturing into water sports project without assessing the environmental impact and obtaining prior approval from the Government resulted in loss of ₹28.81 lakh.

Kerala Shipping and Inland Navigation Corporation Limited (Company) was established (July 1989) with the main objective of establishing, maintaining and operating transportation services for the transport of goods and passengers in inland water in the State of Kerala or elsewhere. The Company initiated (October 2013) a proposal to enter into the business of water sports activities in four locations (i.e., Kovalam, Varkala, Thanneermukkom and Bekal) in the State with a total expenditure of ₹62.10 lakh. This included capital expenditure of ₹57.10 lakh and a startup cost of ₹5 lakh. The Company projected an annual income of ₹2.26 crore against a projected annual expenditure of ₹2.06 crore, thus leaving a profit of ₹20 lakh from the project. The Managing Director invited (October 2013) a tender for purchase of equipment for operation at all the four locations. For implementing the project at Thanneermukkom, the Company procured (March 2014) water sports equipment incurring ₹20.37 lakh. Due to opposition from local population, the project could not be implemented. The water sports equipment were given out on hire for five months before being disposed of (March 2017) for ₹6.45 lakh. The Company did not implement the project at the other three identified locations also on the ground that it would entail additional cost for operation.

In this connection, Audit observed the following:

- The water sports activities at Thanneermukkom were proposed to be conducted in the Vembanad Lake. As per Section 4 (2) of Wetlands (Conservation and Management) Rules, 2010 [10]plying of motorised boat within the Vembanad- Kol wetland could be undertaken only if it was not detrimental to the nature and character of the biotic community and with the prior approval of the State Government.

  The Company, however, neither undertook any study to assess whether the proposed water sports activities were detrimental to the nature and character of the biotic community nor did it obtain approval from the Government of Kerala (GoK). In the absence of such studies, the

10 Issued by the Ministry of Environment and Forests vide notification dated 24 March 2011.

Company could not address the concerns of the fisher folk that the project would affect their livelihood. The Company also did not comply with the direction (September 2014) of the District Collector to conduct an environmental impact study to address the concerns of the fisher folk.

- The Articles of Association required the Company to obtain prior approval of the GoK for any programme or capital expenditure for an amount which exceeds ₹50 lakh[11] . Further, as decided (September 2007) by the Board of Directors (BoD), the Managing Director was authorised to sanction capital expenditure up to ₹10 lakh only.

The total capital cost of the project as well as the estimated cost of equipment required for implementing the project exceeded ₹50 lakh. The Managing Director, however, approved the project and invited tenders for purchasing water sports equipment without taking prior approval of either the GoK or the BoD. The Company placed (March 2014) purchase orders for procurement of water sports equipment valuing ₹20.37 lakh for operation at Thanneermukkom only. The BoD was, however, informed of the Company's decision to venture into the water sports activities only in December 2014, when the implementation of the project was hindered due to opposition from the local fisher folk. The BoD did not take any action against the Managing Director despite non-compliance to the provisions of Articles of Association.

Thus, the Company incurred a total expenditure of ₹37.38 lakh[12] including operational expense of ₹17.20 lakh for the project without proper authority.

11 Amount revised (January 2016) to ₹1.00 crore

12 Including ₹20.18 lakh for procurement of water sports equipment (after deducting ₹0.19 lakh received as compensation against loss/ damage of equipment) and ₹17.20 lakh for wages, training cost, lease rent for use of IWAI terminal, operating charges, electricity etc.

The decision of the Company to venture into a new area of business without conducting an environmental impact study and obtaining approval from the Government also resulted in loss ₹28.81 lakh after adjusting ₹2.12 lakh earned as hire charges for the water sports equipment.

The GoK stated (November 2020) that it was of the Company's view that the operation of a speed boat etc. was not detrimental to the nature of a vast lake like Vembanad. The Company dropped the proposal when the environmental impact study was insisted upon as the cost of conducting the study was not economical. The GoK accepted that approval of the BoD was not obtained as required. The BoD was fully aware of the venture and the same person was the Chairman of the BoD and the Managing Director at that time. Further, the expense incurred for Inland Waterways Authority of India (IWAI) terminals was a committed expenditure as it was taken on lease to explore the potential of cargo movement.

The reply was not acceptable as obtaining approval from the Government after ensuring that the project was not detrimental to the nature and character of the biotic community was a mandatory requirement. The Chairman of the BoD and Managing Director being one person does not relieve the Managing Director from obtaining prior approval from the BoD as required by the Articles of Association. The expense related to IWAI terminals was included in the expense incurred for water sports project as the Company had apprised (December 2014 and March 2015) the BoD that IWAI terminals were taken on lease solely for water sports activities.

Recommendation 5.8: Adherence to administrative and regulatory requirements may be ensured while taking up new projects for its successful

implementation and to avoid bottlenecks that may lead to abandoning at a later stage.

[The Audit paragraph 5.8 contained in the report of the C &AG for the year ended 31 March 2019.]

Discussion and findings of the committee

5.8. Avoidable loss

Venturing into water sports project without assessing the environmental impact and obtaining prior approval from the Government resulted in loss of ₹28.81 lakh

To a query of the Committee about audit objection, the Managing Director admitted fault of the Company and informed that a loss of ₹ 28.81 lakh was incurred by entering into the water sports project without assessing the environmental impact and obtaining prior approval from the Government and during that period the Chairman and the Managing Director of Kerala Shipping and Inland Navigation Corporation Limited was one and the same person. She added that according to the decision of the Board of Directors, the Managing Director had the authority to sanction only ₹10 lakh but the cost of the project exceeded ₹50 lakh and permission for the same was not obtained from the Government and the Board of Directors, and tender was invited without obtaining environmental clearance. The Managing Director informed that the said project was planned to be implemented in four places namely Kovalam, Thanneermukkam, Varkala and Bekal, but the company started water sports activities only in Thanneermukkam and the Board of Directors was aware of the matter but it was not decided by the Board and later the Board of Directors was properly informed.

She explained that at present such projects are not undertaken without obtaining environmental clearance and the Company is still performing the regular activities such as cargo transport and barge operation. She added that the Company owns five boats and one ship which are being used for tourism purposes both in the sea and backwaters.

The Committee sought explanation regarding the water sports equipments purchased for the project. The Managing Director replied that the water sports equipments purchased for ₹ 20.37 lakh was tendered and sold for ₹ 6.45 lakh after informing the Board.

The Managing Director further informed that a Government Order has been issued by the Finance Department that the Government permission and environmental clearance should be obtainted while starting such projects related to water bodies and backwaters. On the basis of this the Coastal Shipping and Inland Navigation Department has also given instructions to the Company and the Company is strictly following the instructions.

The Senior Audit Officer informed that the Finance Department has issued a circular citing the Company as an example which states that "All Secretaries of Administrative Departments are instructed to ensure that Public Sector Undertakings under their control should follow the administrative and regulatory requirements while taking up new projects to avoid bottlenecks that may lead to abandoning at a later stage."

The Committee observed that as per the audit report the then Managing Director of the Company was responsible for the loss sustained and when the Committee enquired the name of the Managing Director, the witness replied that Shri.Tom Jos was MD at that time. The Committee criticised the act of the then Managing Director to implement a project without obtaining Government permission and without conducting a study to assess the environmental impact of the project and recommended to initiate legal proceedings to realize the amount from him.

Observation/Recommendation of the Committee

11. The Committee observed that the Company's decision to venture into water sports project without conducting an environmental impact study and obtaining prior approval from the Government resulted in loss of ₹ 28.81 lakh. The Committee also noted that the Chairman and the Managing Director of the Company was one and the same person during that period. The Committee hence recommends to initiate legal proceedings to realize the amount from the Managing Director at that time.

E.Chandrasekharan,
Chairperson,
Committee on Public Undertakings.

Thiruvananthapuram,
27th January *,2026.*

APPENDIX-I SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS			
Sl No.	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	1	Agriculture	The Committee recommends to accelerate the procedures envisaged in the DPR for the attainment of objectives of MRM at Vaikom by increasing the capacity utilization.
2	2	Agriculture	The Committee noted that instead of selling the entire quantity of rice through the Public Distribution System as per the directions of Government of Kerala, the Company sold a major quantity of rice in the open market during 2017-19. The Committee also observed that since the price of rice sold in the open market is determined by market conditions, the objective of ensuring the availability of rice at reasonable rates to consumers could not be achieved. Therfore, the Committee recommends that all rice produced by the MRMs should be sold through the PDS, to enable the consumers to purchase rice at reasonable rates.
3	3	Agriculture	The Committee observes that an amount of ₹ 16 crore is pending to OPIL in terms of State Incentive Bonus and payment of rice supplied to Supplyco. So the Committee recommends that the Government should grant this amount to OPIL as soon as possible.
4	4	Agriculture	The Committee observed that the MRM at Vaikom incurred loss even after selling 84.26 *per cent* of the rice through open market at competitive rates in all the years since 2014-15 and the same increased every year resulting in an accumulated loss of ₹ 6.14 crore as of March 2019. The Committee noted that the MRM incurred loss due to underutilisation of production capacity and low yield of rice. Hence, the Committee recommends the Company to take measures to improve the utilisation of production capacity and to investigate

			the reasons for low yield of rice.
5	5	Agriculture	The Committee noted that the Company procures about 600 metric tons of rice monthly from the farmers. Hence the Committee recommends the Company to increase the paddy procurement from the indigenous farmers from 600 metric ton to 1000 metric ton.
6	6	Agriculture	The Committee vehemently criticizes the officials of KSWC for not disconnecting the electricity connection of MRM at Alathur though the mill was not in operation since 2010 incurring electricity charge of ₹33 lakh from October 2010 to September 2018.
7	7	Agriculture	The Committee observed that an inexcusable delay occured on the part of the Company in restarting the rice mill. So the Committee directs the Company to submit a report to the Agricultur Department detailing the actions taken in accordance with the meeting convened in the presence of Hon’ble Minister for Agriculture on 15.05.2024, the current status of mill and a copy of EOI. The Committee also recommends to accelerate the procedures to reopen the mill as soon as possible.
8	8	Agriculture	The Committee observes that GoK accorded sanction to establish five MRMs with the objective of ensuring fair price for paddy to the farmers and providing rice at reasonable rate to the consumers. But unfortunately only the MRM at Vaikom is currently operational. The Committee observes that selecting the PSUs having no previous experience in operating the MRMs led to the failure of the project. So the Committee recommends that GoK should be more vigilant in selecting the agencies for such projects in future.
9	9	Agriculture	The Committee observes tht the only operational MRM at Vaikom could not assure selling of rice through PDS as per GoK directions and

			the reason is attributed to the financial hardship of the Company. So the Committee recommends to ensure financial assistance to the Company by granting State Inentive Bonus on time.
10	10	Agriculture	The Committee observes that the MRM at Alathur which commenced in November 2008 was operational only for a period of 19 months till June 2010 by KSWC and later handed to OPIL which operated it for a period of 81 days and due to lack of revival activities it remains idle till date. The Committee observes that there was lack of expertise in handling the matter. So the Committee recommends that both the Department and the Company should be more vigilant while executing such projects in future.
11	11	Coastal and Inland Navigation	The Committee observed that the Company's decision to venture into water sports project without conducting an environmental impact study and obtaining prior approval from the Government resulted in loss of ₹ 28.81 lakh. The Committee also noted that the Chairman and the Managing Director of the Company was one and the same person during that period. The Committee hence recommends to initiate legal proceedings to realize the amount from the Managing Director at that time.

REMEDIAL MEASURES TAKEN ON THE AUDIT PARAS OF THE REPORT OF C&AG 31ST MARCH 2019

SL. No.	RECOMMENDATIONS	Audit PARA	ACTION TAKEN
1	2	3	4
3. **Oil Palm India Ltd.**	GoK may ensure a support ecosystem to the PSUs selected for operating thye MRMs to tackle the problems associated with the new line of business. For Instance, a back-to-back arrangement with the Supplyco could have provided operational synergy to achive the intended objectives of the MRMs.	5.3. Operation of Modern Rice Mills: 5.3.1. Underutilization of production and storage capacity:	Oil Palm India Ltd has successfully completed the project given by the Government and the Mill at Vechoor, Vaikam is fully operational since 2011 onwards. Although as directed by the Government, OPIL operated the Alathur Mill for a short period, and the assignment was abandoned due to lack of storage and other operational difficulties faced by OPIL. The reasons behind underutilization of production and storage capacity of the Modern Rice Mill (MRM) at Vechoor is as follows: a) As per DPR, the annual production capacity of the mill in ideal conditions is 12000 MT. But in practical, the maximum utilization capacity that can be attained is only 80 % i.e., say 9600 MT per annum and 800 MT per month. b) Paddy is a seasonal product. For procuring and storing 4800 MI (9600/2) paddy in a season, OPIL need around Rs.14 crores (4800 MT*Rs.29000/MT) towards raw material cost itself. The current financial position of the Company is not adequate enough to go for such a massive procurement on account of ongoing loss in the palm oil sector. c) Ensuring fair price to the paddy farmers was one of the objectives of the Government in establishing the Modern Rice mills. OPIL has always ensured that the farmers got the fair price fixed by Government in all procurements, all these years. OPIL is procuring paddy at the Minimum Support Price (MSP) declared by the Government of India (GOI) and SIB declared by the Government of Kerala (GOK) from time to time, whereas

			private mills, who are at liberty to fix the procurement price, are procuring at a price of their own. d) The Company claims from the GOK the SIB portion of the paddy procurement price paid by the Company to the farmers on behalf of the GOK from time to time. Company was even forced to stop paddy procurement from the farmers on account of working capital shortage. Shortage of working capital was the main reason for shifting from commercial operation to Custom Milled Rice (CMR) operation of Supplyco under the Public Distribution System (PDS) from the year 2019-20. e) With the Commissioning of silo storage system, the issues faced by the MRM on paddy storage have been dealt with. Now the issue being faced by the MRM in paddy procurement is shortage of rice Storage facility. Taking an average outturn of say 60% sortex rice, monthly storage facility required for rice is around 500 MT (800 MT *60 %). Current storage capacity available for rice is only 150 MT and the Company is forced to lease out outside storage space incurring additional cost towards rent, loading, transportation, unloading etc to store the rice produced under the ongoing CMR processing. The income from CMR processing is not even sufficient to meet the Operational cost of the mill. Supplyco lifts CMR once in a month only. By incurring additional expenditure towards rice storage,Company is finding it difficult to run the unit viably. f) Company is ready to procure paddy from the local farmers, but the variety of paddy that is available in the Kuttanadu region is mainly Unda and it is not economically viable for the Company to procure and process Unda variety alone. Moreover, financial constraints alienated the Company from paddy procurement and shifted to CMR processing.

			g) Kerala's rice market is highly volatile. The net purchase price of paddy is Rs.19.40/kg (Rs.28.20/kg - Rs.8.80 (SIB). 1.72 Kgs of paddy is required to get 1 Kg of rice at 58 % outturn. 1.72 kg of paddy would cost Rs.33.40 whereas rice is available in the market from Rs.25/kg and onwards. The private rice mill can procure paddy at a price of their choice from anywhere in and out of the State. They even procure rice from 7 outside the State at a throw away price. Even in CMR system, they adopt a procedure to backtrack the paddy lifting if the quality of paddy is not acceptable to them and if forced for lifting, the "thara" (allowance towards immature paddy, moisture etc) would be very high so as to cover their loss. OPIL being in the Government sector cannot resort to these types of trade practices hence, Company is finding it difficult to even supply 64.50 % outturn under the CMR processing with limited "thara'. h) Lack of rice storage space is the main issue being faced by the "MRM in procuring large quantity of paddy. Available storage capacity for rice is around 150 MT only and on an average Company need 500 MT of rice storage capacity to attain Mill's optimum capacity utilization. i) Under commercial operations. it would be difficult for the Company to sell around 500 MT of rice per month in the Kerala's volatile rice market, which is flooded with rice of various brands at a price range of Rs.25/kg onwards. Moreover, the consumption pattern of rice in the central Travancore is vadi rice, whereas the paddy cultivated in the areas surrounding the mill is Unda variety, which yields lower price when compared to the Vadi variety, whereas procurement quantity of rice of both varieties are the same. All these factors restrained the Company from bulk purchase of paddy which resulted in under utilization of the capacity of the Mill. j) Company has prepared a detailed proposal for the attainment of the

		5.3.2 Sale of rice:	objectives of the MRM as envisaged in the DPR and as suggested by the AG. k) During the year 2019-20 and 2020-21, mill procured a quantity of 935 MT and 227 MT of paddy for commercial operations from farmers. Quantity of paddy allocated to MRM under PDS by Supplyco during this period was 3923 MT and 4409 MT respectively. Allocation. of paddy under PDS is done by Supplyco and MRM has no control over it. a) As per the DPR, the rice has to be distributed in the open market as well as through Public Distribution System (PDS). b) OPIL is a commercial entity and it opted for open market in the best interest of the organization. Resorting to open market also did not turn to be a wrong decision as can be seen from the financial results of the Mill during the period 2013-14 to 2016-17 as shown below: Year / Loss (in lakhs) / Depreciation (in lakhs) 2013-14 / 19 / 108 2014-15 / 66 / 96 2015-16 / 88 / 80 2016-17 / 82 / 71 From the above, it can be seen that the unit was running in operating profit before depreciation and there was no cash loss during 2013-14 and 2015-16. The operating loss was very low during 2015-16 and 2016-17. c) The decision taken in the meeting held on 25.10.2017 was to sell 100% rice to supplyco was not under PDS. Company was not operating under PDS during the periods 2017-18 and 2018-19. As per the decision taken in the meeting held on 25.10.2017 Company was selling the rice (matia rice)

Year	Loss (in lakhs)	Depreciation (in lakhs)
2013-14	19	108
2014-15	66	96
2015-16	88	80
2016-17	82	71

to Supplyco so that Company would get the SIB portion on time. This was also a commercial operation and not an operation under the PDS/CMR milling of the Supplyco.

d) The price OPIL got on Supplyco sale was very low compared to the price that OPIL fetched in open market sale. The price that Supplyco paid to OPIL for matta rice is the e tender price they received in their e tender for rice purchase. The average price Company fetched from Supplyco sale during 2017-18 was Rs.32.34/kg and it was as low as Rs.29.69/kg during 2018-19.

The Company was eligible for SIB on the sale of rice to Supplyco, thus after deducting the eligible SIB of Rs.13.96/kg and Rs.13.49/kg during 2017-18 and 2018-19 respectively, the net cost of raw material was Rs.28.22/kg and Rs.30.28/kg respectively.

f) During 2017-18, the margin available to recover the processing cost and other fixed costs was around Rs.4.12/kg of rice sold where as during 2018-19, the Company could not even recover the raw material cost on Supplyco sale. Average price Company fetched from the open market sale during these two years would make the picture clearer

Year	Open market sale price (average)
2017-18	Rs. 37.55 / kg of rice
2018-19	Rs. 47.379 / kg of rice

g) Company suffered heavily on account of Supplyco sale during the year 2018-19. Sole reason for resorting to Supplyco sale was to ensure that the Company gets the SIB on paddy purchase from Government in time and Company got the SIB claim on Supplyco sale from the Government.

			h) On account of working capital shortage, Company opted for CMR system from the FY 2019-20. However, as already been pointed out, the return is not sufficient to cover the operational cost and during the year 2019-20, mill incurred a loss of Rs.2.70 crores mainly on account of CMR processing. i) Under the CMR system, the rice produced is given to the PDS. The rice sold by the Company to Supplyco under commercial activity is also routed to the public by Supplyco in its brand. But the Mill suffered heavily on this method also as one can see from the loss incurred by the Mill during the year 2018-19. j) The loss of the Mill was very nominal when the rice was sold in the open market as the Company could make use of the opportunities based on market conditions. k) It is obvious that open market sale was more beneficial to the Company than the Supplyco sale/CMR system under PDS. Hence the decision of the Company to sell in the open market than to PDS is a prudent one. l) However, if the rice is still to be routed through Supplyco as decided in the meeting held on 25.10.2017, Company may be compensated for the loss incurred on this account. Likewise, if the rice is to be routed through PDS, the Company will continue the CMR system, provided the loss is compensated by the Government. m) Company has submitied a proposal to operate 5000 MT of paddy in a season with a mix as under: a. CMR : 2000 MT b. Direct marketing : 3000 MT

			n) Anticipated loss is around Rs.3 crores per annum, which the Government may provide to the Company under the market intervention scheme.
			a) The absolute majority of MRM's paddy procurement is from Alapuzha and Kottayam districts and that the level of impurities in the paddy cultivated in these districts is very high. The total level of impurities is within the range suggested by the Food Corporation Of India (FCI). b) If OPIL starts making abnormal reduction towards impurities, the paddy procurement system will fall into deep trouble as the private rice mill owners would start exploiting the paddy farmers in the name of 'thara', the so called allowance towards impurities in the paddy. There is a limit in the reduction as the Government has to project the interest of the farmers also and OPIL is only an instrument to implement the Government policies in this regard.
		5.3.3 High level of immature paddy:	c) Being a Government instrument in carrying out social objectives of the Government in the establishment of Q welfare society, Company cannot resort to abnormal reduction from farmers on account of impurities in the paddy cultivated by them. If OPIL resort for such trade practices. Government would have no say to the private mills when they also resort to the same practices. In fact, the major reason for the establishment of rice mills in the State by the Government is fo ensure a fair paddy purchase and processing mechanism so as to minimize the collective bargaining power of the private mills. The Vechoor Mill Was initiated with this objective in mind to provide support to the paddy farmers in the area. OPIL is ensuring a sustained support to the local paddy farmers. This being the position, OPIL can ensure that a reasonable reduction can be

made to cover the impurities and at the same time, the famers should be protected from exploitations.

5.3.4 Loss due to reduced yield:

a) 68 % yield was the Custom Milled Rice (CMR) norms as per the FCI, CMR is the total of sortex rice, discolored rice and broken rice.
b) In the test milling done by the Committee appointed by the Government, the CMR was only 64.08 % and 64.85 % in place of 68 % fixed by the FCI.
c) In comparison, the production % details of OPIL over the years are given below for information which will prove that the yield of OPIL is reasonably at par with the test results of the Committee appointed by the Government:

Product	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Sortex rice	56.12	63.56	60.99	61.47	63.56	55.97	57.87
Discoloured rice	0.78	0.28	0.63	0.13	0.28	1.16	1.60
Bran	5.29	5.06	5.78	5.34	5.06	4.45	4.33
Chaff	2.38	2.08	2.76	3.71	2.08	2.3	2.24
Broken	0.95	1.65	2.02	2.09	1.65	1.79	1.33
Immature Paddy	7.72	9.38	7.57	5.80	9.38	9.86	7.24
CMR*	57.85	65.49	63.64	63.69	65.49	58.92	60.82

*Total of Sortex rice, discolored rice and Broken rice

d) From the above it can be seen that the CMR of OPIL is more or less at par with that obtained in the milling tests carried out by the Committee appointed by the Government.

			e) Considering the recommendations of the Committee, the Government vide G. O (MS) No.34/18/F&CSD dated 18.08.2018 reduced the CMR to 64.5 %. f) When Government has reduced the CMR to 64.50 % and the actual CMR of OPIL is more or less at par with the same However, every effort is being taken to see that the CMR is within the accepted ratio of 64.50 %. But for this, Company have to resort to stringent quality measures, which may however, invite famers protest. a) Loss in percentage to total revenue of the MRM from the FY 2014-15 to 2017-18 is ranging from 5 % in 2014-15 to 4% in 2017-18. This result is at around 45-60% capacity utilization of the Mill. The picture would drastically change, if the unit can achieve around 80 % to 70 % capacity utilization, which the unit is planning to achieve in the years to come. The loss during 2018-19 was on account of abnormal reasons beyond the control of the Company, reasons of the same is being explained in para 5.3.2. b) The audit contention that the loss is due to low yield of rice is no} factually correct as there is not much shortfall in the yield, thus the loss, if any in this account ts also not much conirary to the figure projected by Audit.
		5.3.5 Operational Performance:	Many factors like low capacity utilization, lack of flexibility in raw material purchase, delay in reimbursement of SIB, lack of marketing and distribution networks, non-availability of Vadi paddy, high processing and other costs etc also contribute to the loss. The initial investment was high on account of marshy land conditions. Hence the yearly depreciation is also high.

			Non receipt of SIB from Government has resulted in additional interest cost on account of availing cash credit facility from bank to pay off the liability towards farmers. All these resulted in high processing and other expenses, which in turn added to the loss. The Company can tide over the situation in a period of 04-05 years. 1. Optimum capacity utilization can be attained through paddy purchase. Shortage of working capital/blocking of working capital, shortage of rice storage facility, lack of rice marketing network and rigid competition from the private rice manufactures are the main constraints being faced by the Company in achieving the capacity utilization. Company cannot market around 500 to 600 MT of rice on its own in a month. Hence a production mix of CMR and commercial operation is proposed in the years to come, which will ensure capacity utilization and loss reduction. During the year 2019-20 and 2020-21, Mill procured a quantity of 235 MT and 227 MT of paddy for commercial operations from farmers. Quantity of paddy allocated to MRM under PDS by Supplyco during this period was 3923 MT and 4409 MI respectively. Allocation of paddy under PDS is done by Supplyco and MRM has no control over it.
		5.3.6 Lack of continuity in revival activities:	During the 1st season of 2021-22, MRM has procured a total quantity of 3515 paddy under the PDS and rice produced is given to Supplyco. It is anticipated that a further 3500 MT would be procured during the 2nd season making total during the 2021-22 season to around 7000 MT. MRM would also procure around 2000-3000 MT of paddy for commercial operations making. The total paddy in an year to 1O0000MT which will be around 80-85 % of the capacity.

			2. Under commercial operations as well as CMR, the main constraint being a faced by the Mill is high operational cost compared with the private rice manufactures. This applies to all elements of cost like raw material, . processing cost etc. Availability of rice in the market is plenty and it is available at very low price also, where OPIL cannot compete with the other manufactures. Quality product would yield a certain margin, but that is limited to a certain premium customers. Selling through Supplyco is also not attractive as the price fetched may not be even sufficient to cover the cost of raw materials. During last 2 years the Mill is operating mainly under PDS and entire quantity of rice produced under the PDS is given to Supplyco only. 3. MRM is procuring paddy from the farmers only. There is a limit on the part : of the mill in imposing 'thara' as it would be a helping hand to the private mills to follow the same suit. This would finally result in exploiting the farmers. Hence the Company can implement the audit para only with a cautious approach. 4. The current CMR is 64.50°% provided all the parameters of paddy procured are as per the norms, which seldom happens. The CMR of MRM is more or less at par with the current CMR fixed by the Government. MRM is taking every effort to achieve the fixed CMR % of 64.50 %. CMR % of 68 % envisaged in the DPR is purely theoretical and not attainable in the present circumstances. 5. Loss of the Mill is mainly due to low capacity utilization and high Operational cost per kg of rice produced. The cost /kg of rice would come down, if the capacity utilization is increased.

Jessy George
Additional Secretary
PEN 101406
Agriculture Department
Government Secretariat
Thiruvananthapuram,

ACTION TAKEN ON THE AUDIT PARAS OF THE REPORT REPORT OF C & AG 31st MARCH 2019

SL.NO	RECOMMENDATIONS	AUDIT PARA	ACTION TAKEN
1	2	3	4
			Vide G.O.(MS) No.24/2000/AGRI dated 24.01.2000 Government accorded administrative sanction to start 3 Modern Rice Mills at Alathur in Palakkad, Thakazhy in Alappuzha and Vaikkom in Kottayam Districts with a total financial outlay of Rs.557 lakhs. The responsibility for establishing the Rice Mills at Thakazhy and Alathur was entrusted to Kerala State Warehousing Corporation. Based on the project report submitted by the corporation in this regard, the Government sanctioned Rs. 170 Lakhs for the Modern Rice Mill at Alathur and Rs 126 Lakhs was sanctioned for the Modern Rice Mill at Thakazhy. Accordingly, initial works were started in the year 2000, but the construction activities of Alathur Rice Mill were stopped in October 2001 due to a lack of funds, as resolved by the Board in its meeting. Later, the Government allotted additional funds for reviving the construction and accordingly the construction restarted in 2007 and the project was completed in the year 2008. Consequently trial run was carried out for a couple of months and commercial production was started. It could process about 738 MT of paddy and the same was marketed under the brand name ANNAM RICE. The total investment of the project comes to Rs 240 Lakhs.

Kerala State Warehousing Corporation	GoK may ensure a support ecosystem to the PSUs selected for operating the MRMs to tackle the problems associated with the new line of business. For instance, a back-to-back arrangement with the Supplyco could have provided operational synergy to achieve the intended objectives of the MRMs."	5.3.6	Though the mill was running smoothly, its operation was stopped in 2010, due to a lack of requisite working capital for the procurement of paddy and a shortage of technical staff. Moreover, the price of paddy supplied by Alathur Co -operative Marketing Society was enhanced suddenly and the Corporation could not afford it at that rate. To restart the functioning of Modern Rice Mill, Alathur, a project report for an amount of Rs 1.79 Crore was submitted to the Government, following the meeting held by the then Hon Minister of Agriculture on 16.04.2015. However, it was directed to submit a proposal to the Director, of the Agriculture department for sanctioning an amount of Rs 1 Crore. But this amount was not sanctioned. Later in the year 2016, the Corporation was directed to initiate steps to revive the mill. For this, tenders were invited for the maintenance of Mill Machinery, Boilers, Electrical works & Effluent treatment plant etc, by expending about Rs. 20 Lakhs. But it was cancelled as per the board's decision due to lack of funds. After making all the necessary arrangements for functioning, the Mill was handed over to M/s Oil Palm India Ltd on 20.09.2018 for 1 year as per the decision of the 294th Board meeting held on 29.10.2018. The electricity charges were remitted by M/s Oil Palm up to August 2019. After that Electricity charges were remitted by the Corporation. On enquiry, it was learned that, if the Corporation disconnects the HT Connection fully,

			for restarting the Mill, fresh power allocation from KSEB will be required and it will take more time and high cost for reinstallation. As no decision was taken for the closure of the Mill, the Corporation decided to retain the existing connection. The Corporation has taken steps to minimize monthly charges since the mill is not operational. As per the direction of the Board, a technical evaluation by the experts in Kerala Agriculture University was conducted and the Associate Director of Research (Agri. Engineering) Kerala Agricultural University, Vellanikkara, Thrissur, in his report inferred that the rice mill and the machinery have to be retained within the Government sector. If that is not a viable decision, the mill may be leased out to NGOs/Co-operative societies. If both options are not viable, the mill may be leased out to private sector players to ensure the utilization of the potential of the mill and for the generation of steady revenue for Kerala State Warehousing Corporation. Also, a meeting was conducted by the Hon'ble Minister (Agri) on the revival of Modern Rice Mill Alathur on 15/05/2024 and instructed the Managing Director, Kerala State Warehousing Corporation to furnish a proposal for generating revenue through Modern Rice Mill, Alathur or on leasing out the Mill to other agencies.

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Govt.Secretariat
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GOVERNMENT OF KERALA

Coastal Shipping & Inland Navigation (A) Department

Name of PSU: Kerala Shipping and Inland Navigation Corporation Ltd.

Statement of Action Taken on the recommendations in the report of the Comptroller and Auditor General of India on PSUs, Government of Kerala for the year ended 31st March 2019 (Report No.2 of the year 2021).

Sl No	Para No.	Department concerned	Audit Para- Observations & Recommendations	Action Taken
1	5.8	Coastal Shipping & Inland Navigation Department	**Avoidable Loss** **Venturing into water sports project without assessing the environmental impact and obtaining prior approval from the Government resulted in Loss of 28.81 Lakh** Kerala Shipping and Inland Navigation Corporation Limited (Company) was established (July 1989) with the main objective of establishing, maintaining and operating transportation services for the transport of goods and passengers in inland water in the State of Kerala or elsewhere. The Company initiated (October 2013) a proposal to enter into the business of water sports activities in four locations (i.e., Kovalam, Varkala, Thanneermukkom and Bekal) in the State with a total expenditure of ₹62.10 lakh. This included capital expenditure of ₹57.10 lakh and a startup cost of ₹5 lakh. The Company projected an annual income of ₹2.26 crore against a projected annual expenditure of ₹2.06 crore, thus leaving a profit of ₹20 lakh from the project. The Managing Director invited (October 2013) a tender for purchase of equipment for operation at all the four locations. For implementing the project at Thanneermukkom, the	KSINC has ventured in to a maiden venture of water sports activities by procuring one jet ski (water scooter), speed boat, banana ride, water ski equipment and pedal boat each on an experimental basis, after reports of huge potential for water sports activities in Kerala. Thanneermukkam was selected for the venture due to absence of stake nets in the area, proximity to Alappuzha and Kumarakom, which are already tourist spots and the IWAI Terminal, which was already taken on lease by KSINC to explore the potential for cargo movement. KSINC agrees that the Vembanad Lake is a notified RAMSAR site. Clause 4(2) of the Wetlands (Conservation and Management) Rules 2010 lists activities which require prior approval of the Government. As per the items in clause 4(2), almost all activities in the lake like fishing, plying of boats, agriculture etc

			Company procured (March 2014) water sports equipment incurring ₹20.37 lakh. Due to opposition from local population, the project could not be implemented. The water sports equipment were given out on hire for five months before being disposed of (March 2017) for ₹6.45 lakh. The Company did not implement the project at the other three identified locations also on the ground that it would entail additional cost for operation. In this connection, Audit observed the following: • The water sports activities at Thanneermukkom were proposed to be conducted in the Vembanad Lake. As per Section 4 (2) of Wetlands (Conservation and Management) Rules, 2010 plying of motorised boat within the Vembanad-Kol wetland could be undertaken only if it was not detrimental to the nature and character of the biotic community and with the prior approval of the State Government. The Company, however, neither undertook any study to assess whether the proposed water sports activities were detrimental to the nature and character of the biotic community nor did it obtain approval from the Government of Kerala (GoK). In the absence of such studies, the Company could not address the concerns of the fisher folk that the project would affect their livelihood. The Company also did not comply with the direction (September 2014) of the District Collector to conduct an environmental	should have been stopped. Item (V) of the said list is related to KSINC's business proposal. It reads as Plying of motor boats if it is not detrimental to the nature and character of the biotic community shall not be undertaken without the prior approval of the State Government. Thus all boating activity is prohibited in the lake under the notification. There were hundreds of house boats and other kinds of mechanised crafts and boats plying in the lake when notification was issued and a lot more was added since then. A reading of the clause implies that if the operation is not detrimental to the nature and character of the biotic then no approval is required. Moreover intended area of operation is part of the NW-3, so vessel movement is already permitted activity there. Incremental pollution due to the water sports activities would be only a small fraction of the pollution caused by other vessels like a ferry boat or a house boat which runs on diesel. Water scooter (Jet ski) did not fit in to the definition of a vessel, under the KIV Rules, hence registration under the KIV rule was delayed much more than anticipated. These were the reasons that KSINC did not went for environmental clearance

			impact study to address the concerns of the fisher folk. • The Articles of Association required the Company to obtain prior approval of the GoK for any programme or capital expenditure for an amount which exceeds ₹50 lakh. Further, as decided (September 2007) by the Board of Directors (BoD), the Managing Director was authorised to sanction capital expenditure up to ₹10 lakh only. The total capital cost of the project as well as the estimated cost of equipment required for implementing the project exceeded ₹50 lakh. The Managing Director, however, approved the project and invited tenders for purchasing water sports equipment without taking prior approval of either the GoK or the BoD. ➤ The Company placed (March 2014) purchase orders for procurement of water sports equipment valuing ₹20.37 lakh for operation at Thanneermukkom only. The BoD was, however, informed of the Company's decision to venture into the water sports activities only in December 2014, when the implementation of the project was hindered due to opposition from the local fisher folk. The BoD did not take any action against the Managing Director despite non-compliance to the provisions of Articles of Association. Thus, the Company incurred a total expenditure of ₹37.38 lakh including	before staring the venture. Also the cost of carrying a proper environmental impact study and getting environmental clearance was very high compared to the cost of equipments. when the study and clearance was insisted upon KSINC dropped the proposal. The Power of the Managing Director is up to Rs. 10.00 Lakhs and that of the Board is up to Rs.50.00 Lakhs. So specific approval of Board ought to be obtained. MD KSINC admitted that there was no specific approval of the Board for the purchase and other information about the venture were reported to the Board in its meetings. The lapse was occurred may be because it was proceeded as a normal purchase for the operation of the company rather than for a new project. Government is of the opinion that the loss of Rs. 28.81 lakh is a genuine business loss. In the case of approvals, KSINC admitted that there is a lapse from their side.But the Board of Directors of the Company is fully aware of the venture and Chairman of the Board and the Managing Director was the same person. Hence, it is requested to condone the lapse. The Managing Director

			operational expense of ₹17.20 lakh for the project without proper authority. The decision of the Company to venture into a new area of business without conducting an environmental impact study and obtaining approval from the Government also resulted in loss ₹28.81 lakh after adjusting ₹2.12 lakh earned as hire charges for the water sports equipment. The GoK stated (November 2020) that it was of the Company's view that the operation of a speed boat etc.was not detrimental to the nature of a vast lake like Vembanad. The Company dropped the proposal when the environmental impact study was insisted upon as the cost of conducting the study was not economical. The GoK accepted that approval of the BoD was not obtained as required. The BoD was fully aware of the venture and the same person was the Chairman of the BoD and the Managing Director at that time. Further, the expense incurred for Inland Waterways Authority of India (IWAI) terminals was a committed expenditure as it was taken on lease to explore the potential of cargo movement. The reply was not acceptable as obtaining approval from the Government after ensuring that the project was not detrimental to the nature and character of the biotic community was a mandatory requirement. The Chairman of the BoD and Managing Director being one person does not relieve the Managing Director from obtaining prior approval from the BoD as required by the Articles of Association. The expense related to IWAI terminals was included in the expense incurred for water sports project as the Company had apprised	KSINC has been strictly directed to follow the recommendations in Para 5.8, while taking up new projects in future. Also Circular No. 40/2022/Fin dated 25.05.2022 (copy enclosed), has been issued in line with the recommendation in para 5.8, instructing all the Chief Executive Officers / Managing Directors of Public Sector Undertakings under the administrative control of the State Govt to adhere to the statutory, administrative and regulatory provisions while taking up new projects. And all Secretaries of the Administrative Departments are also instructed to ensure that the Public Sector Undertakings under their control follow the administrative and regulatory requirements while taking up new projects to avoid bottlenecks that may lead to abandoning at a later stage.

			(December 2014 and March 2015) the BoD that IWAI terminals were taken on lease solely for water sports activities ***Recommendation 5.8 : Adherence to administrative and regulatory requirements may be ensured while taking up new projects for its successful implementation and to avoid bottlenecks that may lead to abandoning at a later stage***	

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