



**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2014-2016)**

**THIRTY NINTH REPORT**

(Presented on 30th June, 2014)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2014

THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2014-2016)**

**THIRTY NINTH REPORT**

**On**

**The Action Taken by Government on the Recommendations contained in the  
Seventy Seventh Report of the Committee on Public Undertakings  
(2004-06) relating to Transformers and Electricals Kerala  
Limited based on the Report of the Comptroller and  
Auditor General of India for the years ended  
31-3-1999 and 31-3-2001 (Commercial)**

991/2014.

## CONTENTS

	<i>Page</i>
Composition of the Committee	.. v
Introduction	.. vii
Report	.. 1
CHAPTER I: Replies furnished by Government on the recommendations of the Committee which have been accepted by the Committee without remarks	.. 2
CHAPTER II: Replies furnished by Government on the recommendations of the Committee which have been accepted by the Committee with remarks	.. 16

COMMITTEE ON PUBLIC UNDERTAKINGS (2014-2016)

*Chairman:*

Shri K. N. A. Khader

*Members:*

Shri Abdurahiman Randathani

„ A. A. Azeez

„ P. K. Gurudasan

DR. N. Jayaraj

Shri Elamaram Kareem

„ T. N. Prathapan

„ Palode Ravi

„ S. Sarma

„ P. Thilothaman

„ P. C. Vishnunadh.

*Legislature Secretariat:*

Shri P. D. Sarangadharan, Secretary

„ M. K. Surendralal, Joint Secretary

Smt. Lima Francis, Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Thirty Ninth Report on the Action Taken by Government on the recommendations contained in the Seventy Seventh Report of the Committee on Public Undertakings (2004-2006) on the working of the Transformers and Electricals Kerala Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31-3-1999 and 31-3-2001 (Commercial).

The Statement of Action Taken by the Government included in this Report were considered by the Committee constituted for the years (2008-2011) and (2011-2014).

This Report was considered and approved by the Committee at the meeting held on 23-4-2014.

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

Thiruvananthapuram,  
30th June, 2014.

K. N. A. KHADER,  
*Chairman,*  
*Committee on Public Undertakings.*

## **REPORT**

The Report deals with the Action Taken by the Government on the recommendations contained in the Seventy Seventh Report of the Committee on Public Undertakings (2004-2006) relating to Transformers and Electricals Kerala Limited, based on the Reports of the Comptroller and Auditor General of India for the years ended 31-3-1999 and 31-3-2001 (Commercial).

The Report contained 9 recommendations and the Government furnished replies to all the recommendations. The Committee (2008-2011) and (2011-2014) considered the replies received from the Government at their meetings held on 16-12-2009 and 11-1-2012 respectively. The Committee accepted the replies to the recommendation Nos. 1(11), 2(16), 3(21), 4(22), 7(29), 8(34) and 9(37) without any remarks. These recommendations and their replies furnished by Government form Chapter I of the Report.

The Committee accepted the replies to the recommendation Nos. 5(23) and 6(25) with remarks. These recommendations, their replies furnished by Government and remarks of the Committee form Chapter II of the Report.

## CHAPTER I

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

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department</i>	<i>Conclusions/ Recommendations</i>	<i>Reply furnished by Government</i>
(1)	(2)	(3)	(4)	(5)
1	11	Industries	<p>The Committee observes that it was sheer negligence and lack of proper planning that lead to the payment of demurrage of ₹ 39.30 lakh, besides the loss of interest of ₹ 50.94 lakh in the import of 1000 tonnes Cold Rolled Grain Oriented Steel. The Committee pinpoints that the company had miserably failed to ensure the availability of sufficient finance before embarking upon such a big import deal. The company ought to have taken reasonable care and caution before executing business decisions involving crores of rupees. It is really sad to note that the entire financial benefits in the import was wiped out by the unnecessary</p>	<p>The company had planned its production for the year 1996-97 taking into consideration the availability of the working capital in the beginning of the year. In the case of materials like CRGO Steel substantial lead time is also required. The company had established LCs with great difficulty for payment of customs duty and other clearance charges at the time of arrival of the materials in the ports. Since the final decision on the revival package by the BIFR was made only after 30 months of reference to BIFR (referred in May 1995) the consortium bankers could not release working capital sanctioned by the lead bank in Nov. 1995 required for the company's production for 1996-97. This has made the financial position of the company very precarious and hence such demurrage charges and loss of interest could not be avoided. Once the working capital position improved, there are no instances of such demurrage charges.</p>

(1)	(2)	(3)	(4)	(5)
			<p>payment of demurrage and interest loss on locked up funds. Had the company gone for indigenous purchases, aforesaid unscrupulous loss could have been avoided. The Committee therefore recommends that stringent action should be taken against the officers concerned. The Committee further recommends that the company should be more prudent and practical while taking vital decisions, so that such economic blunders can be avoided in future.</p>	
2	16	Industries	<p>The Committee is shocked to know that the Company paid an amount of ₹ 144.45 lakh as customs duty which could have been avoided, while the company was facing severe financial crunch. As per the existing Government policy, raw materials and required components imported for manufacture of goods</p>	<p>Regarding the non-inclusion of items in duty free import applications, kind attention is invited to the concluding observations of the PUC in para 16 of the report that “As per the existing Government Policy, raw materials and required components imported for manufacture of goods meant for export and deemed export were exempted from customs duty. As the Company imported items which would fall under the said category, the benefit could have been availed without</p>



(1)	(2)	(3)	(4)	(5)
			<p>meant for export and deemed export were exempted from customs duty. As the Company imported items, which would fall under the said category, the benefit could have been availed without any problem. The Committee had every reason to believe that the company is forced to make the payment of customs duty either due to the non submission of necessary documents in time or the non-inclusion of certain items in the import license application. The Committee believes that this is the best example of inefficient and ineffective management of affairs prevailing in the company and recommends that a detailed enquiry should be conducted regarding these mishaps and those responsible be brought to book. The Committee further recommends</p>	<p>any problem. The Committee had every reason to believe that the Company is forced to make the payment of customs duty either due to the non-submission of necessary documents in time or the non-inclusion of certain items in the import license application".</p> <p>It is admitted that TELK in its reply to the Auditors, could not give emphasis to the fact that the items were not included in the list of items which are allowed to import duty free as per input-output norms of the Government of India. However, this point is reported to have been presented by the Company at the time of personal hearing by the Public Undertaking Committee.</p> <p>The PUC has recommended the Company to make a detailed enquiry in the matter. As per input-output norms, the following is the list of items allowed to import duty free for copper wound transformers:</p> <ol style="list-style-type: none"> <li>(1) CRGO Steel</li> <li>(2) Copper</li> <li>(3) Transformer Oil</li> <li>(4) Pre-compressed Press Board</li> <li>(5) Phenolic Resin Bonded Paper</li> <li>(6) Motorised off-load/on load tap changer/switch</li> </ol>

(1)	(2)	(3)	(4)	(5)
			that the entire administrative machinery should be revitalized so that such lapses do not occur in future.	<p data-bbox="837 528 1244 600">(7) Pre-pressed Boards/Moulded components</p> <p data-bbox="837 618 1244 896">In this case, Bushings, Oil pump, sudden Pressure Relay and Buchholz Relay were imported paying customs duty of ₹ 54.26 lakh since the above materials were not allowed to import duty free which is evident from the list shown above. There is no loss to the Company in this regard.</p> <p data-bbox="837 913 1244 1046">The details of copper imported by TELK under duty free licenses referred in the report under reference is as detailed below:</p>

From the above data, it can be seen that the Company has made all-out efforts to import maximum possible copper under duty free licenses. Out of the total 563.700 MTs of licensed quantity, the Company had imported 518.485 MTs i.e., 92%. As reported by the Company in the various replies submitted and

---

(1)	(2)	(3)	(4)	(5)
				<p>also as reported by the Committee constituted for enquiring into the facts of the case, the Company was reeling under heavy financial crisis during that period. The banks were reluctant to provide additional Working Capital facilities to the Company as the Company owed huge amounts to the Bank for materials already received by the Company and payment was effected by the Bank to the suppliers as per LC terms. Even at this juncture, the Company however managed to import 92% of the copper from the licensed quantity as per the licenses. In view of this factual position of utilisation up to 92% of duty free license quantity, it can be stated that the Company had made all efforts in utilisation of this facility within their financial capacity prevailing then, i.e., period under reference. Factually, the unavailed portion of the licenses was the quantity left after maximum efforts made by the then management to utilise the license to the maximum with the very limited LC limits from the Banks. It is to be reiterated that, during those periods, the Company failed to meet its LC obligations and the accounts with the banks were irregular.</p>

---

---

(1)	(2)	(3)	(4)	(5)
				<p>The enquiry Committee of TELK reveals that the Company was in heavy financial difficulties and the Company was allowed to open LC strictly up to the prescribed limits. At that juncture the Company had to trade off between openings of foreign LCs, which require long period and indigenous LCs which require short periods. The decision of the Management was to feed the factory from indigenous sources, which require shorter lead time for uninterrupted production to achieve target of production and the profitability. The Committee observed that the loss due to the unavailed portion of duty free licenses was not due to the inefficient management and factually it was unavoidable due to financial constraints faced by the Company and the management's efforts to avoid heavy losses to the Company due to production hold ups.</p>
				<p>The Committee on Public Undertakings was very much concerned and their conclusion was pinpointed on the payment of customs duty either due to non-submission of necessary documents in time or the non-inclusion of certain items in the import license applications which was not happened actually. But the company failed to convince the Committee on Public Undertakings</p>

---

---

(1)	(2)	(3)	(4)	(5)
				<p>that the import with payment of customs duty was necessitated exclusively due to the fact that those items were not allowed under duty free license as per the Government policy and not because of any lapse from the Company. Also, in spite of the heavy financial constraints, the company managed to utilise the duty free licenses to the maximum extent possible.</p>
				<p>It is admitted that the element of customs duty on duty free imports to the extent of the lower of the eligibility for import as per norms and quantity required for production will be adjusted at the time of quoting. However, due to reasons beyond the control of the Company, the Licenses were unutilised by 8%. But it is to be noted that in regard to license No. P/L/1526646 dated 24-3-1994, the unutilised quantity of copper eligible for import was only 11.250 MT instead of 27.551 MT due to limitation in the total permitted CIF value in the License.</p>
				<p>The balance quantity unutilised in license Nos. P/L/1526646 dated 24-3-1994 (11.250 MTs as explained in the above paragraph) and F/L/2041181 dated 24-10-1995 (14.930 MTs) was Continuously Transposed Conductor (CTC) which were not availed</p>

---

(1)	(2)	(3)	(4)	(5)
				indigenously and so could not be procured indigenously then. Hence TELK has not incurred loss on account of Customs Duty. The quantity unutilised was very small against the license No. 10000586 and it was also known that TELK was in heavy financial crisis at that time.
3	21	Industries	The Committee is much distressed to note that the company is forced to pay huge amount as liquidated damages due to abnormal delay in the execution of orders for power transformers/ gas circuit breakers. The Committee understands that as per the agreement with Gujarat Electricity Board, 40 gas circuit breakers of 220 KV and 10 gas circuit breakers of 66 KV were to be supplied on 6-3-1996. But the Company could not supply even a single gas circuit breaker on the scheduled date.	Before taking up the production of GCB, it was mandatory that the company get the product type tested, as the validity of the existing report was over. The Breaker was to be taken to Italy for conducting the type test, as the facility for doing this type of test is not available in India. Without an order for a substantial quantity on hand, the expenditure towards type test cannot be justified and hence company took a considered decision to accept the order from GEB. However, contrary to the company's expectation, there was delay in getting the Breaker tested, due to the paucity of funds. The delay in supply of the Breakers led to levy of liquidated damages by Gujarat Electricity Board. However the Board was lenient enough to return about ` 58 lakh from the total liquidated damages levied by them.

(1)	(2)	(3)	(4)	(5)
			<p>The liquidated damages paid on this account is ₹ 80.43 lakh. The Committee cannot agree with the contention of the witness that the company had to conduct the type test in Italy which was highly time consuming and paved the way for the inordinate delay in the delivery of items. As the company is a pioneer in this field and as such the company should have foreseen such contingencies well in advance before entering into a contract. The Committee therefore recommends that the company should be more prudent, realistic and practical in accepting delivery schedules in future.</p>	
4	22	Industries	<p>The Committee is wonder-struck in the payment of ₹ 9.60 lakh as liquidated damages to Bhakra Beas Management Board (BBMB). The Committee was not impressed by the</p>	<p>The BBMB ordered 1 No. 167 MVA transformer on TELK as a replacement for one existing Russian make transformer in their project site. At the time of tendering, the customer was insisting only a replacement transformer and afterwards they insisted for a total</p>

(1)	(2)	(3)	(4)	(5)
			<p>reason put forward by the Company, to pay liquidated damages as the delay is adduced to be that in the finalization of design by BBMB. Hence, the Committee recommends that as the case may be like this, immediate steps should be initiated to recoup the amount at any cost.</p>	<p>interchangeability for their old equipment even for the components including the piping. This was a Herculean task for TELK as their design has to be made compatible with the dimensional aspects of the old transformer. There was considerable delay even for getting the drawings approved by the customer and since this was exactly identical to the old transformer, the customer wanted stage inspection at different manufacturing levels and also during final testing of the transformer to have a matching result of the new equipment with that of the old one. The Company could comply to all the customer requirements and after completing the delivery of the transformer and while realizing the payment, an amount of ₹ 9.6 lakh was withheld by them towards liquidated damages for the delay happened for delivering the transformer.</p> <p>BBMB was considered as one of the good customers from past experience and in spite of taking all-out efforts to supply an identical transformer to BBMB even with slight delay they were not kind enough to release the withheld liquidated damages to the Company. The Company has, therefore, given instruction to all</p>



(1)	(2)	(3)	(4)	(5)
				concerned to become more alert and aggressive for such cases in future and if at all they are forced to receive such orders from customers, adequate precautions are to be taken.
7	29	Industries	The Committee is grief-stricken to see that the Company has resorted local purchase of copper at a higher rate while it possessed duty-free import license in hand which resulted in an extra expenditure of ₹ 1.06 crore. The Committee opines that the Company has failed miserably to avail benefits of import concessions extended by Government of India in the name of financial constraints. The Committee recommends that every step should be taken to avoid recurrence of such nasty events in future.	The time factor, i.e., the lead time required to import has to be considered in this case. When raw materials are required immediately for production, the Company cannot afford to open Letter of Credit and wait for further 3 months to receive the materials. Therefore, the funds available will be utilised to procure locally. This does not mean that the Duty Free Licenses have lapsed. Considering the nature of the industry and the raw materials required by it and the cycle time required to realize the payments for the goods sold, the Company had taken up with its Bankers-M/s SBT to provide additional L/C limits and Working Capital. The situation has been brought to the notice of the Government.
8	34	Industries	The Committee is perturbed to see that delay in the delivery of power transformers to KSEB resulted in an avoidable financial	The KSEB awarded an order on TELK for supply of 20 nos. Power Transformers for a total value of ₹ 8.74 crore. There was 20% advance payable to TELK

(1)	(2)	(3)	(4)	(5)
			<p>loss of ₹ 1.11 crore to the Company. As the order was meant for twenty numbers of power transformers, and 20% of the total price was received as advance from the Board, the Committee opined that, had the Company procured raw materials in a phased manner, a major part of supply could have been effected within the schedule time and the loss could have been reduced to the minimum. Hence the Committee recommends that the Company should be more practical and vigilant while executing orders and earnest efforts should be made to deliver the items in time.</p>	<p>against this contract and KSEB had released the payment also in time. However there was delay in delivering the transformers and 13 out of 20 Nos. transformers were supplied beyond the delivery period stipulated in the contract. As per provisions of the purchase order, KSEB reduced a total amount of ₹ 42.96 lakh towards refixation prices based on the reduced quoted price of other firms in the subsequent tenders. They do not allow price variation claims also and a total amount of ₹ 67.9 lakh was also lost in this case.</p> <p>Even though Company received 20% advance from KSEB, due to the acute shortage of working capital prevailing at that time, the amount so received was not utilised for procuring raw materials for the KSEB transformers. The Company had other commitments also at that time against which the raw materials were needed to be arranged with the said amount. It was a usual practice of TELK to utilise the advances properly so that the contracts they have in their order book was required to be completed one by one on priorities based on the commitment the Company have.</p>

(1)	(2)	(3)	(4)	(5)
				<p>Now TELK is following a disciplined financial control to avoid similar incidents. The loss towards liquidated damages, refixation of prices and loss in price variation etc. are negligibly small in the subsequent years and was a result of the action taken by the Company in time as stated.</p>
9	37	Industries	<p>The Committee is astonished to note that an amount of ₹ 0.54 crore had been lost to the Company due to the non-adherence of delivery schedule of Gas Circuit Breakers required to be supplied to KSEB. Hence the Committee recommends that the Company should take into account all pros and cons including structure, design and financial arrangement before entering into every major contract so that timely delivery of goods may be effected in future.</p>	<p>The supply of 25 numbers of 123 KV, SF6 Gas Circuit Breakers to KSEB was of a new design and the Company had to submit the design after proto-type tests. The need for the new design arose only on acceptance of the order, in order to meet KSEB's requirements of hot dip galvanizing of support structure, which was a deviation item from the tender. As per the standard design, the supporting structure is with a single piece welded construction, on which hot dip galvanizing is not possible due to its large size. In order to meet customer requirement (as a deviation in the tender, referred above) a new design was evolved with few pieces separately galvanized and assembled thereafter to form the supporting structure, which also necessitated consequent changes in other related parts like air compressor etc. Being a development item, repeated tests were necessary to prove its capacity to withstand the</p>

---

(1)	(2)	(3)	(4)	(5)
				<p>impacts during the operation of the Gas Circuit Breaker. The above design development took considerable time which led to slippage in the production schedule. In addition to the above technical aspects, the difficult financial condition of the Company also caused delay in procurement, majority being components, which were to be imported.</p>
				<p>The Company is taking all measures to see that any variation from the specifications should be evaluated and cost is accordingly included to avoid recurrence of such incidence. It is also confirmed that no such incident has occurred in the recent past.</p>

---

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

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department</i>	<i>Conclusions/ Recommendations</i>	<i>Reply furnished by Government</i>
(1)	(2)	(3)	(4)	(5)
5	23	Industries	<p>The Committee further understands that an amount of ₹ 77.8 lakh has been withheld by the KSEB as liquidated damages in lieu of the Execution of work for ₹ 20 crore. Since the tender is associated with World Bank Loan Scheme, only a short period of five months was allowed to complete the work. The Committee opines that urgent steps should be taken to realize the balance amount from KSEB. The Committee also recommends that the matter of collecting the balance of arrears should be decided at the Secretary level and the facts may be intimated to the Committee in time.</p>	<p>The Company was forced to accept the order on a short delivery basis at the instance of KSEB. But at the time of accepting the order, Company considered the following :</p> <ol style="list-style-type: none"> <li>(1) the high margin company could get out of this</li> <li>(2) KSEB is also a Government of Kerala undertaking</li> <li>(3) the order position with Company</li> <li>(4) absence of technical hazards in executing the order, as the design was that of an existing type.</li> </ol> <p>Even though the delivery of the equipment was delayed, KSEB had taken a lenient view considering the short delivery period and paid back a part of the liquidated damages. The matter was taken up at various levels to condone the delay and to get back</p>

(1)	(2)	(3)	(4)	(5)
				the liquidated damages withheld by KSEB but the effort was not fruitful. Finally, the Company was informed that the matter cannot be reopened.
		<i>Remarks:</i> The Committee desires to know the outcome of the Secretary level discussion in the matter of collecting balance of arrears due from KSEB.		
6	25	Industries	The Committee is distressed to learn that the lethargic attitude on the part of Company in claiming the refund of central excise duty within the stipulated period resulted in a heavy loss of ₹ 14.93 lakh to the Company. The Committee, opines that laxity on the part of company in collecting payment certificate from the customers in appropriate time led to such a loss. The Committee, therefore, recommends that the company should take every possible step to end up with the recurrence of such events in future.	As per the existing Rule, Excise duty is payable on test charges as the product becomes saleable only if it is successfully type tested and amount paid by the customer towards type test charges is considered as value addition to the product. The excise duty on test charges is payable by the customer. However in the case of export/deemed export jobs, the Company is to get refund of excise duty paid from JDGFT, which comes under Ministry of Commerce, Government of India. However there is no provision for refunding the excise duty on test charges as per the guidelines of Ministry of Commerce. JDGFT will reimburse only the excise duty paid on type test charges. The matter has already been taken up with

---

(1)	(2)	(3)	(4)	(5)
				both ministries, but no favourable decision has still emerged and status quo is being maintained.

---

*Remarks:* The Committee expresses displeasure on the Government reply and directs that the department should take proper action.

Thiruvananthapuram,  
30th June, 2014.

K. N. A. KHADER,  
*Chairman,*  
*Committee on Public Undertakings.*