

CHAPTER XV: MINISTRY OF STEEL

MSTC Limited

15.1 Failure to safeguard financial interest of MSTC

The Company failed to safeguard its financial interest while entering into an agreement financing material for a defaulting party and subsequently extended the agreement leading to non-recovery of ₹19.92 crore.

MSTC Limited (Company) entered into an agreement with Krishna Coke (India) Private Limited (KCIPL) in April 2010 (17 April 2010) for facilitating import / procurement of coking coal, hard coking coal and low ash metallurgical coke. The agreement was initially valid upto April 2011 and was subsequently extended to April 2012 and later to April 2014.

As per the agreement, procurement of the material was to be financed by the Company. The agreement also included a Custodian who was to be responsible for supervision of discharging/unloading/stacking and delivery of the material. The Custodian would deliver the material to KCIPL after receiving authorisation from MSTC and would send weekly/monthly reports of opening balance, receipts, deliveries and closing balance to MSTC and the KCIPL. As per the agreement, the stock was to be maintained at the premises of KCIPL. It was provided that MSTC and the Custodian would not bear responsibility for any shortage of stock. The entire loss in such cases of stock shortage would be borne by KCIPL.

Audit noticed that three consignments of coking coal (quantity of 18,817 MT) were financed by MMTC during April to June 2012 under the agreement which were stocked in the premises of KCIPL in custody of a Custodian¹. Out of this, only 1,000 MT was lifted by KCIPL in 2012-13. A volumetric assessment of the pledged stock kept at the premises of KCIPL was carried out (February 2014) by a third party inspection agency. The inspection revealed a shortage of 76 *per cent* of the material (13,604.15 MT). KCIPL did not accept the assessment and stated (March 2014) that out of the above stock, 4,400 MT of coking coal was lying at Paradip Port Trust (PPT) which had not been considered for assessment. PPT, however, confirmed (April 2014) that KCIPL had already lifted the said coking coal during June 2011 to February 2012.

KCIPL did not pay for the shortage of material. MSTC filed a petition for winding up KCIPL in the Cuttack High Court in May 2014. KCIPL subsequently denied (March 2015) responsibility for shortage of material stating the material had been lying at the bonded warehouse of MSTC and the Custodian would not have delivered any material without authorisation from MSTC. Audit noticed that MSTC has already provided for the

¹ The Custodian for the agreement was M/s Transafe Services Limited for September 2011 to June 2013 and M/s Ferro Scrap Nigam Limited for July 2013 onwards

shortage in stock as doubtful of recovery in their books of accounts, the amount provided for in Financial Year 2014-15 being ₹19.92 crore. Meanwhile, UCO Bank, a secured creditor of KCIPL, took over possession of the factory premises in April 2016. MSTC requested (June 2016) the UCO Bank for allowing their representatives to safeguard the pledged stock in the factory premises which has not been agreed to by the bank.

In this connection, Audit noted the following:

- (i) The agreement signed with KCIPL in April 2010 and its subsequent extension in April 2012, violated the internal guidelines of the Company. As per Risk Management Policy, 2008 of the Company, earnings before depreciation and tax of a party should be at least five percent of turnover before entering into an agreement with such a party which would involve financial exposure of the Company. It was noticed that though KCIPL did not fulfil this condition over 2008-09 to 2011-12, the Company entered into an agreement in April 2010 and extended it in April 2012. It was also noticed that the external credit rating¹ of KCIPL indicated high risk of default. Besides, KCIPL had been slow in lifting the material and had been defaulting in payment since inception.
- (ii) The Company had earlier entered into an agreement with KCIPL in May 2008. Even while considering this agreement, the Finance Division of the Company had expressed its apprehensions in view of the poor financial position of KCIPL. In that agreement (February 2008), the material was stocked at the port and not in the premises of KCIPL to protect the interests of the Company. The agreement entered with KCIPL in April 2010 (extended subsequently upto April 2014) however, provided for stocking the material in the premises of KCIPL which proved detrimental to the Company's interests. It was also seen that the Finance Division of the Company had opined in April 2012 that business with KCIPL should not be continued as their past performance was un-satisfactory. Management however, ignored all these factors and extended the contract with KCIPL which finally led to non-recovery of ₹19.92 crore.
- (iii) Successive custodians had neither maintained the stock register nor sent the weekly/monthly reports regarding the pledged stocks regularly which paved the way for eventual shortage of material. The agreement with the Custodian did not have any penalty clause for non-compliance of agreement terms and thus, no action could be taken against the Custodian for their negligence.

The Management in reply stated (September 2016) that:

- (i) Though the lifting pattern of KCIPL was slow, it had lifted the entire material within March 2012 procured prior to that date and prior to renewal of agreement (April 2012).
- (ii) The service of M/s Transafe was terminated due to their negligence in performing Custodian duties and M/s Ferro Scrap Nigam Limited (FSNL) was brought in. The

¹ CRISIL credit rating of KCIPL was 'B'. Credit rating of 'B' is considered to have high risk of default regarding timely servicing of financial obligations

stock register was subsequently updated by FSNL. Further, as per the tripartite agreement, neither MSTC nor FSNL (Custodian) was responsible for shortage of material which was solely to be borne by the customer.

(iii) Legal steps have been taken to recover the dues from KCIPL.

The Ministry while endorsing the views of the Management stated (December 2016) that the agreement was renewed due to compulsion for recovery of earlier dues as there was unpaid stock in transit amounting to ₹9.43 crore.

Reply of the Ministry is not tenable in view of the following:-

- The Company had experienced problems in lifting of material by KCIPL in an earlier agreement signed in May 2008. Against that agreement, KCIPL had taken more than three years for lifting the material financed by the Company. As such, the subsequent agreement with KCIPL in April 2010 and its further extension in April 2012 in the face of adverse finances and credit rating of KCIPL was ill-advised. Further, there was no compulsion for financing of unpaid stock if MSTC wanted to discontinue its business with KCIPL.
- The loss on account of shortage of material had to be borne entirely by the Company in absence of suitable clause in the agreement fixing responsibility of the Custodian in the event of shortage of stock in their custody.
- Though the Company has taken legal steps, it is seen that the secured creditor, UCO Bank has already taken possession of the factory premises of KCIPL. The approximate value of the 'property and plant' of KCIPL was ₹17 crore while the charge of UCO Bank was for ₹14.49 crore as on 30 June 2015 plus interest cost and incidental charges thereon. In this context, the likelihood of the Company, being an unsecured creditor, recovering its outstanding dues seems remote.

Thus, the Company failed to safeguard its financial interest while entering into an agreement financing material for a defaulting party and subsequently extended the agreement leading to non-recovery of ₹19.92 crore.

NMDC Limited

15.2 Avoidable expenditure towards interest on delayed payment of royalty

Failure to compute and pay royalty correctly on iron ore removed from the mines during the period from 2009-10 to 2011-12 led to payment of ₹34.34 crore to Government of Karnataka in March 2016 by NMDC Limited.

NMDC Limited (NMDC), engaged in mining and sale of iron ore, owns an iron ore mine at Donimalai in the Bellary district, Karnataka with an installed capacity of seven million tonne per annum. The sale of iron ore till 2011-12 was on the basis of prices fixed by the Company on quarterly basis. Subsequently, sales were carried out by the Monitoring Committee appointed by Hon'ble Supreme Court of India. The Monitoring Committee

had been conducting e-auction and the sales proceeds realised by it were disbursed to NMDC after payment of statutory dues to the respective departments.

The Company was required to pay royalty as per Mines and Minerals (Development and Regulation) Act, 1957, on iron ore removed from the mine. Mineral Concession Rules, 1960 placed responsibility on the mine-owner to compute the royalty payable for the quantity of mineral produced/dispatched in a month based on the average sale price of iron ore declared by Indian Bureau of Mines (IBM) for that month. Further, these Rules also provided that any amount due to the State Government, including royalty, would attract interest at the rate of 24 *per cent* per annum from the 60th day of expiry of the date fixed by that Government for payment of such royalty. Karnataka (Prevention of Illegal Mining, Transportation and Storage of Minerals) Rules, 2011 required every miner to obtain a valid Mineral Dispatch permit from the Department of Mines and Geology (DMG), Government of Karnataka and pay the required royalty before dispatch of ore from mining area.

Audit noticed that NMDC paid royalty to DMG on a provisional basis based on the estimated quantity of dispatches. Since the royalty payable was to be computed for the actual quantity dispatched as per the price declared for that month by IBM at a later date, NMDC was expected to monitor the royalty actually paid and royalty payable and pay any differential amount due to DMG. The Company, however, relied on DMG to raise demands for such differential amounts, if any to be paid, at the end of each financial year. No demands, however, were raised by DMG immediately after the end of financial years from 2007-08 to 2011-12. However, in January 2013, a demand was raised by DMG, Hospet seeking payment of differential royalty of ₹34.85 crore for the above period, with specific mention that the demand was subject to further scrutiny and approval by Director, DMG, Bangalore. NMDC paid this amount on 19 January 2013. DMG, Hospet, at the request of NMDC, issued (March 2013) a 'No Dues Certificate' as well, based on the existing demands raised and payments made. In February 2016, DMG raised another demand of ₹40.52 crore towards differential royalty for the period 2009-10 to 2011-12 which included interest on the arrears upto 2014-15 amounting to ₹34.34 crore, computed at the rate of 24 *per cent* per annum. The above amount was deducted (March 2016) by the Monitoring Committee from the sales proceeds payable to NMDC and remitted to DMG.

The Management stated (September 2016) that NMDC had been paying the differential amount of royalty every year on receipt of demand notice from DMG. It had issued (January 2013) a demand notice in the past for the year 2007-08 to 2011-12. The same was duly paid in January 2013 itself and 'No Dues Certificate' had been issued (March 2014) by the DMG. After issuance of this certificate, raising of fresh demand by DMG for differential royalty amount together with interest, was not correct.

The Ministry reiterated (December 2016), the views of the Management.

The replies are not acceptable as the responsibility of computing and remitting the royalty payable was on the mine owner. Hence, reliance on demand notice from DMG to pay any differential royalty, lacked justification. Further, in the earlier demand notice pertaining to the period from 2007 to 2012, it had been mentioned by DMG that the demand was subject to further scrutiny and approval by DMG, Head Office, Bangalore. The 'No Dues

Certificate' was issued by the Branch Office of DMG, at the request of the Company, specifically for the purpose of renewal of a mining lease, on the basis of the previous demand raised and payments made. Further, the demand notice issued by DMG in February 2016 clearly stated that the NMDC, as the mine owner, was responsible for remitting the differential royalty amount and that the demand amount had been computed using monthly and annual reports submitted by the mine contractor. Hence, the Company could not term the issue of fresh demand notice along with interest as incorrect.

Thus, failure on the part of NMDC to compute the royalty correctly and pay the same on a timely basis during the period from 2009-10 to 2011-12, resulted in avoidable payment of interest amounting to ₹34.34 crore in March 2016.

Steel Authority of India Limited

15.3 Loss of ₹11.25 crore due to failure of BSL/SAIL to effectively manage imported coal

Failure of Bokaro Steel Plant in effectively managing imported coking coal led to an avoidable loss of ₹11.25 crore.

Steel Authority of India Limited (SAIL or Company) imports 85 per cent of its coking coal requirement for its integrated steel plants. Imported coking coal is received at the ports and transported by railway wagons to the Company's steel plants where it is unloaded, stored and utilised.

Bokaro Steel Plant (BSL) has earmarked two rotary tippers for unloading coking coal from railway wagons. These tippers were originally designed to accommodate tippel box type wagons only and were upgraded in April-June 2011 to accommodate high axle wagons. Indian Railways had started using high axle wagons in its rakes since 2008-09. In absence of appropriate tippers, imported coking coal received in BSL during 2008-11 in high axle wagons had to be evacuated in the open empty yard.

Audit observed that BSL management left 13,204 tonne of this coking coal costing ₹14.21 crore unattended at this open area for 5-6 years until it faced space constraints and decided (January 2016) to shift the material. It was then found that of this, coal weighing 2,288 tonne worth ₹2.61 crore ($₹11,407.82^1 \times 2,288$ tonne) was lost/ unaccounted and the remaining 10,916 tonne had lost its coking properties/fluidity and was unfit for use as coking coal. It was therefore decided (July 2016) to transfer the 10,916 tonne of coal to Bokaro Power Supply Company Pvt. Ltd. (BPSCL)² for generation of power (where lower grade coal without coking properties can be used). The transfer price to BPSCL was ₹3,489 per tonne which resulted in loss of ₹8.64 crore³.

The Management of BSL replied (30 November 2016) that due to space constraints at silo and lesser use of coking coal, coal parked in open area could not be transferred to

¹ Weighted average cost of imported coal for the years from 2008-09 to 2010-11

² a Joint Venture Company of Steel Authority of India Ltd.(SAIL) and Damodar Valley Corporation (DVC) engaged in power and steam generation and supplies power and steam (at various pressures) to SAIL's Bokaro Steel Plant (BSL)

³ ($₹11,407.82 - ₹3,489$) x 10,916 tonne

storage/used. Further, 2,288 tonne of coal had not been lost but seems to have got mixed with the Coal Dust Injection (CDI) coal kept beside this coal in the yard.

The Management's reply is not acceptable in view of the following:

- (i) Import and consumption of coal is a continuous process with BSL consuming 25 lakh tonne imported coal annually. The coal parked in the open area could have been utilised before the coal received in subsequent rakes which would have prevented its loss of coking properties and diminution in value.
- (ii) The contention that 2,288 tonne of coal would have mixed with CDI coal is also farfetched as CDI coal was stacked about 200 meters apart from the imported coking coal and was separated by a shed. Moreover, physical verification of CDI coal does not indicate excess stock to account for lost imported coking coal.

Thus, failure of BSL in effectively managing the imported coking coal led to the Company suffering an avoidable loss of ₹11.25 crore.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

15.4 Avoidable expenditure of penalty/ idle freight

The Management failed to install weigh bridges at MIOM and KIOM and incurred avoidable expenditure on payment of penalty/ idle freight to Railways, amounting to ₹101.97 crore (during the period 2011-12 to 2015-16).

Iron ore mined at Kiriburu Iron Ore Mines (KIOM) and Meghahatuburu Iron Ore Mines (MIOM), Jharkhand is crushed and screened at the mines. Following this, stock piles of iron ore lumps and fines are dispatched to steel plants through railway rakes/wagons. Audit noticed that these wagons were loaded at the mines on estimation basis by SAIL. Subsequently, Railways undertook weighment of the loaded wagons at Vimalgarh (Railway weighment) and such weighment determined whether the wagons had been over-loaded or under-loaded by SAIL at the mines. In case the wagons were over-loaded at the mines, Railways charged SAIL penalty while in case the wagons were under-loaded, SAIL had to bear financial loss in the form of idle freight.

SAIL decided (July/August 2007) to install weigh bridges at its own sidings at MIOM and KIOM so that the quantity being loaded on each wagon could be weighed to avoid payment of penalty/idle freight to Railways. In December 2009, SAIL installed an Electronic in-motion Weigh Bridge (EIMWB) at the cost of ₹0.52 crore at MIOM. Audit, however, noticed that this EIMWB could not be used since its installation was not as per Railway specifications. In September 2010, SAIL completed a Static Electronic Rail Weigh Bridge (SERWB) at a cost of ₹0.15 crore at KIOM. Audit noticed that the SERWB also could not be utilised as Railways derecognised it, effective 1 April 2011, vide Railways circular dated 11 November 2009. Thus, both weighbridges installed by SAIL at MIOM and KIOM remained non-functional and SAIL continued to load wagons/ rakes at the mines on estimation basis.

Over 2011-12 to 2015-16, SAIL paid penalty of ₹18.57 crore to Railways for over-loading wagons. During the same period, SAIL paid ₹83.40 crore for idle freight on account of under-loading of the wagons. Thus, SAIL incurred expenditure of ₹101.97 crore on penalty/ idle freight during 2011-12 to 2015-16 which could have been avoided with proper weighment at the two mines before loading the wagons.

The Management agreed (December 2016) that installation of weigh bridges helps to minimise the over/ under-loading through corrective action as weighment can be done at the loading point itself. The Management stated that weigh bridge was installed at MIOM considering the available space, terrain and accessibility for smooth weighment of rakes. It was at time of commissioning of the weigh bridge that Railways pointed out that the distance of EIMWB from the nearest turning point was inadequate for operation. The Management also stated that SERWB was envisaged and completed before Railways de-recognised the same.

The Management's acceptance of the fact that over/ under loading could be minimised by installing weighbridges at loading point, thereby reducing penalty/ idle freight paid to Railways need to be viewed against SAIL's continued loading of wagons on estimation basis. Besides, EIMWB installed at MIOM (December 2009) failed to comply with specifications issued by Railways (regarding the required distance from the nearest turning point) as early as 2005, even before SAIL decided to install the weighbridge which ought to have been factored in its design. The Management contention that SERWB was completed before it was de-recognised by Railways is also not acceptable as the Railways circular de-recognising it was issued in November 2009 while SERWB was completed only in September 2010. It is also noticed that the Management has not taken any alternative measures in the last six years (since SERWB was completed in September 2010) to control its losses on account of over/under-loading of wagons at the mines.

Thus, the Management failed to install weigh bridges at MIOM and KIOM which led to continued avoidable expenditure on penalty/ idle freight. During 2011-12 to 2015-16, this avoidable expenditure amounted to ₹101.97 crore. Besides, the expenditure on construction of weigh bridges, amounting to ₹0.67 crore (₹0.52 crore and ₹0.15 crore on EIMWB and SERWB respectively) became infructuous as they could not be utilised.

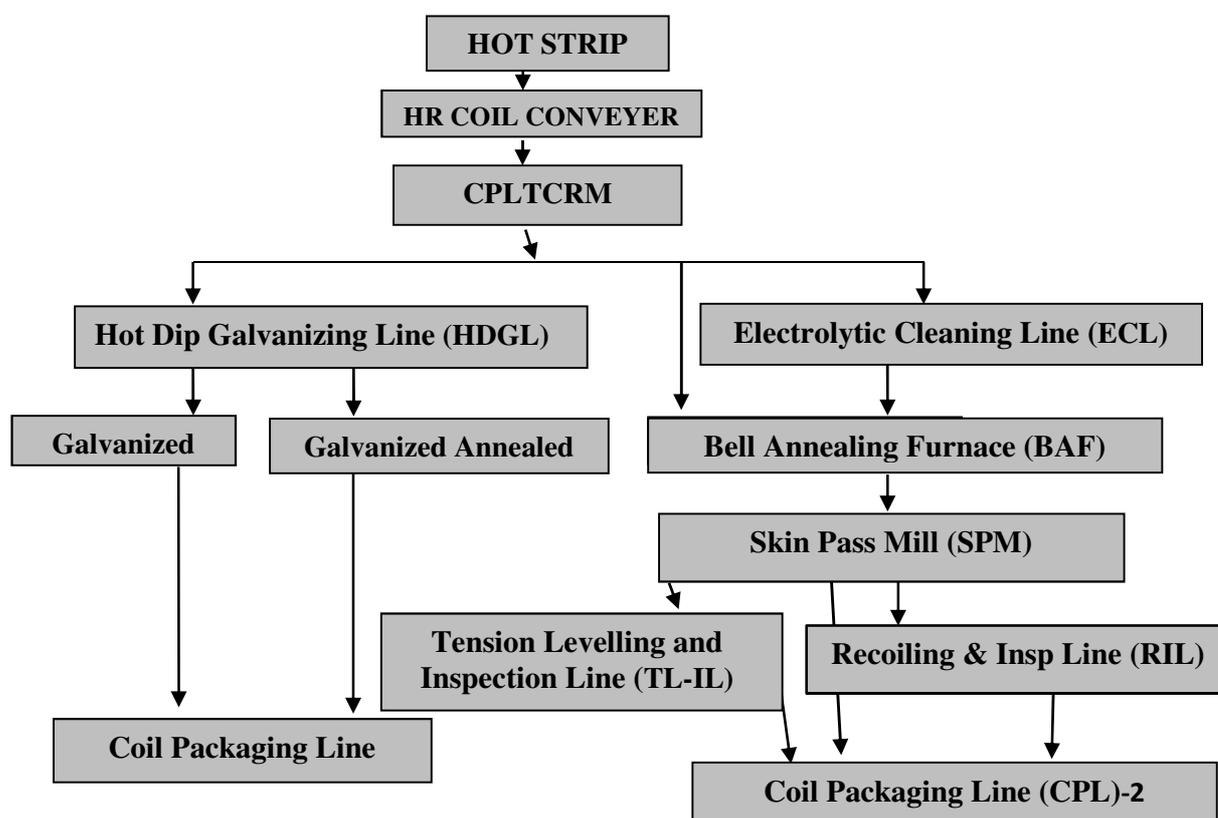
The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

15.5 Deficient project management of CRM complex in BSL/SAIL

Deficient project management led to delay of six years in completion of Cold Rolling Mill project which could not be fully commissioned (December 2016) even after spending ₹1,655 crore on main technical packages. Besides the delay, additional interest during construction of ₹580 crore had to be incurred from April 2012 to 31 August 2016.

Steel Authority of India Limited (Company) approved (January 2008) installation of new Cold Rolling Mill (CRM) complex in Bokaro Steel Plant (BSL) to produce 1.2 million tonne of saleable steel. Total ordered cost of 28 CRM contracts was ₹2,524.04 crore and envisaged annual gross margin was ₹650 crore. The new CRM complex consisted of a

number of packages including HRCC¹ upstream, CPLTCRM² which was the main unit, and other technological/associated packages (TAPs) downstream. CPLTCRM was ordered in February 2008 and was to be commissioned by December 2010. All the other upstream and downstream units were to be awarded and commissioned within this timeline. Full commissioning of CRM complex has been delayed by six years (December 2016). The process flow of the main TAPs of CRM complex is depicted below:



Audit examined contracts for civil works, main technological/associated packages, namely HRCC, CPLTCRM, HDGL-ECL, BAF, SPM, RIL-TL-IL, CPL, and Acid Regeneration Plant (ARP) and observed the following:

1. Being part of the CRM complex, HRCC, CPLTCRM and TAPs had to be synchronized and awarded in such a manner that they were all commissioned by December 2010. The award and completion of civil work contract also had to be synchronized with the award and completion of TAPs as civil work was largely dependent on construction drawings to be provided by TAP contractors. Audit noticed that the Company awarded (April 2008) a single civil work contract for the CRM complex which was scheduled to be completed by April 2010. While some packages including CPLTCRM, HDGL-ECL, BAF, SPM, CPL and ARP were ordered in February 2008 to June 2008, two main technological packages, namely HRCC (upstream package), RIL-TL-IL, and four other associate packages namely, Roll Shop, Transfer cars, Water Supply System, and Effluent treatment and disposal System were ordered in 2010, by

¹ Hot Roll Coil Conveyor (HRCC)

² Coupled Picking Line and Tandem Cold Rolling Mill (CPLTCRM)

which time the civil work contract was scheduled to have been completed. The civil work contract could finally be completed in July 2015 after a delay of five years. BSL had acknowledged that these delays were attributable to them and not to the civil work contractor. In fact, the civil work contract was extended for 30 months (01 April 2011 to 30 September 2013) due to late issue of drawings for the packages that were ordered late. Thus, the late ordering of some TAPs resulted in consequential delays in completion of civil work contract, adversely affected the timely completion of the other linked TAPs and delayed the entire project.

2. Non-synchronisation of award of contracts for TAPs and civil work meant that some packages were completed and waiting to be commissioned because linked upstream or downstream units were not ready:

- (i) Bell Annealing Furnace (BAF) and Skin Pass Mill (SPM) were completed at a cost of ₹218 crore and preliminary acceptance certificates for the two packages were issued in July 2014 and January 2013 respectively. These, however, could not be fully commissioned as the linked units (Recoiling and Inspection line and Tension Levelling and Inspection line, Hydrogen Plant) were not complete. BAF and SPM are yet to be fully commissioned (December 2016).
- (ii) CPLTCRM, the main CRM unit was commissioned in July 2015 after incurring ₹763 crore but due to non-completion of linked units, it was operated below 20 *per cent* capacity in 2015-16. Its limited output was used directly in BAF and SPM (both yet to be fully commissioned).
- (iii) Acid Regeneration Plant (ARP) was completed in September 2010 and its preliminary acceptance certificate was issued in January 2011. A sum of ₹53 crore was paid upto March 2012 for the ARP. But it could not be commissioned in absence of CPLTCRM which was provide the input (waste pickle liquor and rinse water) required for operating it. ARP was finally commissioned along with CPLTCRM in July 2015. However, as CPLTCRM was operated at a low capacity (20 *per cent* capacity), the capacity of ARP was also underutilized.
- (iv) Audit noticed that SAIL paid (20 March 2014) ₹10.59 crore to the ARP contractor under an Operations and Maintenance (O&M) Contract (20 March 2014) for the period February 2014 to March 2015, *i.e.*, after preliminary acceptance and prior to commissioning activities. Clause 8 of Special Conditions of the ARP contract provided that O&M period would commence from the date of commissioning of the facilities. This payment for O&M made before the equipment was commissioned was necessitated on account of the huge delay of three years from completion to commissioning. Since the upstream CPLTCRM unit and other associated units was not available on time, the O&M expenditure incurred before its commissioning period was avoidable.

3. As per the implementation schedule, equipment supply was to start after completion of civil work. But due to delay in completion of civil works, BSL received 96, 77, 99 and 100 *per cent* supply of equipment for CPLTCRM, HDGL-ECL, BAF and SPM packages for which BSL paid ₹532 crore, ₹313 crore, ₹114 crore and ₹81 crore respectively upto March 2012 but could not erect them, pending civil construction.

The Management of BSL replied (November/December 2016) that:

- (i) Notices inviting tenders (NITs) were issued in time but contractor selection process took some time which delayed award of TAPs.
- (ii) Though major equipment were erected, the same could not be started as some utility packages were not available due to late ordering and due to delays in making working site available as related civil work could not be completed due to non-availability of drawings.
- (iii) The preliminary acceptance certificate for ARP was issued on 31 January 2011 but it could not be commissioned till February 2014. Therefore re-assessment of readiness of equipment, drives, control mechanism and pipelines became essential before starting the pre-commissioning activities of ARP. Thus, engagement of trained manpower through O&M Contract in February 2014 became necessary to carry out the preparatory jobs.

Reply of Management is not acceptable in view of the following:

- (i) NITs for some TAPs were issued after award of civil contract. NIT for HRCC and TL-IL were issued in September 2008, Transfer Cars in August 2009, Water Supply System in March 2009, Effluent Treatment Plant in July 2009. The delay in award of the packages contributed to the delay in completion of the civil works contract.
- (ii) Since civil work was largely dependent on construction drawings to be provided by TAP contractors, the award of related TAPs should have been synchronized with the award of civil contract.

Besides, Management has accepted that delay in commissioning of ARP and the consequent time lag before its commissioning necessitated re-assessment of readiness of equipment and consequent expenditure under the O&M Contract.

Thus, deficient project management led to delay of six years in completion of CRM project which has yet not been fully commissioned (December 2016). SAIL has already spent ₹1655 crore on main TAPs. The delay has added ₹580 crore to interest during construction of the project which is significant considering the envisaged annual gross margin of ₹650 crore from the completed project. The delay in commissioning of ARP also resulted in avoidable expenditure of ₹10.59 crore on account of payment made to contractor under O&M contract (during 4 February 2014 to 26 March 2015) for the ARP package.

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).

15.6 Unauthorised supply of power to a contractor cost ₹22.83 crore to RSP/SAIL

Deficiency in Gas Supply Agreement attributable to lapses on the part of Rourkela Steel Plant's management, resulted in an avoidable expenditure of ₹22.83 crore.

Rourkela Steel Plant (RSP) of Steel Authority of India Limited entered into a gas supply agreement (GSA) with M/s Linde India Limited (LIL)¹ in January 2009 for setting up an Oxygen Plant on Build, Own and Operate (BOO) basis. As per terms of the GSA, RSP was to supply power free of charge to LIL from its power sub-station up to commissioning of the Air Separation Units (ASUs) in the Oxygen Plant and on chargeable basis thereafter.

Audit observed that the terms of GSA regarding supply of power by RSP to LIL were in violation of Orissa Electricity Regulatory Commission (OERC) regulations. RSP had an agreement with Western Electricity Supply Company of Odisha Limited (WESCO) for supply of power, which did not provide for sale or transfer of power. Regulation 105 and 106 of OERC Distribution (Conditions of Supply) Code 2004, *inter-alia*, provides that no consumer shall sell or transfer power to any person or premises unless the agreement so provides and that no consumer shall make use of power for a purpose, other than the one for which agreement has been executed. Supply of power to LIL under the BOO agreement from RSP power sub-station was, thus, in violation of OERC regulations.

In April 2014, WESCO issued a notice to RSP for immediate disconnection of power supply to LIL, pointing out that the supply of power to LIL was un-authorized under OERC regulations and punishable under section 126 of Electricity Act, 2003. WESCO, LIL and RSP subsequently agreed (6 August 2014) to a negotiated settlement. As penalty for unauthorized supply of power to LIL, up to the date of commissioning of first ASU totalling 55 million units (January 2014), RSP would pay ₹10.45 crore to WESCO, being the differential of highest tariff rate of ₹6.90/kwh over the EHT tariff @ ₹5/kwh applicable to RSP. This payment (21 August 2014) of penalty was avoidable had RSP not violated the OERC regulations.

A tripartite agreement between WESCO, RSP and LIL was to be signed by 21 August 2014 to enable LIL to be treated as a deemed customer w.e.f. 6 January 2014 and billed directly from 1 August 2014. Audit noticed that RSP and LIL did not comply with the formalities within the stipulated time. The tripartite agreement could be signed only on 20 July 2015 and under the settlement, RSP had to pay a penalty of ₹12.38 crore in the form of demand charges over and above the charges already paid for the period January 2014 to June 2015 in regular electricity bills.

RSP Management stated (January 2016) that the lapse was inadvertent. SAIL Management replied (October 2016) that had LIL taken a separate power connection in its own name, it would have paid General Purpose Tariff (*i.e.*, ₹6.90 per unit) for use of power up to commissioning stage. As RSP was to provide free power to LIL during this period, the differential amount of ₹10.45 crore over EHT rate was paid by RSP. SAIL Management also stated (October 2016) that it has recovered demand charge component of ₹13.34 crore

¹ Formerly known as M/s BOC India Limited till 17 February 2013

which was more than ₹12.38 crore paid to WESCO. The Ministry has re-iterated (February 2017) the views of the Management.

The reply of the Management/Ministry is not acceptable in view of the following:

- (i) RSP has a separate department for electricity and power and OERC regulations ought to have been known to them.
- (ii) Had LIL taken a direct power connection from WESCO, it would have paid the rate applicable to power intensive HT category ranging between ₹4.00 and ₹5.05 per unit depending upon load factor, and not ₹6.90 per unit. In fact, after taking power connection directly from WESCO with effect from July 2015, LIL is paying HT rates. Due to violation of OERC Regulations by RSP, WESCO charged higher rate as penalty.
- (iii) RSP paid the demand charges totaling ₹69.22 crore to WESCO in regular electricity bills including LIL consumption during January 2014 to June 2015 against which ₹13.34 crore were recovered from LIL. The penalty of ₹12.38 crore paid (July to November 2015) by RSP was over and above the amount of ₹69.22 crore paid as regular bills and could have been avoided if RSP had not violated OERC regulations and, subsequently, not delayed implementation of settlement dated 6 August 2014 with WESCO.

Thus, deficiency in GSA attributable to lapses on the part of RSP management resulted in avoidable expenditure of ₹22.83 crore.

15.7 Loss on account of payment of penalty in Bokaro Steel Plant/SAIL

Failure to synchronise the ordering for two oxygen projects with Blast Furnace upgradation project, resulted in excess capacity of oxygen plant beyond actual requirement and payment of ₹32.96 crore as penalty to contractor due to failure to draw the guaranteed minimum oxygen.

Bokaro Steel Plant (BSL) projected (2004) an increase in its hot metal producing capacity from 4.585 million tonne (MT) in 2004-05 to 6.5 MT by 2011-12. Oxygen is a prime requirement for production of hot metal in blast furnaces (BF). With increase in hot metal production, oxygen requirement would also increase. BSL decided to raise its oxygen capacity from the existing 1,300 tonne per day (TPD) to 2,825 TPD through the following means:

- The in-house oxygen production capacity of 1,300 TPD to be augmented to 1,575 TPD by installing an Air Turbo Compressor (ATC) and Oxygen Turbo Compressor (OTC).
- A new 1,250 TPD Oxygen plant was to be set up on a Build, Own, and Operate (BOO) basis.

Audit noticed that three blast furnaces of BSL were to be upgraded for planned increase in hot metal producing capacity. However, up-gradation of only one BF had been taken up in December 2007. Subsequently, up-gradation of the other BFs were not taken up in view of sluggish demand.

Oxygen capacity was, however, augmented without synchronising it with BF demand. Both contracts for in-house up-gradation as well as setting up of new oxygen plant were placed in May 2006. The scheduled completion of installing ATC and OTC in the in-house oxygen plant was December 2007 while the BOO project was to be completed by April 2008. The BOO project was completed in December 2008. Thus, by December 2008, the oxygen capacity of BSL was 2,550 TPD¹ even though its demand was poor on account of non-upgradation of the BFs.

The agreement for building the oxygen plant on BOO mode provided for minimum guaranteed off-take of oxygen from the plant by BSL, failing which BSL had to pay a penalty. Due to excess availability of oxygen, BSL was unable to draw the minimum guaranteed oxygen from BOO plant and paid penalty of ₹32.96 crore (April 2008 to September 2016).

Meanwhile, Audit noticed that the preliminary acceptance certificate for ATC and OTC had been issued in July 2011, though ATC is yet to be commissioned. Thus, the desired augmentation of in-house capacity is yet to be realised. With its commissioning, the excess availability of oxygen would only increase. In fact, BSL stopped operation of some of the Air Separation Units in the existing oxygen plant so that the oxygen from the BOO plant could be fully utilized.

Thus, failure to synchronise the augmentation of oxygen capacity with upgradation of BFs, resulted in excess capacity of oxygen and consequent loss on account of payment of penalty as well as non-operation of in-house facility.

The Management stated (November 2016) that oxygen consuming projects (*i.e.*, BF upgradation) related to already installed assets was taken up in a phased manner without hampering production, whereas oxygen producing projects (BOO and ATC/OTC) was regarding installation of new facility. Addition in oxygen capacity was ordered based on projected upgradation of three BFs which was deferred due to market conditions and resulted in idle oxygen capacity.

Reply of Management is not acceptable as the ordering and completion of oxygen projects should have been synchronised with BF upgradation. Upgradation of one BF was ordered as late as December 2007 with scheduled completion date as August 2009. Much before the completion of the BF up-gradation, by April 2008, the entire augmentation of oxygen capacity necessary for catering to up-gradation of three BFs was to be completed. This mismatch and lack of synchronisation led to over-capacity of oxygen plants in BSL and subsequent payment of penalty on failure to draw minimum guaranteed oxygen from the BOO plant.

¹ *In house oxygen plant capacity of 1300 TPD + BOO plant capacity of 1,250 TPD = 2,550 TPD*

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).

15.8 Deficient production planning resulted in avoidable stock carrying cost in Bokaro Steel Plant and Rourkela Steel Plant of SAIL

Deficient production planning led to excess production of slabs, which resulted in accumulation of slab stock and avoidable stock carrying cost of ₹391 crore.

Bokaro Steel Plant (BSL) and Rourkela Steel Plant (RSP) of Steel Authority of India Limited (Company) produce flat saleable steel product in their rolling mills. The process involves production of slabs in steel melting shops upstream, which are used as input for producing flat steel in downstream rolling mills.

A review of the inventory records of the Company over four years from 2012-13 to 2015-16 revealed excess stock of slab produced by the upstream units as detailed below:

- The optimum requirement of slabs for continuous operation of downstream rolling mills is 7 to 15 days stock of slabs. But both BSL and RSP held significantly higher slab stocks. Against the normal slab stock level¹ of 1.07 - 1.45 lakh tonne at BSL (2012-16), the average monthly closing stock levels stood at 8.53 lakh tonne in 2015-16. Likewise, at RSP, against the normal slab stock level of 0.86 - 0.97 lakh tonne, the average monthly closing stock levels was 5.30 lakh tonne in 2015-16. Thus, the stock levels in BSL and RSP were much higher than the optimum requirement.
- The accumulation of slab stock led to higher stock carrying cost. The variable stock carrying cost works out to ₹150 per tonne per month, not considering the space and logistic constraints in storing the slabs. The accumulation of slab stock led to avoidable stock carrying cost of ₹391 crore².

BSL Management (30 November 2016) and RSP Management (19 December 2016) replied that in an inter-related, integrated steel producing process, production of semi-finished products in coke oven batteries and blast furnaces in upstream may not be abruptly intervened with to match with steel producing downstream processing capacity. It was also stated that the production level may be regulated over a period of time protecting health of equipment and sustaining economy of operation. It was assured that corrective action had been taken and the slab stock has since reduced.

The replies of the Managements are not acceptable in view of the following:

- (i) The build-up of slab stock had occurred over a period of four years, 2012-13 to 2015-16. The average monthly slab stock in BSL increased from 1.85 lakh tonne in 2012-13 (which was already 30 *per cent* higher than the optimum requirement) to 8.53 lakh tonne in 2015-16, nearly eight times the requirement. In RSP, the slab

¹ Calculated at 15 days' consumption level

² Stock carrying cost has been worked out considering the monthly average excess slab stock carried (over 15 days' stock) for each year (during the period 2012-13 to 2015-16) @ ₹150 per tonne per month

stock was within the optimum limit in 2012-13 but increased to 5.30 lakh tonne in 2015-16, over five times the optimum requirement.

- (ii) It was seen that the Company failed to sell its stock of slabs, the actual sale quantum being consistently lower than the plan:

Year	Plan for sale (lakh tonne)	Actual sale (lakh tonne)
2012-13	3.55	0.51
2013-14	10.85	1.90
2014-15	12.86	3.43
2015-16	7.38	3.28

It was seen that the Company made efforts to sell the slabs at below total cost (August 2015) and below variable cost (November 2015) but it did not lead to liquidation of accumulated slab stock. The accumulated slab stock in BSL and RSP stood at 15.4 lakh tonne valuing ₹3,639 crore as on 31 March 2016. The consistently increasing stock, coupled with the poor response to efforts at selling it, ought to have triggered appropriate steps by BSL and RSP management for regulating the slab production.

- (iii) Audit noticed that BSL and RSP management belatedly started regulating production from upstream facilities in April-August 2016. Even with these efforts, the slab stock stood at 10.33 lakh tonne (7.99 lakh tonne in BSL and 2.34 lakh tonne in RSP) as on 30 November 2016.

Thus, deficient production planning and failure to effectively regulate production of slabs resulted in accumulation of slab stocks and avoidable stock carrying cost of ₹391 crore.

The matter was reported to the Ministry in December 2016; their reply was awaited (January 2017).

15.9 Material Management

15.9.1 Introduction

Steel Authority of India Limited (SAIL or Company) manufactures steel products for which iron ore is the main input material, requirement of which is fully met internally. Coking coal, limestone, dolomite, pellets, ferro-alloys, low silica limestone, and stores and spares are either procured domestically or are imported. Materials Management Departments (MMDs) in plants are responsible for procurement and management of all material except coal.

The audit objective was to assess whether procurement contracts of SAIL (excluding coal) were concluded and managed in a transparent, competitive, and fair manner. In the course of audit, 1370 Purchase Orders (POs) valuing ₹14,220.11 crore pertaining to five steel plants¹ covering the period 2012-15 were scrutinised. All POs above ₹10 crore, 10 per cent POs between ₹1 crore and ₹10 crore, and one per cent POs below ₹1 crore

¹ BSL-Bokaro Steel Plant, BSP-Bhilai Steel Plant, DSP-Durgapur Steel Plant, ISP-IISCO Steel Plant, RSP-Rourkela Steel Plant

were studied. This represents 63.19 *per cent* of total procurement value (excluding coal) of the five plants and the Corporate Material Management Group covering three years (2012-15).

15.9.2 Audit findings

15.9.2.1 Limited use of open and global tenders

Open and global tenders result in competitive prices discovered in a transparent manner while limited/single tenders restrict competition. Purchase/Contract Procedure 2009 (PCP) of SAIL also stipulates that Single Tender Enquiry (STE) should be issued only as an exception. Audit however noticed that 81 *per cent* of the Purchase Orders (PO) issued by SAIL during 2012-15 were on Limited Tender Enquiry (LTE) accounting for 24.4 *per cent* of the total value of procurement made during the period. Another 29 *per cent* of purchases (by procurement value) during the same period were issued on single tender basis. The use of open and global tenders decreased from 1,067 POs valuing ₹3,189 crore in 2012-13 to 696 POs valuing ₹2,767 crore in 2014-15.

Audit also observed that although annual purchases of MMDs of the plants up to ₹2 crore were about ₹1,851 crore, there were inadequate controls and no uniform procedures to deal such cases. For example, there was no purchase committee in Rourkela Steel Plant (RSP) to oversee purchases of less than ₹2 crore, while Bokaro Steel Limited (BSL) had a purchase committee mechanism for all purchases.

The Management stated (March/ November 2016) that limited tenders were issued in cases involving low value procurements to avoid cost of advertising the tenders. It further stated that it was a technical necessity to procure material on STE basis and that selection of vendors is done as per PCP.

Reply of the Management is not tenable in view of the fact that there was lack of uniformity in processes followed by different steel plants of the Company. There were 47 products that were procured by some steel plants through limited or open tender, while the same were procured through single tender by other plants. Four products were ordered as proprietary items in one plant but other plants procured them through limited tender. Audit also observed that Company did not fix the threshold limit beyond which open tenders became mandatory. Further, the PCP did not prescribe the oversight of tender committee or any other uniform, independent control over purchases below ₹2 crore.

(I) Procurement on single tender basis

(a) Extra expenditure of ₹484.15 crore on purchase of costlier Low Silica Lime Stone (LSLS)

The Company entered (June 2008) into an MoU for ten years with M/s. Rajasthan State Mines and Minerals Ltd (RSMML) for supply of LSLS at a negotiated price on single source basis. At the same time, the Company procured LSLS through imports, the cost of which was lower than the price agreed with RSMML. The Company did not consider the reasonableness of purchase price agreed with RSMML, in the face of cheaper imports nor did it insist on import parity while signing the long term agreement with RSMML. During

2012-16, Company imported 35.45 lakh tonne of LSLs at a landed cost ranging between ₹2,232 per tonne and ₹2,403 per tonne whereas RSMML supplied 41.14 lakh tonne at a cost of ₹3,249 to ₹3,632 per tonne. The Company thus incurred extra expenditure of ₹484.15 crore on purchases made from RSMML during 2012-13 to 2015-16.

The Management stated (November 2016) that purchases from two major geographically distributed sources was to ensure continuity of supplies and that they are gradually increasing import of LSLs every year. It was also stated that there were constraints in importing LSLs like stacking at ports, availability of rakes etc.

Reply of the Management is not acceptable as only the shortfall in supply from RSMML was being met through imports. In view of the significantly lower import price, the Company should have endeavored to obtain import parity prices for future purchases from RSMML.

(b) Pellets ordered on a single source leading to avoidable extra expenditure of ₹235 crore.

BSL has been using a burden¹ consisting of sinter² and iron ore lump (IOL) in Blast Furnaces (BFs) for production of hot metal (HM). Pellets³ could be used in BFs as a substitute of sinter as well as IOL. The Company is self-sufficient in supply of IOL and iron ore fines (IOF) from its captive mines and also has in-house sinter producing plants. The Company, however, does not have the facility to produce pellets from IOF.

BSL estimated increase in production of HM, from 42.50 lakh tonne in 2009-10 to 47 lakh tonne during 2010-11, and 47.50 lakh tonne in 2011-12. Based on this, the plant estimated a shortfall in sinter availability in 2011-12 and to achieve the planned production, placed an order for supply of pellets for the period 2011-13, on single source basis from Kudremukh Iron Ore Company Ltd (KIOCL).

Audit noticed the following in this regard:

(i) BSL failed to ensure the envisaged level of production (47.5 lakh tonne) and could achieve HM production of 40.12 lakh tonne in 2011-12 and 41.26 lakh tonne in 2012-13 by using 3,70,627 tonne pellets. The Company short closed the contract for pellets after procuring 40 per cent of the proposed quantity.

(ii) KIOCL pellets were procured at a cost of ₹360.68 crore, average cost being ₹8,688.52⁴ per tonne, which was much higher than the weighted cost of sinter produced in-house at ₹3,031 per tonne as well as outsourced sinter @ ₹4,463 per tonne. KIOCL pellets were costly due to long distance multiple freights and handlings on transport of

¹ *Burden- A group of iron bearing material comprising of Iron ore lump, Sinter and Pellet charged into a blast furnace of a steel plant.*

² *Sinter – It is a small agglomeration of iron ore fines, coke breeze, small sized limestone and dolomite and other steel plant waste materials that contain some iron. Sinter is produced at Sintering Plant and used as a raw material in Blast Furnace of a steel plant.*

³ *Pellet- Pellets are agglomeration of Iron ore fines which can be fed into a blast furnace as part of steel making process.*

⁴ *₹360.68 crore paid for 4,15,117 tonne of pellet.*

IOF from the Company's captive mines in eastern India to KIOCL plant in Mangalore and converted pellets to BSL plant. In fact, the average cost of to and fro freight and handling of IOF and pellets was ₹4,571 per tonne, which alone was higher than the cost of sinter. The use of such costly pellets was not justified by the outcome.

(iii) It was noticed that the Management did not explore the possibility of procuring pellets or sinter from the suppliers located nearby, though there were pellet suppliers and converters in Jharkhand, West Bengal and Odisha.

By procurement of pellets, the Company incurred avoidable extra expenditure of ₹234.85 crore¹ compared with the cost of in-house sinter, as the produced quantity of HM remained lower than the projections, which could be met through the available quantity of sinter and IOL.

The Management/Ministry stated (October 2014/January 2015) that they had envisaged a shortfall in sinter considering 47.5 lakh tonne of planned HM production, which was achievable considering production capacity of 48.35 lakh tonne from five BFs. There was a technological need to raise the burden of sinter together with pellets to 70 per cent to improve the health and efficiency of BFs.

The Management's reply is not acceptable on account of the following:

(i) The efficiency of the BFs did not improve with use of pellets in the burden. The additional contribution of ₹3400 for each tonne of pellet use envisaged by BSL did not materialize. In fact, the fuel consumption was higher during the period when pellets were used and HM production per tonne of burden decreased from 0.616 in 2010-11 to 0.603 in 2012-13.

(ii) The estimated production of HM during 2010-12 was unrealistic. In subsequent years the estimate was decreased to 44 lakh tonne in 2012-13 and 43.50 lakh tonne in 2013-14 and 2014-15. The actual production of HM ranged between 40.66 lakh tonne (2009-10) to 42.53 lakh tonne (2014-15).

(iii) BSL was using IOL and sinter in the ratio of 33:67 (2008-09) and 38:62 (2010-11) with no pellets in the Blast Furnace burden. The composition of prepared burden was changed to include 10-15 per cent of pellets, reducing IOL to 20-25 per cent. Pellets, thus, were mainly used to replace the internally available IOL even though the justification for its procurement was cited as shortage of sinter.

(iv) Director (Finance), SAIL had observed (August 2012) that the envisaged contribution from the use of pellets may not be achievable and cautioned against the use of pellets on regular basis. But BSL management continued to buy KIOCL pellets till November 2012 when it short-closed the arrangement with KIOCL after procuring 4,15,117 tonne of pellets against 10 lakh tonne initially planned. BSL reverted to use of burden consisting of IOL and sinter in 2013-14.

¹ [Per tonne average cost of pellets (₹3,688.52) – Per tonne weighted average cost of in-house sinter during 2011-13 (₹3031)] X 4,15,117 tonne of pellets purchased = ₹234.85 crore

(c) Extra expenditure of ₹25.14 crore at RSP and BSL due to further purchase of pellets

By November 2012, BSL was aware of the fact that desired benefits were not derived through use of pellets. Another steel plant, BSP, also procured (December 2012) pellets on trial basis from M/s. KIOCL and concluded (March 2013) that cost of HM production increased with the use of pellets and that the trial of pellets for 52 days had contributed to a loss of ₹16 crore.

Despite this, BSL again purchased (December 2014- February 2015) 28,929 tonne of pellets. In January 2015, it was decided to stop further use of pellets citing techno-economical non-viability. RSP also purchased (2013-15) 43,347 tonne of pellets and intermittently used only 35,272 tonne. Due to use of pellets as a costly substitute of IOL or sinter available in-house, the Company incurred an extra expenditure of ₹25.14 crore (over 2013-15).

The Management stated (November 2016) that in BSL there was shortage of IOL due to Court verdict for suspension of mining and there was less sinter production during November 2014 to January 2015 warranting purchase of pellets.

The reply is not acceptable as the Court verdict came in May 2014 but proposal for procurement of pellets was moved in April 2014. Besides, BSL produced more sinter in 2014-15 than the last four years and 3.98 lakh tonnes higher than the previous year (2013-14).

(d) Dependence on single source for dolomite led to extra expenditure of ₹88.04 crore

RSP centrally procured (January 2008) blast furnace (BF) grade dolomite from M/s Bisra Stone Lime Company Ltd. (BSLC) at an annually negotiated price under a 10 year MoU on single source basis. As per the MoU, the price was to be finalized every year mutually between SAIL and BSLC. Audit observed that there were other suppliers for BF grade Dolomite but RSP did not invite open tenders to discover the price or assess the reasonableness of annual price escalation sought by BSLC. The basic price of ₹355 per tonne for dolomite lump negotiated with BSLC in February 2008 increased to ₹520 per tonne for 2011-12 and ₹659 per tonne for 2015-16.

Audit further observed that the annual requirement of BF grade dolomite was 10.50 lakh tonne (2008-09) to 15.70 lakh tonne (2017-18) while BSLC's dolomite production was between 6 lakh tonne (2004-05) to 8.30 lakh tonne (2007-08). RSP did not factor the dolomite production potential of BSLC while entering into a long-term arrangement. As a result, SAIL plants had to use 35 per cent to 78 per cent costlier grade of dolomite lump as substitute for BF grade, BSLC being unable to supply the ordered quantity. During four years period 2012-16 alone, BSL, RSP, and DSP together substituted BF grade dolomite lump with 12.62 lakh tonne of costlier grade dolomite and incurred extra expenditure of ₹88.04 crore.

The Management stated (November 2016) that long term agreement with BSLC was a strategic tie-up for raw material security. Reasonable efforts had been made in deciding

the annual prices in line with market trends based on the price of SMS¹ Grade Dolomite which is procured through competitive bidding. Management further stated that the MoU provided that in case BSLC failed to supply the annual quantity as per MoU, the backlog would be supplied in next quarter without price variation.

Reply of the Management is not tenable as price of SMS grade dolomite cannot be benchmarked to the price of BF grade dolomite and fair price could be discovered only through open tender which had not been done. Due to linking of a regularly used material with a single source, Company had to incur extra expenditure of ₹88.04 crore due to substitution of higher grade dolomite.

(II) Inadequacies in limited (LTE), global (GTE) and Open tender enquiry (OTE)

The Company uses limited tender enquiry (LTE) from the vendors registered with the MMD. SAIL does not advertise periodically to reach out to a wider population of potential vendors, nationally and globally, to update their vendor database and align it with latest requirements. Instead, vendor database registration is a voluntary activity in which prospective vendors approach the MMDs for registration. In BSL, DSP, RSP and ISP, for 26, 22, 37 and 25 per cent of total material groups respectively, there were only one to two registered vendors. Further, despite the fact that steel plants have similar production process, raw materials and stores and spares required in production stream, each plant has a standalone vendor database which was not synchronized with that of other plants. Audit noticed the following in this regard:

(a) There were proven Small Scale Industries (SSI) vendors for extension rods that were regularly procured by the plants. RSP, however, selected some of them on LTE basis, thus restricting competition. In September 2013, RSP purchased 6,075 pieces of extension rods at the rate of ₹2,065 per piece on LTE basis where bids were solicited from five of the proven vendors. Three months later, RSP issued another LTE to seven proven vendors (other than the five mentioned above) and lowest price obtained was ₹1,350.68 per piece which was 65 per cent lower.

The Management stated (March 2016) that LTE was issued to seven vendors to develop alternate sources and trial prices cannot be compared to prices from proven sources.

The reply is not tenable as RSP classified both set of vendors as proven registered vendors in 2013 for extension rods and they were also approved as techno-commercially suitable vendors.

(b) RSP received four offers in open tender for procurement of 10,000 tonne lam/hard coke. All four were found techno-commercially suitable by Technical Evaluation Committee (TEC) and Commercial Evaluation Committee (CEC). Tender Committee (TC) headed by Executive Director (MMD) accepted evaluation of TEC and CEC and recommended (February 2012) that reverse auction be conducted to discover L1 vendor with concurrence of Finance and Accounts Department. Within a week, the TC revised (3 March 2012) its recommendations and technically disqualified all four vendors and ordered re-tender despite the fact that the materials was needed urgently. In re-tender, only

¹ Steel Melting Shop

one of the vendors of the first tender participated, and was cleared by TC as techno-commercially suitable. RSP ordered (May 2012), 9,157.494 tonne materials at a negotiated basic price of ₹22,225 per tonne from this sole vendor. RSP incurred extra expenditure of ₹2.82 crore on the procurement when compared to the price paid by BSP for procuring the same materials at the same time (in March 2012) at a basic price of ₹19,149 per tonne.

The Management stated (November 2016) that after a further review of tenders, TC found that all the offers were technically unsuitable and, therefore, recommended the tender for scraping.

Reply of the Management is not acceptable as all four vendors including M/s VISA Steel Ltd to whom RSP awarded the contract in re-tender had either supplied earlier or were found techno-commercially suitable in separate tenders of other plants of the Company for supply of lam coke.

(c) Low silica dolomite and dolomite chips are regularly procured through global/open tender from Bhutan. While low silica dolomite is transported to plants by railways, dolomite chips are transported by road in trucks. The average rail freight during the last four years (2011-15) was ₹1,033 per tonne against average road freight of ₹1,454 per tonne; road freight being more expensive by ₹421 per tonne. Thus, BSL incurred extra expenditure of ₹9.57 crore during this period by opting for road transport of dolomite chips.

Management, while citing logistic constraints, pointed (November 2016) to the risk of accumulating inventory as the ordered supply could be less than full rail rake quantity. It was also stated that ex-BSL landed cost of low silica dolomite transported by railways is more expensive than the landed cost of dolomite chips.

Reply of Management is not tenable as BSL had not conducted a cost benefit analysis of road and railways freight. There was no facility for handling of dolomite chips by rail. Basic price of dolomite chips and low silica dolomite was ₹650 per tonne and ₹995 per tonne respectively, and therefore their landed cost, ex BSL, is not comparable for freight purpose. BSL uses about 34,000 tonne of dolomite chips on a regular basis, and, therefore, there is a strong case for addressing logistic constraints.

(d) BSP buys Ferro Alloys for all plants through an open tender where price was decided based on landed cost net of Cenvat (LCNC). Participating vendors furnish price break-up of all the elements of LCNC like basic price, excise duty, sales tax, freight etc. LCNC price for different plants may be different based on freight differences (depending upon origin and destination of materials), entry tax, sales tax etc. However, the basic price of the product (ex-origin of supply) should be same for a vendor in respect of all the steel plants. Audit observed the following discrepancies in the price finalisation process:

- Basic price per tonne for the L-1 vendor in respect of the same tender for the same procurement cycle across steel plants varied, the difference ranging between ₹307 per tonne to ₹3,833 per tonne.

- The freight rate per tonne was fixed without considering the distance between origin and destination of goods to be supplied. M/s Maithan quoted the same freight charge of ₹1,500 per tonne for 52 km, 772 km and 975 Km. For 386 km, the same vendor quoted ₹3,000 per tonne and ₹1,200 per tonne. M/s Nilkanth Ferro quoted freight at ₹700 per tonne for 107 km but only ₹375 per tonne for 109 km.

The Management stated (November 2016) that Ferro Alloys were procured on LCNC basis against open tender and that there is no standard parameter or price index for freight by road in our country.

Reply of the Management should be seen in the light of the fact that these were high value purchases and during the three years ending March 2015, BSP entered into contracts valuing ₹2,438.61 crore for Ferro Alloys. These discrepancies should have been highlighted by BSP to the vendors for proper calculation of L-1 rate.

(e) To improve transparency and tackle corruption in procurement functions, Government of India issued (30 November 2011) instructions for the CPSEs to publish tender enquiries, corrigenda thereon, and details of bid awards on the Central Public Procurement Portal (CPP portal) using e-publishing module. The Company has not implemented this.

The Management stated (November 2016) that it publishes tender enquiries on the Company's website. However, the instructions mandated publishing tender enquiries on CPP portal even when they are posted on Company's own website.

(III) Adequate efforts were not made to develop additional sources of materials

(a) SAIL purchased Slab Caster Tundish Refractories valuing ₹114.56 crore on single source basis during 2012-15 and paid for price increases, as demanded by the vendor.

(b) All steel plants individually purchased ceramic welding materials on single source valuing ₹36.81 crore despite presence of another vendor who satisfactorily demonstrated his material.

(c) BSL purchased (2012-2015) electrodes, a non-patented material, on STE basis for ₹5.84 crore despite availability of sufficient number of vendors. Similar practice was followed in other plants.

(d) BSP procured zero leak door (ZLD) valuing ₹12.56 crore for Coke oven batteries 3, 4 and 8 from M/s Simplex on proprietary basis. For Coke oven batteries 5 and 6, they procured ZLD from M/s. BEC on proprietary basis. This was being done for 10 years without making efforts to standardise the requirement.

(e) ISP issued (2011-2015) 217 POs for materials valuing ₹31.49 crore on proprietary basis citing non-availability of drawings of the new Coke Oven Batteries, 11 which were commissioned in October 2013. Clause 2.4 of the contractual terms between ISP and the OEM envisaged submission of drawings by the contractor, lack of which led to the proprietary purchases.

The Management stated (November 2016) that they regularly review the database of vendors and that trial orders were issued to develop new sources. Management also stated that it was a technical necessity to procure material through STE/ proprietary route.

The reply is to be seen against the fact that there were no annual and long-term work plan and targets for reducing the share of proprietary purchases. In fact, purchases from single/proprietary sources were resorted to without determining presence of sufficient vendors through open tenders.

15.9.2.2 Internal production facilities not fully exploited

The Company did not develop internal capacity as seen in the following cases:

(I) Procurement of Silica bricks

Silica Bricks are used for rebuilding/repair of Coke Oven Batteries and repair of stove of Blast furnace. The SAIL Refractories Unit (SRU) has limited capacity (approx. 4,000 tonne) of producing silica bricks and the Company has been procuring the balance requirement externally. Audit observed that although the company's expansion plan to double its crude steel capacity started in 2006, it did not envisage commensurate expansion and modernisation of SRUs and continued to buy from private vendors on a single source basis. A committee constituted by SAIL to identify areas where SAIL does not have enough production capacity, suggested that SRU capacity be augmented to meet the Company's regular requirement, but no action was taken on this suggestion. BSL alone procured 24,567 tonne of silica bricks in 2011-14 valuing ₹87 crore, on single source basis which was costlier than that produced internally. Per tonne variable cost of silica brick in SRUs in 2012-13, 2013-14 and 2014-15 was ₹23,442, ₹28,265 and ₹22,597 against the purchase price of BSL which ranged from ₹33,700 per tonne to ₹37,710 per tonne during this period.

The Management stated (November 2016) that steps for upgradation / modernisation of SRU, have since been initiated.

(II) Procurement of Trough and Runner Castable

BSL decided (2012) to purchase Trough and Runner Castable, as SRU was taking inordinate time for its production due to lack of mechanisation. The purchase decision was taken as mechanisation was not possible within a short term. Audit observed that BSL took more than two years to place the order for castable for ₹26.43 crore. The time gap of two years ought to have been sufficient for SRU to complete the desired mechanisation.

The Management in its reply (November 2016) accepted the audit observation.

15.9.2.3 Post contract Management

(I) High value Ferro Niobium procured without in-house testing of materials

SAIL procured ferro niobium valuing ₹336.89 crore through global tender during 2012-15. Materials were accepted by BSP on the basis of pre-shipment Third Party

Inspection Certificate as to quantity and quality ordered. Though BSP was entitled to test the materials to cross check the results of pre-shipping tests, it did not test the materials received at its end. Such high value procurement, without confirming whether the materials met the desired technological parameters, was imprudent.

The Management stated (March 2016) that standard procedures for sampling were being revised to include testing by accredited third party agency or testing facility available in sister plants.

(II) Irregular increase in freight

BSP finalised an MoU with Almora Magnesite Ltd (AML) on single source basis and procured 8,078.58 tonne of dead burnt magnesite during December 2011 to March 2013. The supplier requested for upward revision of freight rate stating that restrictions were imposed on overloading of trucks and, consequently, trucks that were earlier carrying upto 35 tonne could now lift only 15 tonne. BSP increased transport cost by ₹706.78 per tonne effective from December 2011 despite the fact that MoU barred any change in freight charges except due to increase/decrease in diesel cost. BSP thus gave undue benefits of ₹1.22 crore on purchase of 17,263 tonne of dead burnt magnesite during December 2011 to March 2015 to the vendor.

The Management stated (March/ November 2016) that AML was the only source for supply and that AML had submitted proof of actual payment of freight at ₹3400 per tonne against which freight increase of ₹2801 per tonne was approved.

Reply of Management is not tenable as the increase in freight allowed in 2011 became a permanent feature which was factored in subsequent MoUs signed for three years despite the fact that the average load per truck reverted back to 29-34 tonne.

15.9.2.4 Non disposal of Non-Moving and Surplus stores

SAIL had non-moving stores and spares worth ₹193.80 crore, lying for over five years as on 31 March 2016. This included ₹34.60 crore worth of material that the plants had declared surplus for disposal and/or use among other plants. The following discrepancies were noticed in this regard:

a) BSL procured (October 2011 to March 2014) eight different types of material valuing ₹3.17 crore as an urgent or annual requirement but did not use them (November 2016). BSP procured (February 2010 to April 2012) seven items valuing ₹14.59 crore but did not use them (November 2016). These included high value items like turbine rotor assembly of ₹8.35 crore purchased through single tender in 2012 and a blade rotor valuing ₹3.98 crore purchased on STE (Proprietary) in 2010. Thus, procurement of these items on an urgent basis were not justified.

b) In view of proposed closure of various units of old ISP plant, a committee proposed (February 2012) to take appropriate steps to cancel the POs for stores and spares ordered up to 2011-12. ISP however continued to order materials during the years 2012-13 and 2013-14 valuing ₹4.64 crore for its units which were formally shut down in April 2014. These materials have not been utilized till December 2015.

The Management stated (March 2016) that they had taken steps to reduce the inventory.

Audit however, noticed that non-moving stores and spares of ₹193.80 crore constituted a significant 7.6 *per cent* of total inventory of stores and spares as on 31 March 2016. Moreover, against the Company's policy of restricting holding period of stores and spares to a maximum of five months, actual holding period during 2012-15 was 13 to 14 months.

15.9.2.5 Inadequacy in reverse auction conducted on online portal of Mjunction

SAIL hired Mjunction to conduct Reverse Auction (RA) on its portal to discover prices for material to be procured by steel plants of the Company. RA bidding reports of Mjunction show four instances (two cases in BSL and two cases in DSP) where two bidders (in each instance) used the same IP address to participate in the bidding. Audit observed that this would be possible only when both bidders were using the same server which was unlikely. The Company should have enquired into these cases before validating the outcome of RAs. Audit also observed that in case of BSL, the same two bidders had participated in two different bids. These bidders had the same Excise registration number; documents submitted by these bidders to Mjunction bore the name and signature of the same person; and annual reports of the bidders showed that both were under the same management. The procurement process made against these two cases valuing ₹29.56 crore appear to be vitiated.

The Management accepted (November 2016) the audit observation and noted it for future action.

15.9.2.6 Public Procurement Policy for MSEs not implemented

Public Procurement (PP) Policy for Micro and Small Enterprises (MSEs) 2012 stipulated that the Central Public Sector Enterprises (CPSEs) shall procure minimum 20 *per cent* of their annual procurement value from MSEs and four *per cent* thereof should be from MSEs owned by Scheduled Caste (SC) and Scheduled Tribes (ST). The Company failed to meet the targets specified and placed POs on MSEs to the extent of 16 *per cent*, 14 *per cent* and 12 *per cent* of the value of procurement during 2012-15. BSP and ISP fared poorly as they placed POs valuing only 9 *per cent* and 8 *per cent* of the total procurement value on MSEs respectively. Despite lapse of three years, the Company was unable to map SC/ST suppliers to monitor implementation of PP policy.

The Management stated (March 2016) that proprietary items, items sourced from PSEs, imports are excluded for calculation of the percentage orders on MSEs.

The reply of Management is not acceptable as the PP Policy does not make provision for exclusion. Except RSP, the four steel plants of SAIL failed to achieve the 20 *per cent* procurement target, even after excluding cases where no tendering was resorted. It was also noticed BSP, RSP and ISP did not meet the procurement target in 2015-16 also. Besides, no plant fulfilled the criteria of four per cent procurement from SC/ST MSEs during 2012-16.

Conclusion

SAIL made limited use of Open/Global tenders with 24.4 *per cent* of the total value of procurement being made on limited tender basis and another 29 *per cent* on single tender basis. There was lack of uniformity in purchase processes followed across the steel plants. Instances were noticed of costlier purchases through single tender basis. Internal production facilities were not fully exploited and expanded. There were doubts on the credibility of purchases made through reverse auction. The Company had a high holding period of stores and spares compared to its prescribed policy. The Company's efforts in implementing Public Procurement Policy of Government of India on MSEs needed to be strengthened.

These issues were reported to the Ministry of Steel in August 2016; their reply is awaited (January 2017).