CHAPTER I: MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Bharat Heavy Electricals Limited

1.1 Non-regularisation of land and delay in execution of lease deed

Abnormal delay in taking decision on retention of 1.22 acres of land held in excess of allotted area in Noida has the potential of placing an avoidable burden of ₹ 45.44 crore on BHEL. Lease deed for township also remains to be executed depriving BHEL of the otherwise rightful title to the land.

New Okhla Industrial Development Authority (NOIDA) allotted (April 1981) 15 acres of land to Bharat Heavy Electricals Limited (BHEL) in Sector-17, Noida at a premium of ₹ 1.06 crore (@ ₹ 175/sq. Mtr.). While giving possession of land, NOIDA also handed over possession of adjoining 15 acres land to BHEL which was to be used by NOIDA for shopping complex/school/park/road, *etc*. Of this adjoining 15 acres of land, NOIDA allotted (July 1987) 1.5 acres of land for ₹ 4.51 lakh to BHEL for a school, for which lease deed was executed in May 1989.

For protection of land, BHEL constructed (1989-90) a boundary wall covering land allotted to it as well as the adjoining land belonging to NOIDA. However, while constructing this boundary wall, BHEL extended its construction beyond 30 acres of land under its possession. NOIDA asked (November 1992) BHEL to demolish the boundary wall. BHEL informed (November 1992) NOIDA that in view of security issues, the boundary wall could not be relocated. During a joint inspection (January 2000) of land with BHEL, NOIDA observed that as against 30 acres land handed over by NOIDA, an area measuring 31.22 acres was in possession of BHEL. Accordingly, NOIDA issued (February 2001) a demand for ₹3.45 crore towards excess land of 1.22 acres held by BHEL. However, BHEL refused (February 2001) to pay cost of this land to NOIDA on the ground that the excess land was only meant for common/social welfare/open area. NOIDA made it clear (October 2002) that BHEL should either remove the boundary wall or pay the dues for extra 1.22 acres of land at the then prevailing rates. However, BHEL was yet to finally decide on the issue and lease deed of plot of 15 acres allotted to BHEL by NOIDA also remained unexecuted till date (January 2015).

Audit examination revealed that due to increase in circle rates over time, BHEL now faces a potential liability of an estimated amount of ₹ 48.89 crore (as per NOIDA circle rate of August 2014 applicable to sector 17 Noida where the plot is located) instead of ₹ 3.45 crore demanded earlier in February 2001 by NOIDA in respect of excess land of 1.22 acres held by BHEL.

BHEL stated (February 2013) that despite repeated pursuance and follow up with NOIDA since August 1982, lease deed had not been executed and that they had expressed willingness to pay charges for excess 1.22 acres land under their possession and had requested (December 2012) NOIDA to intimate the lease amount and other dues. BHEL

added (December 2014), that a committee formed (February 2013) for execution of lease deed and negotiate/discuss the cost of extra land (1.22 acres) and other dues, had however, opined (April 2014) that 1.22 acres of land in the form of common area (road and roadsides) belonged to NOIDA and paying for excess land of 1.22 acres was uncalled for as the land had not been utilised by BHEL for residential purposes.

Replies indicated that even after lapse of considerable period, BHEL was still indecisive on the issue of either making payment towards the cost of extra land of 1.22 acres or surrendering the same to NOIDA. Further, it was in the interest of BHEL to take up the long pending issue at an appropriately senior level and possibly through the intervention of the Ministry, which was not done. As a result, BHEL now faces an additional potential liability of ₹ 45.44 crore (increase in demand of ₹ 3.45 crore in October 2002 to an estimated value of ₹ 48.89 crore based on NOIDA circle rate applicable from August 2014) while lease deed for the plot of 15 acres of land allotted to BHEL also remained unexecuted till date (January 2015), depriving BHEL of the otherwise rightful title to the land.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

1.2 Avoidable expenditure towards payment of demurrages and detention charges

Heavy Power Equipment Plant (HPEP), Hyderabad incurred avoidable expenditure of ₹ 16.27 crore towards payment of demurrage & detention charges due to abnormal delay in clearing imported material from Mumbai Port.

As per Custom Manual 2013, the importer of the goods is required to complete the customs clearance formalities after arrival of goods in terms of details mentioned in the Import General Manifest (IGM) at the customs station by filing bill of entry for home consumption or for warehousing in prescribed forms.

As per section 48 of Major Port Trusts Act 1963, after the goods are unloaded at port, these have to be cleared by the importer within stipulated time or else demurrage charges levied by port authorities have to be incurred. In terms of powers conferred by section 48 of Major Port Trust Act 1963, Tariff Authority for Major Ports vide order no.77 dated 31 May 2000 notified that in case of Mumbai Port Trust, the stipulated time allowed for clearance of goods was three working days and on expiry of these three working days, demurrages levied by port authorities have to be paid by the importer. In addition, detention charges for containers are to be paid to the shipping agents beyond the contractual delivery period.

Regional Operations Division (ROD), Mumbai, a unit of BHEL is rendering support functions to the sister units such as arranging clearing agents, arranging freight forwarder for delivery of goods and payments thereof for such services. Later, ROD passes the debit note to concerned unit for the expenditure incurred for all imported purchase orders. HPEP co-ordinates with ROD, Mumbai in respect of filing of IGM, documents required

for bill of entry[♠] and freight arrangements to the unit or site. HPEP also forwards the documents for clearance of customs duties and for claiming applicable duty concessions. HPEP has to ensure the availability of necessary documents with ROD before the consignments are landed at the Port.

Examination in audit revealed that there were abnormal delays over and above the three working days ranging from 19 days to 520 days in clearing 144 imported consignments ordered by HPEP received at Mumbai Port during 2010-14 due to following reasons:

- Delay in issue of Mode of Assessment (MOA) of customs duty to ROD, Mumbai in respect of 63 consignments;
- Late submission of necessary import documents in respect 15 consignments;
- Customs clarifications/delay in submission of revised invoices & licenses in respect of 10 consignments;
- Goods Bonded in Customs warehouse/High sea sale/BE amendments, late receipt of import license in respect of 10 consignments; and
- No reasons for delay were recorded in respect of 46 consignments.

As a result, ROD, Mumbai could not clear the consignments within the stipulated time of three days, which resulted in payment of demurrage and detention charges of ₹ 16.27 crore by HPEP during the period 2010-14.

HPEP in its reply while not contesting the facts and figures, stated (February 2014) that demurrage and detention charges were incurred due to non-availability of MOA, non-availability of documents and licenses at the time of receipt of material, lack of transport facility etc. Further, BHEL replied (October 2014) that a Cross Functional Team (CFT) comprising members from concerned agencies has been formed to look into the issues and to suggest improvements in the system and for minimizing demurrage and detention charges at the Unit. Further, it was replied that only 4 cases have been cleared beyond 350 days (demurrage/detention incurred was ₹ 65 Lakh) and one case beyond 520 days (demurrage ₹ 3.25 lakh). In addition, it also stated that there was:-

- Delay on the part of Custom Authorities & Director General of Foreign Trade (DGFT) who raised queries on technical write up, original bank attested invoices which took more time; Custom Authorities took time to scrutinize the documents for Project Import Registration viz., items list for description of items imported; Individual POs registrations on account of staggered requirement of material; change in custom clearance procedures during 2010;
- Delay on the part of customers in providing essentiality certificate;

[♠] ***Signed Invoice Copy, Packing List, Bill of Lading/Airway Bill, Import License, Letter of Credit, Certificate of Origin, Insurance documents, Technical write up of machinery, spares etc.***

- Amendments to originally issued project certificate in the case of advance license due to change in Foreign Trade Policy (FTP);

- Cargo pertaining to same license arrives at same time but at different port locations (JNPT, Mumbai Port, Mumbai/Delhi airport) eventually leading to custom clearance activities to be done in series.

Reply needs to be viewed in the light of the following:-

- It was a known fact that the imported consignments had to be cleared within stipulated time i.e. three working days and it was incumbent upon the Unit (HPEP) to devise an appropriate operating procedure to avoid delays. This was attempted only in January 2014.
- The other reasons as explained above are procedural lapses in submission of documents for clearing the imported material, which could have been avoided by adopting properly devised operational procedure.
- Though there was change in the procedures in FTP as stated by the company, the stipulated time allowed for clearing the goods from port remained three working days. Therefore, it was the responsibility of the management to get the goods cleared within three working days.

Thus, delays attributable to HPEP in arranging necessary documents before the goods were unloaded at Mumbai Port, resulted in avoidable expenditure towards demurrage and detention charges of ₹ 16.27 crore during the period 2010-14.

The matter was reported to the Ministry in November 2014; their reply was awaited (March 2015).

1.3 Unfruitful expenditure on procurement of rail wagon

Deficient planning and subsequent non-utilization of 28-axle special rail wagon by BHEL resulted in unfruitful expenditure of ₹ 12.04 crore on procurement of the wagon.

Bharat Heavy Electricals Limited (BHEL) approved (June 2009) capacity augmentation programme for its thermal generating set manufacturing facilities which included procurement of 28-axle special rail wagon (Wagon) & carrier loading beam for transportation of 600/660 MW Turbo-generator (TG) Stators for its Heavy Electrical Equipment Plant (HEEP), Haridwar. This wagon was envisaged to provide safer and economical means of transportation as compared to road as it did not require activities relating to strengthening of roads, building of bypasses, re-enforcement of bridges, etc., besides reduced risks of curves, mishaps/accidents on narrow roads and in monsoon season.

Meanwhile, HEEP Haridwar also planned to use the above rail wagon to supply an existing order of 600 MW TG Stator to Tamil Nadu Electricity Board (TNEB) scheduled to be delivered by June 2010. Accordingly, HEEP Haridwar floated (May 2009) a single tender enquiry on its sister unit BHEL at Jhansi for supply of the wagon and the latter

submitted its offer (June 2009) quoting delivery schedule of 24 months. Keeping in view scheduled delivery of 600 MW TG Stator to TNEB, HEEP Haridwar requested (December 2009) BHEL Jhansi to squeeze the delivery period. The latter agreed (February 2010) to tentatively reduce the delivery period from 24 months to 18 months. A Purchase Order (PO) valuing ₹ 7.95 crore was issued (March 2010) to BHEL Jhansi with scheduled delivery of the wagon by 25 September 2011.

HEEP Haridwar also placed (February 2010) a PO on M/s TAKRAF GMBH, Germany for procuring the carrier loading beam, to be mounted on this wagon, at a price of Euro 383871.38 (landed cost of ₹ 2.83 crore). Carrier loading beam was received in HEEP, Haridwar in March 2012, whereas, the wagon was received only in April 2012 after a delay of 7 months from the delivery schedule of September 2011. The wagon costing ₹ 12.04 crore• was finally commissioned in November 2012 after inspection by Research Design and Standards Organisation, Lucknow, of Indian Railways.

As the process of procurement of wagon was delayed, HEEP Haridwar had to supply the 600 MW TG Stator to TNEB by road in June 2011. Even after commissioning of wagon in November 2012, the wagon could not be used so far (January 2015) as the wagon had been specially designed and can only be used at the sites with requisite facilities, such as Railway sidings, RCC Platform on both sides of track, facility of unloading of consignment and Over Dimensional Clearance (ODC) certificate from Indian Railways. ODC is possible only for few sites due to height/width constraints, limitation of bridges *en-route*, constraints in turning on track due to length of loaded wagon, limited maximum speed of loaded wagon and congestion of passenger trains traffic/goods train traffic. As such, not only the TG Stator to TNEB had to be sent by road, but also HEEP Haridwar had to dispatch 15 consignments of other TG Stators of 600 MW and above by road during December 2012 to March 2014 incurring an expenditure of ₹17.36 crore as freight charges. Thus, due to delay in procurement and defective planning for the operational modalities and necessary clearances from Indian Railways, the wagon and associated carrier loading beam procured at a cost of ₹ 12.04 crore could not be fruitfully put to use even after more than five years of the initial decision to procure the same.

BHEL (November 2014/January 2015) and Ministry of Heavy Industries and Public Enterprises (March 2015) stated that:

- Vigorous efforts were being made for obtaining ODC and utlisation of wagon for pending and future orders for TG stators of capacity 600 MW and above. Presently, TG stator for Prayagraj project had been loaded on the wagon and was being despatched, and
- Transportation of TG Stators by rail in own wagon also involves substantial cost on account of freight charges payable to Railways, trans-shipment (loading/unloading), construction of roads from railhead to the site*, etc.*

The reply is to be viewed against the facts that:

- The wagon planned to provide a safer and economical means of transportation had not been put to use till January 2015 even after lapse of more than two years of its

• ***After considering the financial impact of excise duty, freight, incidental and consultancy charges in respect of Wagon and sea/air freight and incidental charges in respect of carrier loading beam.***

commissioning and all the 15 consignments sent after its commissioning had to be despatched only by road. Due to restrictions on ODC and limitations on availability of requisite infrastructure at railway sidings in the country, it may be a challenging task for BHEL to put the wagon to a fruitful use in future.

- On request by Audit (January 2015) BHEL did not provide analysis of possible cost saving of transportation of TG Stators through own rail wagon *vis-a-vis* transportation through road, so as to assess net additional expenditure on consignments despatched through road.

Thus, defective planning for procurement of wagon had rendered the investment of ₹ 12.04 crore unfruitful, besides depriving BHEL of the facility for a safer and economical transport.

1.4 Blocking of funds towards payment of Sales Tax

Failure on the part of Heavy Power Equipment Plant (HPEP), Hyderabad in prompt collection of Form C for obtaining concession of tax on turnover resulted in blocking of funds amounting to ₹ 9.67 crore towards payment of Sales Tax for period ranging from 8 months to 5 years.

Under the Central Sales Tax (CST) Act 1956 and CST Registration and Turnover (R&T) Rules 1957, registered dealers of the State are eligible to certain concessions and exemptions of tax on inter-State transactions against submission of prescribed declarations in Form C. The assessees are required to deposit sales tax to Sales Tax Authorities (Authorities) on or before due dates. Sales tax return in the prescribed proforma needs to be prepared and submitted every month to the Authorities. Sales tax shall be charged at concessional rate on inter-state sales against Form C to be issued by the registered dealer. Section 8 (4) (a) of CST Act 1956 provides that concessional rate of tax is applicable only if the assessee submits a declaration in prescribed Form C.

As the sales tax applicable for the despatched goods in Andhra Pradesh was 14.5 *per cent,* non-submission of Form C to the Authorities, attracted additional sales tax of 12.5 *per cent* over and above two *per cent* CST already levied. Since, HPEP was paying CST @ two *per cent* (i.e @ concessional rate[1]) for inter-state sales, it had to submit proof to the Authorities that the customer would be eligible to get these goods at concessional rate. Otherwise, HPEP has to pay balance sale tax payable plus penalty as applicable. Hence, HPEP was required to collect Form C promptly from its customers and follow up cases where Form C was not received.

Examination in audit revealed that HPEP incurred an expenditure of ₹ 9.67 crore (being the differential rate of sales tax against the demand notice of ₹ 32.99 crore) for the assessment years (completed) for 2006-07 to 2010-11. A test check of records revealed that HPEP did not collect and furnish Form C to the Authorities for the concessional turnover of ₹ 340 crore (₹ 214 crore in 2009-10 and ₹ 126 crore in 2010-11) for the assessment years (completed) 2009-10 and 2010-11. However, HPEP collected Form C for the turnover of ₹ 214 crore (₹ 158 crore for the year 2009-10 and ₹ 56 crore for the

[1] ***Provided the buying dealer confirms such transactions by furnishing a declaration in pre-printed form that he has received such goods giving all details such as invoice, commodity purpose etc.***

year 2010-11) from the customers only after completion of assessment proceedings. It did not collect Form C for the balance turnover of ₹ 126 crore (₹ 56 crore for 2009-10 and ₹ 70 crore for 2010-11). Out of this balance turnover of ₹ 126 crore, receipt of Form C of ₹ 108 crore was pending from two major customers i.e. (₹ 74 crore from DVC Koderma and ₹ 34 crore from PPCL).

BHEL in its reply stated (February 2015) that (i) review of pending Form C is being done on regular basis and all efforts are being made to collect pending Form C; (ii) The appeals for the respective years are live and BHEL is eligible for refund of the pre-deposited amount. Hence, the amount of ₹ 9.67 crore could not be treated as additional expenditure until the case is disposed by the Final Appellate Authority, (iii) With regard to DVC Koderma and PPCL, the unit has been constantly in touch with the customers for collection of Form C.

Reply needs to be viewed in the light of the following:

- While HPEP has paid the additional demand of ₹ 9.67 crore under protest pending appeals before the Appellate Authority, the fact remains that Forms C were to be collected from the customer before the completion of sale tax assessment proceedings.
- HPEP has put itself in an avoidable situation, now, when it is entirely dependent on its customers to furnish the required documents, which is not a good practice.

Thus, the failure of HPEP in prompt collection of Form C from its customers resulted in blocking of funds amounting to ₹ 9.67[1] crore towards payment of Sales tax for a period ranging from 8 months to 5 years.

The matter was reported to the Ministry in March 2015; their reply was awaited (March 2015).

1.5 Loss due to withdrawal of price variation without approval of competent authority

Unsolicited withdrawal of tender condition by BHEL for exchange rate variation on imported materials without obtaining approval of competent authority resulted in loss of ₹ 7.38 crore

Bharat Heavy Electricals Limited secured (October 2010) two orders from Nuclear Power Corporation of India Limited (NPCIL) for manufacture, supply, delivery and guarantee of four sets of Reactor Header Assembly sets, two each for Kakrapar Atomic Power Project (KAPP) and Rajasthan Atomic Power Project (RAPP) through its Heavy Pressure Boiler Plant (the Unit) at Trichy at a total cost of ₹99.30 crore. The supply was to be completed by April and October 2012, which got extended to October and December 2014 for KAPP and RAPP respectively. As per clause 5.4.3 of general conditions of contract (GCC) incorporated in the tender document, price adjustment would be allowed on

[1] ***₹ 1.68 crore-2006-07; ₹ 1.95 crore-2007-08; ₹ 3.23 crore-2008-09; ₹ 1.39 crore-2009-10; ₹ 1.42 crore-2010-11.***

imported material component[♣] up to a ceiling of +/− 20 *per cent* of ex-works price in accordance with formula specified in clause 5.5 of GCC.

The Unit, while bidding for the orders, reckoned tender condition regarding price variation (PV) and the total ex-work price was estimated (March 2010) at ₹ 98.73 crore which included an import component of ₹ 61.81 crore considering exchange rate (February 2010) of ₹ 62 per Euro. During technical evaluation, NPCIL sought (April 2010) unconditional acceptance to clause 5.4 & 5.5 of GCC, but the Manager, Commercial of the Unit confirmed (May 2010) to NPCIL that the material portion was firm and thereby withdrew the protection it had against exchange rate variation on imported materials. Audit observed the Unit communicated this decision without obtaining approval of competent authority i.e. Executive Director (ED). Since the price estimates were approved by ED of the Unit, any changes to it should have also been got approved from the ED. Meanwhile, the Unit imported material valuing Euro 97.98 lakh (₹ 72.67 crore) during the period from May 2012 to June 2013 incurring an additional expenditure of ₹11.92 crore due to exchange rate variation that ranged between ₹ 69.12 and ₹ 78.38 per Euro as against ₹62 per Euro reckoned at the time of bid submission. As a result, the Unit incurred loss of ₹ 7.38 crore on account of withdrawal of PV on exchange rate variation on imported materials.

The Unit stated (October 2014) that at the time of submission of offer, exchange rates were on downward trend and considering the same, exchange rate variation was not considered for PV clause. During the course of technical evaluation, Euro was less than ₹ 58 due to market instability as against ₹ 62 per Euro at which the bid was submitted. However, the fact remains that exchange rate variation protection was available in the tender conditions and without any insistence from NPCIL, the Manager, Commercial of the Unit withdrew it purely based on a trend of three months in a volatile foreign exchange market environment and hoped that it would continue for a contractual period of over two years, which proved detrimental to the financial interest of the Company. Moreover, before communicating such an important decision having considerable impact on revenue, approval of competent authority was also not obtained.

Thus, unsolicited withdrawal of tender condition for exchange rate variation on imported materials without obtaining approval of the competent authority resulted in loss of ₹ 7.38 crore.

The matter was reported to the Ministry in October 2014; their reply was awaited (March 2015).

Cement Corporation of India Limited

1.6 Undertaking project expansion activities without adequate finance led to infructuous investment.

Venturing into expansion activities without ensuring availability of fund through effective measures to facilitate sale of non-operating units resulted in infructuous investment of ₹ 26.60 crore.

[♣] *Comprising of coefficients of different types of material and labour to be added up to one.*

In order to revive Cement Corporation of India Limited (the Company), the Board for Industrial and Financial Reconstruction (BIFR) approved (3 May 2006) a scheme (the Scheme) envisaging, *inter alia*, expansion of Bokajan (Assam) unit of the Company with an investment of ₹90.51 crore. As per the Scheme, expansion works were to be carried out partly by Government of India funding (₹ 20.02 crore) in the first phase and balance of ₹ 70.49 crore from sale proceeds of seven non-operating units of the Company in the second phase. As the partial expansion of Bokajan unit was not viable, the Company decided to undertake the expansion project in a single phase. The Company, accordingly, issued (24 September 2010) a letter of intent (LOI) to M/s Promac Engineering Industries Limited (the Contractor) for expansion of Bokajan unit on turnkey basis to be completed within 18 months from the date of LOI at a total cost of ₹ 142.40 crore.

Audit examination revealed that project activities had lagged behind schedule since commencement primarily due to the failure of the Company to open Letter of Credit (LC) as per terms of payment, poor project mobilization by Contractor, law and order problems in the region, and so on. Meanwhile, sale of assets of seven non-operating units did not materialize on account of absence of title deeds of land valuing ₹ 15.22 crore, and expiry of mining lease of land measuring 2,737.10 acres (expired at the time of approval of the Scheme). The Company confirmed that though efforts were made since 2008 for sale of non-operating units, these could not succeed as all qualified bidders demanded renewal of mining lease, clearance of statutory dues of respective state governments and peaceful transfer of land. The Company was not even able to liquidate contractor's bills due to financial crunch that finally forced the contractor to suspend (May 2014) all project activities. The Company incurred so far (March 2015) an expenditure of ₹ 26.60 crore on expansion activities.

The Company stated (November 2014) that (i) sale of seven non-operating units could not materialize despite best efforts, which jeopardized expansion works, (ii) the expenditure was capital in nature and essential to complete the project and would be gainfully utilized, and (iii) it had taken up the matter with the Ministry of Heavy Industry and sought an assistance of ₹ 95.40 crore in BE 2015-16 refundable on sale of non-operating units.

The reply does not take away the fact that the Company had failed to regularize title deeds of land and renew lease license though it had four years from approval of the Scheme till placement of LOI. The Company had known that these issues had to be rectified to facilitate sale of non-operating units. Without making much headway towards mobilizing financial resources, the Company ventured into expansion activities, which constrained it from opening LC and liquidate Contractor bills. As per the Company's estimate (May 2014), at least ₹ 216 crore was required (including the works awarded) to complete the project without cost escalation. Moreover, viability of Bokajan unit was doubtful as huge capacity addition with modern technology had taken place in North-East (NE) region changing demand scenario in NE region from deficit to surplus. It is, therefore, likely that the Company would not be in a position to sell seven non-operating units in the near future, and convince the Ministry for financial assistance especially in the background of challenging market environment with tough competition and high operating costs.

Thus, venturing into expansion activities without ensuring availability of funds through effective measures to facilitate sale of non-operating units resulted in infructuous investment of ₹ 26.60 crore.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

Hindustan Paper Corporation Limited

1.7 Idle investment

The Company lost the opportunity of saving in operating cost of ₹ 4.35 crore annually on consumption of coal besides blocking its fund of ₹ 22.07 crore for over 6 years due to delay in commissioning of AFBC boiler at Cachar Paper Mill.

Hindustan Paper Corporation Limited (Company) with a view to saving consumption of coal, decided (November 2004) to install two 50 TPH Multifuel FBC Boilers each at its Cachar Paper Mill (CPM) and Nagaon Paper Mill (NPM) as the coal consumption of its old boilers was on a higher side. An order was placed (May 2005) on M/s Thermax Babcock & Wilcox Limited Pune for supply of two 50TPH AFBC Boilers for two paper mills at a total value of ₹ 34.97 crore. Separate order was also placed (May 2005) on M/s. Thermax Engineering Construction Company Limited (TECCL), Pune for erection and commissioning of boilers at a total value of ₹ 4.19 crore. The boilers were scheduled to be commissioned by July 2007. It was envisaged that there would be an annual saving of ₹ 4.35 crore by installation of each boiler.

The Company was to provide ‘civil fronts’ to TECCL for commissioning the boiler at CPM which got delayed (18 months) due to adverse weather situation and extra piling work on account of poor soil condition. TECCL claimed (December 2008) price escalation of ₹ 0.90 crore for the delay. After completion of 80 *per cent* of the erection work, TECCL left (October 2009) the site and intimated (November 2009) the Company to replace some components of boiler which had got rusted/ damaged due to improper storage for prolonged period. The Company procured the components at a value of ₹ 0.31 crore and requested (September 2010) TECCL for resumption of the remaining work. TECCL, however, informed (March 2011) that they would resume the work only after settlement of their claim towards price escalation. TECCL further informed (June 2012) the Company that the value of remaining work would be ₹ 1.24 crore compared to ₹ 0.39 crore as per existing work order and also sought an amended work order. The Company decided (June 2012) to accept the claim of TECCL at ₹ 0.47 crore and release of ₹ 0.25 crore to TECCL after mobilising the workforce at site. TECCL subsequently agreed (June 2012) to settle its claim at ₹ 0.35 crore and mobilise the work force only after receipt of advance of ₹ 0.25 crore along with amendment of work order for the remaining erection work.

Instead of getting the remaining work done through TECCL, the Company cancelled (30 October 2013) the work order and issued (4 November 2013) Letter of Intent (LoI) to M/S. M. S. Erectors, Assam (MSE) for erection, commissioning and performance test of the boiler at a cost of ₹ 1.46 crore at the risk and cost of TECCL. The scheduled date of

completion was 120 days from LoI i.e.by 4 February 2014. However, MSE carried out only 10 *per cent* of the physical work upto October 2014.

Audit examination revealed that the Company failed to commission the boiler at CPM as only 80 *per cent* of the job was completed by October 2009. Though TECCL accepted settlement of its claim at a reduced value[1], the Company did not resolve the outstanding issues and cancelled the order of TECCL. The Company issued order to another party for commissioning work after a delay of 16 months[2] with an additional cost of ₹ 0.22 crore[3]. Some components of the boiler had got damaged, in the meantime, which would require replacement/servicing as confirmed by MSE. Further, the guarantee period[4] of the boiler had expired and the vendor would not be responsible for any underperformance after its commissioning. Thus, there was an idle investment of ₹ 22.07 crore (August 2014) due to non-commissioning of boiler at CPM and the objective to save consumption of coal remained unfulfilled. Incidentally, the boiler at NPM was commissioned in March 2009 and the Company had saved on consumption of coal valued at ₹ 21.59 crore due to use of AFBC boiler instead of old boilers during 2010-11 to 2013-14.

The Company/Ministry contended (November 2013/May 2014) that TECCL had not shown interest in completing the job and commissioning of AFBC boiler at CPM got delayed mainly on account of their lackadaisical approach. The above contention needs to be viewed against the fact that TECCL had agreed to complete the remaining job subject to settlement of its claim even at a reduced value offered by the Company. However, the Company did not take any action in this respect and issued LoI to another party for the remaining job at a higher cost by ₹ 0.22 crore compared to that offered by TECCL. Ministry, while not expressly agreeing with the Company's stand, stated that the Company would have to bear the cost of the replacement of the component of the boiler, if found damaged, during commissioning of the boiler, as the guarantee period was over. Thus, the Company had lost the opportunity of achieving savings in consumption of coal of ₹ 26.10 crore[5] over a period of more than 6 years due to delays mainly attributable to itself in completing the commissioning of AFBC boiler at CPM besides blocking its funds amounting to ₹ 22.07 crore for more than 6 years.

Sambhar Salts Limited

1.8 Unfruitful investment in salt refinery

Award of contract to contractor compromising technical requirements followed by deficiencies in inspection and monitoring at the project execution stage resulted in an investment of ₹ 5.82 crore in salt refinery at Sambhar turning unfruitful without yielding desired results even after a lapse of eight years.

Sambhar Salts Limited (Company) invited (February 2006) bids for setting up of a salt refinery with capacity of one lakh tonnes per annum at Sambhar in Rajasthan to produce

[1] *From ₹0.90 crore to ₹0.35 crore*
[2] *From June 2012 to November 2013*
[3] *₹1.46 crore - ₹1.24 crore (claimed by TECCL)*
[4] *12 months from the date of commissioning or 24 months from date of dispatch, whichever period ends earlier.*
[5] *₹4.35 crore * 6 years*

refined/non-refined, iodized/non-iodized salt. One of the critical technical tender conditions was that the bidder should have successfully commissioned at least a salt refinery of capacity of not less than 15 tonnes per hour (TPH) on turnkey basis or executed salt refinery projects of value of not less than ₹ 5 crore during last five years. None of the four bidders met the required technical criteria. Tender committee, however, called the bidders for negotiations and based on an undertaking of bidders to execute the project as per scope of work on turnkey basis, recommended relaxation of technical requirements for all bidders. After relaxation of technical conditions with the approval of the competent authority, the letter of Intent for setting up the salt refinery on turnkey basis was finally issued (April 2006) to L-1 bidder, M/s Pandian Engineering Industries, Tamil Nadu (Contractor) at a contract value of ₹ 4.95 crore.

After the award of work, the performance of contractor was found deficient both in terms of quality of work as well as timely completion of work. The contractor submitted Detailed Project Report for the refinery in November 2006 as against the target date of 13 May 2006. Against the target date of supply, erection and commissioning of salt refinery by November 2007, the contractor did not commence supply of plant and machinery till June 2008. Despite repeated letters from the Company, the performance of the contractor remained slow and the extended targets of May 2009 followed by October 2009 agreed to by the contractor were also missed. Slow progress of refinery project was discussed (November 2009) by the committee of Directors of the Company with the contractor during which the contractor finally agreed to complete the work by December 2009 and start trial runs from 15 January 2010.

Though the work was not completed by the contractor as per the agreed scope of contract and the work aggregating ₹ 42.05 lakh remained unexecuted, the refinery was put to limited production from June 2010. There was imbalance and mismatch in equipment supplied by the contractor which resulted in frequent problems in operation and the refinery never operated at its planned installed capacity. Against the planned installed capacity of one lakh tonnes per annum, actual salt production at the refinery during June 2010 to March 2014 ranged between 5,041 tonnes to 19,904 tonnes per annum (*i.e.* an average production of 11310[♦] tonnes per annum only). The contractor was repeatedly requested by the Company to supply the balance plant and machinery and stabilise the production as per tender conditions. However, the same was not done. Accordingly, the Company appointed a consultant (February 2014) to study and give recommendations to achieve the installed capacity who pointed out several deficiencies in the execution of work including use of inferior material and recommended retrofitment of the refinery to achieve the planned production level. The Company terminated (October 2014) the contract with the contractor and decided to execute the balance work at his risk and cost under the terms of the contract. However, the work for retrofitment and capacity enhancement of refinery estimated to be done at the cost of ₹ 3.54 crore was yet to be awarded (January 2015).

It was further observed that the Company neither had any professionally qualified staff for checking the specifications of the machinery and material at the time of delivery and execution of the project by the contractor nor did it ensure its testing and inspection by an

[♦] ***Calculated based on the actual production of 43,356 tonnes from June 2010 to March 2014.***

independent expert. As a result, equipment and machinery supplied by the Contractor was of inferior quality as compared to the agreed tender specifications as assessed by an independent consultant. These deficiencies, *inter alia*, included, leakages in wet mill and other equipment reducing their efficiencies; inadequate drainage provision resulting in seepage; improper designing of dryers and foundation of machines; malfunctioning of various equipments/ machines; and loose wirings, besides the inferior brands of bearing used.

Thus, due to relaxation of critical technical requirements at the tender evaluation stage and lapses in inspection and monitoring during project execution, the refinery set up at a cost of ₹ 5.82 crore (₹ 2.98 crore being payments made to the contractor and ₹ 2.84 crore being interest payable on Government of India loan for setting up of refinery) did not achieve the desired results even after lapse of more than eight years of the award of work.

The Company accepted (January 2013) that most of the equipment and machinery supplied and installed by the Contractor were of inferior quality and did not meet the required standards and needed replacement/re-installation. They also accepted (January 2013 and December 2014) that they did not have required competent manpower for installation and commissioning of the project and also did not take steps to engage professional/qualified staff for monitoring and implementation of the work done by the Contractor.

Thus, award of contract to a contractor compromising technical requirements followed by deficiencies in inspection and monitoring at the project execution stage resulted in an investment of ₹ 5.82 crore in the refinery becoming unfruitful without achieving the desired results.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).