Chapter V: Project Monitoring

Implementation of MEP projects at plant levels was monitored by ED (Projects) and CEO of the respective plants. Functional directors and Chairman reviewed the progress during plant visits and senior management meetings. A Board sub-committee (BSC) was constituted in July 2006 to review/monitor the capital projects. Board of Directors of the Company reviewed the projects initially when these projects were submitted for approval of capital investment within their delegation of authority. It also reviewed the progress of the projects through the minutes of the BSC meetings. The Board was also being informed of physical and financial progress of capital schemes. Ministry of Steel also reviewed the progress of the projects in quarterly meetings and monthly reviews at Secretary Level. Ministry of Statistics and Programme Implementation, Cabinet Secretariat/Prime Minister Office also reviewed progress at regular intervals. These meetings, however, had no significant impact in containing delays as noted below.

5.1 Inadequate monitoring of MEP projects

1. Delays were observed at every stage of project management cycle as reported in the preceding chapters. Besides significant delays in tender finalisation (refer Paragraph 3.1), execution of all the major projects has been delayed by 3 years- 6 years (refer Paragraph 4.1) from their contractual date of completion. In the course of eight years of ongoing implementation of MEP, the Company revised their completion dates a number of times. Table 11 below shows the dates of the integrated commissioning of expanded production facilities extended on year to year basis.

Table 11: Changes in overall completion of the MEP projects during seven years

(mm/yy)

Plants	2007 as committed to Prime Minister Office	March 2009	March 2010	March 2011	March 2012	March 2013	March 2014	December 2014
ISP	02/10	07/10	06/11	03/12	03/13	12/13	06/14	03/ 15
BSP	09/10	11/11	03/13	03/13	09/13	03/14	03/15	09/15
BSL	08/10	12/10	12/11	12/11	10/12	12/13	05/14	06/15
DSP	10/10	-	12/12	12/12	03/13	12/13	12/14	05/15
RSP	10/10	04/11	03/13	03/13	03/13	12/13	09/14	03/15
SSP	03/10	03/10	06/10	09/10	09/10	09/10	09/10	09/10
Cumulative CAPEX (₹ in crore)		3,799	12,056	21,052	30,675	39,279	48,189	51,872

2. Audit noted that the Company had reported (May 2013) to the 'BSC on monitoring of the major projects' that new Coke Oven Battery, Sinter Plant, Wire Rod Mill and Power Blowing Station in ISP were commissioned during the year 2012-13. But it later claimed that there were major defects in these plants and therefore should not be considered as commissioned. The Company intimated to audit that the dates for completion of these projects as 'ready to intended use' should be the dates on which these defects were rectified and not the dates intimated to the Board of Directors or its sub-committee. It would be seen that there was no definiteness as to the date on which a project was completed and different dates were being reported to different stakeholders.

3. Audit noted that as per 'status report of on-going projects' as on 31 December 2014, integrated commissioning in ISP and RSP was to be completed in March 2015. However, the status report for the month ended 31 January 2015 showed it as completed in December 2014.

Ministry stated that project management is a complex task which may have many contingencies. Planned completion schedule was based on assumption that all activities would be completed without delay. Delays in completion of project occurred because these assumptions could not be achieved. Projects were closely monitored at all levels. There may be some inaccuracy in estimation of completion time but delays and slippages in completion schedule were not within management control as explained in management replies to relevant audit paragraphs and therefore should not be seen as failure of monitoring agencies.

Reply of the Ministry may be viewed against the following facts:

1. Board sub-committee (BSC) met thrice during 2011, 2012 and 2013 and twice during 2008 but met only once in 2007, 2009 and 2010. In its sixth meeting held on 3 July 2009, the BSC desired to meet every month to review the status of implementation of at least one plant with the Head of the Plant. But seventh BSC meeting was held eight months later on 31 March 2010. It was noted that in the meetings of the BSC the Plant management made a presentation of the status of implementation of MEP projects, reasons for delays and action taken, and commercial disputes with contractors. The BSC sometimes sought some more information to be presented in next meetings; noted with concern the delays and revised dates of implementation for various MEP projects; suggested to analyse delays to avoid their occurrence, deploy the experienced officials, and select right contractor; and emphasised for early completion of projects. Some of suggestions were repeated in subsequent meetings. BSC discussions, however, did not result in actionable points and responsibility centres for implementation of BSC suggestions. BSC listed actionable points in its 11th meeting held in March 2012 for the first time. Implementation status of BSC's action points were not discussed in the subsequent BSC meetings. We noted that the BSC meetings were a forum for information sharing and did not serve as a centre for taking decisive action for timely completion of projects.

2. Though minutes of all the BSC meetings were submitted to Board of Directors as one of the agenda items, there was no deliberation on them and matter was marked as noted by the Board. Out of 77 Board meetings held during January 2008 and 11 August 2014, the physical and financial progress of capital projects were either not discussed or merely noted in 49 Board meetings. There was no discussion on progress of MEP projects in the Board meetings held between September 2013 and August 2014. During this 12 month period, integrated commissioning was progressively extended by 18 months - 24 months. In meetings where Board chose to discuss MEP projects, deliberations were no better than what we noted for the BSC meetings. Plant Heads or Director (Technical) or Director (Project) presented the status of implementation of MEP projects to the Board. However, no concrete action plan with responsibility centres was devised to fast track the completion of projects.

Thus, oversight of Board of the Company and its sub-committee over implementation of MEP projects was not effective and they failed to ensure timely completion of projects.

5.2 Impact of delays in completion of MEP projects

The Company's goal was to take advantage of the buoyant market conditions by going early into steel production. As shown in Table 12, the Company failed to take advantage of buoyancy in steel market as the integrated commissioning of capacity expansion projects in five integrated steel plants could not be completed by the year 2010 as planned. The MEP is now scheduled for completion during 2015.

Table 12: Planned/likely completion, CAPEX and annual gross margin envisaged from MEP

(₹ in crore)

Plant	Completion date (mm/yy)			Capex as of 31 March				Capex as of 31 December	Annual Gross Margin envisaged from MEP Projects
	Planned		Estimated						
	*	**	#	2011	2012	2013	2014	2014	
ISP	02/10	12/11	03/15	10,618	13,088	14,481	15,788	16,641	2,549
BSP	09/10	03/13	09/15	2,448	5,180	8,534	12,492	13,835	3,030
BSL	08/10	12/11	06/15	1,874	2,625	3,470	4,591	4,952	528
DSP	10/10	12/12	05/15	218	751	1,522	2,153	2,455	833
RSP	10/10	03/13	03/15	4,030	6,841	9,032	10,870	11,682	2,498
				19,188	28,485	37,039	45,894	49,565	9,438

*As committed by Ministry of Steel to the Prime Minister Office; ** Revised planned completion dates communicated to Ministry of Steel in 2011; # Likely completion of integrated commissioning last estimated in December 2014 by SAIL management.

Audit noted that despite global economic slowdown, there was growth in domestic demand for steel products. Total finished steel production in India had increased from 58.09 million tonne in 2007-08 to 78.47 million tonne in 2013-14 and total consumption increased from 56.39 million tonne in 2007-08 to 83.78 million tonne in 2013-14 (about 50 *per cent*). Per capita use of steel in India in term of per kg of crude steel had also increased from 47.3 kg in 2007 to 63.9 kg in 2013.

There was sufficient market for SAIL to sell its steel products had the MEP projects been completed in 2010 as planned. By failing to complete the MEP projects within the planned period, the Company ceded space to its competitors. SAIL's market share in saleable steel had decreased from 25 *per cent* in 2004-05 to 14.6 *per cent* in 2013-14.

As shown in Table 12, the Company had envisaged annual gross margin of ₹ 9438 crore from MEP. Due to delays in completion of capacity expansion by over four years, obtaining envisaged annual gross margin has also got delayed. Cash and bank balance which was ₹ 22,436 crore at the end of March 2010 has dried up to ₹ 2,305 crore at the end of March 2015

and profit before tax reduced from ₹ 10,132 crore in 2009-10 to ₹ 2,359 crore in 2014-15. This could largely be attributed to delays in obtaining return on their substantive investment (₹ 49,565 crore as of 31 December 2014) made in implementation of MEP in five integrated steel plants.

While accepting delays in implementation of MEP, Ministry also stated that some facilities of the production stream have already been put into operation. Reply is not tenable. Audit notes that in five integrated steel plants, some individual projects of integrated production stream were commissioned, but capacity utilisation was very limited to keep the commissioned plants going and the output was used internally. There has not been overall increase in production since 2007-08. Production of hot metal, crude steel, pig iron and saleable steel in 2007-08 was 15,199 mt, 13,964 mt, 441 mt and 13,044 mt whereas production of these products in 2013-14 respectively was 14,447 mt, 13,579 mt, 223 mt, and 12,880 mt[10], which is lower than the production of 2007-08.

Recommendation:-

4. **The Company may strengthen their project monitoring system at all levels. There should be appropriate monitoring mechanism at the Plant and the Board level that would not only monitor but should have the authority to take corrective action as well as fix responsibility at each stage of delay.**

[10] Sources: Annual Reports of the company