

## CHAPTER XII: MINISTRY OF STEEL

### Steel Authority of India Limited

#### **12.1 Import, Shipping and Transportation of Coal**

##### **12.1.1 Introduction**

Steel Authority of India Limited (SAIL or Company) manufactures steel products and requires about 15 MMT (Million Metric Ton) coking coal annually, of which 12-13 MMT is imported. Coking coal is imported either through global tenders or through Long Term agreements (LTAs). The Company's Coal Import Group (CIG) is responsible for import of coal. The CIG assists the Empowered Joint Committee (comprising SAIL and RINL) and SAIL Directors Committee (SDC) to take import related decisions. The Transport and Shipping Department (TSD) of the Company is responsible for chartering of vessels for overseas transport of imported coal and limestone, port handling and dispatches of imported cargo from ports located at Visakhapatnam, Gangavaram, Paradip, Dhamra and Haldia to respective steel plants. Value of its annual coal imports ranged between ₹6937 crore to ₹11,656 crore during 2013-14 to 2016-17 which was 15 to 22 *per cent* (approx) of the Company's total expenditure annually.

The audit objective was to assess whether import of coking coal and its shipping, handling and transport to the steel plants were managed in a transparent, competitive and fair manner ensuring efficiency and economy.

SAIL imported 51.10 MMT of coking coal valuing ₹37,254 crore during 2013-17. Audit reviewed records relating to import of 38.79 MMT of coal valuing ₹25,598 crore at Coal Import Group of SAIL. All eight long term agreements for import of coal entered into by SAIL during 2013-16 were covered during the audit. Audit examined the entire activity relating to import of cargo and dispatches to steel plants through records kept at Transport & Shipping Headquarter of SAIL, Kolkata and its five Branch Transport and Shipping Offices (BTSOs) located at Visakhapatnam, Paradip, Haldia, Kolkata and Dhamra. During this period (2013-17), 670 vessels were chartered / handled by the TSD for import of 53.08 MMT of coal and limestone at a logistic cost of ₹12,797.07 crore. Audit examined chartering of 511 vessels by TSD for import of 40.93 MMT coal and limestone at total logistic cost of ₹9633.40 crore. All handling contracts related to coal and limestone awarded during the same period were also examined by the audit.

##### **12.1.2 Audit findings**

###### **12.1.2.1 Import of Coal**

###### **A. Vendor base for import of coal not augmented**

The Company's policy on coal import is to procure the bulk of its imports through long term agreement (LTA). LTAs are entered into with suppliers in the vendor base of the Company. A large vendor base increases competition and leads to more competitive prices

for the Company. Clause 5 of the Policy for Import of coal of the Company stipulates that the supplier base be broadened by open, global, invitation for Expression of Interest (EOI) throughout the year. The EOIs that are accepted technically are tested before a new vendor is added.

Audit noted that the Company failed to develop any new vendor during 2010-17, and only one vendor was added in 2017-18. It was seen that the Company had not framed any time frame for evaluation of EOIs, Pilot Oven Testing and Industrial trial run. Out of 21 responses received against 4 EOIs issued during 2013-17, the Management failed to complete technical evaluation for two, though these EOIs had been issued as early as June-July 2015. Only three responses were found to be technically compliant. Audit noticed that one of these have been finalised in 2017-18 and there were considerable delays in the process as indicated below:

- One bid was identified as technically compliant in December 2013. The pilot oven tests were completed in August 2014 and the case was abandoned in May 2015 as the vendor and company were fighting in the court in another case.
- Another bid was found technically compliant in December 2015 and pilot tests were completed in April 2016. The Management decided (June 2016) to conduct industrial trial which has not yet materialised (June 2017).

The Management stated (June 2017) that they are making all efforts to increase the vendor base and that time taken in processing the EOI was based on completeness of the bid. The Management also stated that the bidders were to be intimated regarding acceptability or otherwise of their bid within six months of receipt of the bid.

The reply of the Management is not acceptable as the vendor base remained virtually static over the last seven years and considerable delays in processing of EOIs issued during 2013-17 were noticed.

#### **B. Poor assessment of coal import requirement**

The Company assesses the imported coal requirements on an annual and quarterly basis. The prices for the quantity ordered for the quarter are accordingly finalised with the LTA suppliers. Audit observed that quarterly import requirement for April- June quarter of 2015 was decided in March 2015 as 4,50,000 MT of Moranbah Hard Coking Coal which was to be supplied by the LTA supplier M/s Anglo American. In June 2015, the Company requested the LTA supplier to deliver the remaining quantity of 75000 MT in 3<sup>rd</sup> or 4<sup>th</sup> quarter of 2015-16 to reduce the stock of the company. The coal was finally delivered in the April – June quarter of 2016. As per the arrangement with the LTA supplier, the coal was to be delivered at the price applicable in April-June quarter of 2015. Audit noticed that the price of coal in April-June quarter of 2016 was lower than the price in April-June 2015 quarter by USD 25.50 per MT. As such, the Company could have saved ₹12.43 crore had it assessed the requirement of coal accurately in March 2015.

The Management stated that they reviewed (April 2015) the stock of imported coal and decided to regulate the receipts of imported coal.

The reply highlights the fact that the Management failed to assess the actual requirement of imported coal in March 2015 and had to revise the delivery schedule within a month of placing the order, which led to avoidable expenditure of ₹12.43 crore.

### **C. Sampling and Inspection of imported coal**

The LTAs with the suppliers stipulated that the seller was to carry out sampling and inspection of the materials at the loading port by a mutually agreed inspection agency. Such inspection report was the basis for accepting the coal quality and making payments. The inspection agency would also retain a part of the sample for independent verification by the purchaser.

**C.1** Audit observed that during 2013-16, the Company did not exercise its right to independently verify the quality of coal and routinely paid for the quality and quantity established by the mutually agreed inspection agency.

The Management stated (June 2017) that in case there were significant, continuing and material deviations in the quality and quantity supplied against the Agreement, the reason would be investigated to reach a mutually agreeable solution.

Reply of the Management is not acceptable. Audit test checked seven invoices raised between January and December 2014 and noted that all seven shipments from M/s Werris Creek had total moisture of 12 *per cent* (maximum tolerance limit being 12 *per cent*) and in 11 shipments (out of 25 shipments) during the same period, coal supplied by M/s BHP had ash content of 9.8-9.9 *per cent* (maximum tolerance limit being 10 *per cent*). Despite these persistent borderline quality parameters, the Company did not exercise its right to independently verify the quality of coal.

**C.2** Rotation of inspection agencies is envisaged in the LTAs for import of coal. The Company selected three inspection agencies with provision of rotation every six months in the LTA signed with M/s Werris Creek (no. 706/2008). Likewise, the LTA signed with M/s BHP (no. 224/10), provided for two inspection agencies to be rotated every five vessels. Audit noticed however, that inspection at loading ports was always conducted (2013-16) by a single agency for both suppliers (M/s Actest for shipments from M/s Werris Creek and M/s SGS for shipments from M/s BHP).

The Management replied (June 2017) that M/s Werris Creek had commenced rotation of inspection agencies and stated that as one of the agencies (M/s Bureau Veritas) closed (January 2013) their office, M/s BHP was getting inspection done by M/s SGS till another suitable inspection agency was selected.

Reply of the Management needs to be seen against the fact that rotation of inspection agencies is in the interests of the Company to ensure that their results are not biased and are independent in respect of M/s BHP is not acceptable as even after a gap of more than four years, no other Inspection Agency was selected by the Management.

**C.3** As per LTA signed with M/s Werris Creek (valid till December 2014), guaranteed moisture and total absolute moisture should be upto 10 *per cent* and 12 *per cent* respectively. Moisture level beyond 10 *per cent* would lead to penal deduction in coal price and beyond 12 *per cent* would lead to rejection of coal. In the new agreement signed with M/s Werris Creek, effective January 2015, the guaranteed moisture and total absolute moisture limits were modified from 10 *per cent* and 12 *per cent* to 11 *per cent* and 13 *per cent* respectively. However, these revised parameters were made effective, retrospectively from July 2014. Due to increase in the tolerance limits, the supplier could avoid payment of penalty on inferior quality of coal supplied and the company had to forgo a rebate of ₹1.92 crore during September to December 2014.

The Management stated (June 2017) that changes in guaranteed limit and absolute maximum limit for total moisture was in line with the EJC settlements and for the new LTA to be entered into w.e.f. from 1 January 2015.

The reply of the Management is not acceptable as change in parameters for the new agreement should be with prospective effect alone.

#### **D. Inadequate exploitation of captive mines leading to dependence on import**

The Company is heavily dependent on import of coal though it has three captive coking coal mines. Development of captive mines augments indigenous coking coal availability and safeguard against volatility of import prices. The Company has two fully functional captive mines (Jitpur and Chasnalla) to extract coking coal. Besides, mining is done at Tasra colliery on a small scale.

Audit observed that production from captive collieries was in range of 40 to 80 *per cent* of the rated capacity<sup>1</sup> of the mines during 2013-17 (except Chasnalla for the year 2016-17)<sup>2</sup> and there was a shortage in production vis-a-vis the rated capacity of 0.728 Million tonnes during 2013-17 as given in the table below:

#### **Production of coal from captive mines**

(in Million Tonnes)

	Chasnalla			Jitpur		
	Rated capacity	Actual production	% to Rated capacity	Rated capacity	Actual production	% to Rated capacity
<b>2013-14</b>	0.60	0.480	80	0.14	0.056	40
<b>2014-15</b>	0.60	0.326	54	0.14	0.092	66
<b>2015-16</b>	0.60	0.483	80	0.14	0.075	54
<b>2016-17</b>	0.45	0.46	101.16	0.12	0.09	70
<b>Total</b>		<b>1.749</b>			<b>0.313</b>	

Reasons provided by the Management for low production included non-deployment of outside agencies, non-availability of equipment and material, shortage of sand, equipment breakdown, all of which were within their control. It was also noticed that the Company

<sup>1</sup> Here rated capacity means consent to operate as agreed by SAIL and Mining Authorities

<sup>2</sup> The rated capacity at Chasnalla was reduced to 0.45 million tonnes in 2016-17 and though the physical production declined over previous year, the production as a per cent of rated capacity increased to 101 per cent

took five years (June 2002 – July 2007) to submit the mining plan to Ministry of Coal and finally approval of Ministry of Coal for the mining plan for Tasra could be obtained in June 2009 after a lapse of seven years. Mining on a small scale in pits started in 2009 in Tasra, but the Company took another four years to enter into a contract with Mine Developer cum operator (MDO) for coal development and mining (in September 2013) to start full scale operations.

While accepting the audit observations, the Management stated that actions are being taken to minimize the production losses at Jitpur and Chasnalla coal mines. The Management assured development of Tasra Opencast Project during 2017-18.

The low level of production from Jitpur and Chasnalla and delay in development of Tasra mine contributed to increased dependence of the Company on imported coal.

### **12.1.2.2 Shipping and Transportation Activities**

SAIL chartered vessels for import of cargo and also engaged contractors for material handling at ports from shore clearance to loading into railway wagons.

#### **A. Injudicious management decision to enter into long term shipping contracts**

SAIL decided (December 2007) to enter into long-term shipping agreements of up to 15 years for import of coal in order to reduce incidence of freight. The Company entered into four long-term<sup>3</sup> Contracts of Affreightment (COA) between November 2007 and August 2008 for import of coal from Australia.

Audit observed that ocean freight rates had been highly volatile during this period (2007-08). The Baltic Dry Index, used by shipping trade for assessment of freight fluctuated from 2000 points in August 2005 to 5000 in March 2007 and 10000 in November 2007, indicating the high levels of volatility. As such, entering into long term contracts at this stage was injudicious.

After economic meltdown (2008), the ocean freight fell sharply and freight rates agreed in the COAs (November 2007 to August 2008) proved to be much higher than the spot freight rates. The Company started chartering vessels based on spot rates outside the COAs and decided (August 2012) to abandon or even terminate some COAs. Out of the agreed quantity of 11.50 MMT to be shipped through COAs, the Company imported only 4.92 MMT. Four vessel owners went into arbitration against SAIL for not offering shipments as per contract. In two of these cases, the arbitration orders went against the Company (August 2014 and May 2016) and an amount of ₹343.51 crore<sup>4</sup> is payable to the COA owners with interest up to actual realisation.

The Management replied (June 2017) that the long term COAs were entered into to obtain competitive rates. In view of the unprecedented market volatility, the Board had decided to not to honour the COAs and let them expire or even terminate them as it was felt that as

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<sup>3</sup> *Two COAs of five years duration (November 2007 @ USD 48.5 per tonne, March 2008 @ USD 34 per tonne) and one each of four years six months and four years nine months duration (December 2007 @ USD 40 per tonne)*

<sup>4</sup> *USD 14.05 million @ INR 60.67 + USD 38.60 million @ INR 66.91*

even in case some ship owners sought for legal remedy, the liability of the Company would be confined to the financial impact of honouring the existing contracts.

Reply of the Management does not explain the decision to enter into long-term COAs based on peak rates in a highly volatile market.

## B. Poor management of tenders for handling imported material

The Competition Act (2002) explicitly prohibits collusion among the bidders which could result in eliminating or reducing competition for bids or adversely affect or manipulate the process for bidding.

Audit reviewed four tenders for handling of coal and limestone at Paradip and Haldia ports during the period under review (2013-17). From the tender documents submitted by the bidders against these four tenders, some of the bidders appeared to be related parties as detailed in the table below:

### Details of bidders

Name of work	Paradip works		Haldia works	
	Handling job of Limestone	Handling job of Coal	Handling job of Limestone	Handling job of Coal
Bidders <sup>5</sup>	OSL, MM, RCPL and SCDC	OSL, MM, RCPL and ECBC	RCL, RCSHL and OSL	
L-1 party	OSL	MM	RCL	
Validity period and rate	August 2014 to July 2016 at ₹155.88 per MT	November 2012 to October 2016 at ₹122.50 per MT	October 2012 to October 2014 at ₹167.35 per MT for handling limestone November 2012 to November 2014 at ₹147 per MT for handling coal	

- In response to the tender for handling limestone at Paradip port, four parties submitted their bid (June 2014). Two of these parties, M/s OSL and M/s M Mishra appeared to be related from the documents submitted by them. The board members of M/s OSL were partners in M/s M Mishra, both companies had the same contact details and demand drafts submitted by both parties were issued by the same bank, on the same date, and numbered consecutively. M/s OSL won the tender. Audit noticed that M/s OSL had been handling limestone at Paradip since 2010. In the subsequent tender (February 2016), three technically eligible bids were received and a new competitor, M/s Seaways participated. It was seen that M/s Seaways Shipping won the tender at a price which was less than the earlier handling contract with M/s OSL by 33 per cent.
- M/s OSL and M/s M Mishra also submitted separate bids for coal handling in Paradip port (August 2012). M/s M Mishra won the bid. In a subsequent tender of May 2016, the competition improved and two new competitors (M/s Seaways Shipping Logistics Limited and M/s Swastik Stevedores Private Limited) also

<sup>5</sup> M/s Orissa Stevedores Limited (OSL), M/s Mahimananda Mishra (MM), M/s Roy Chatterjee (P) Limited (RCPL), M/s Satish Chandra Das & Co. (SCDC), M/s EC Bose & Co. (Paradip) Private Limited (ECBC), M/s Ripley and Company Limited (RCL), M/s Ripley and Co. Stevedoring and Handling Private Limited (RCSHL)

emerged as technically eligible. In this tender, M/s M Mishra again won the contract but with a lower quote of 34 *per cent* with respect to the previous work order.

- The same three parties, viz., M/s RCL, M/s RCSHL and M/s OSL bid for both the limestone and coal handling tenders (October 2012) at Haldia. Both bids were won by M/s RCL. A review of the tender documents indicated that M/s RCL and M/s RCSHL were likely to be related. The promoter of M/s RCSHL was partner in M/s RCL. Both companies had the same contact details and demand drafts submitted by both were issued by the same bank on the same date and consecutively numbered. The contract for handling of limestone was extended up to August 2015. Subsequently, a composite handling contract (for limestone and coal both) at Haldia was awarded to M/s Netincon Marketing Private Limited for the period 06 August 2015 to 31 March 2017.

M/s OSL, M/s M Mishra and M/s RCL executed work valuing ₹11.66 crore (August 2014-August 2016), ₹84.34 crore (December 2012 to September 2016) and ₹38.43 crore (2012-2015) respectively. The Management failed to carry out due diligence while scrutinising the bid documents to prevent collusion among the bidders. The possibility that competition was compromised in all four tenders could not be ruled out.

The Management stated (June 2017) that the audit observations have been noted for future guidance and that the bidders were separate entities.

The reply needs to be viewed against the fact that the bid documents itself indicated that the bids had been submitted by related parties.

### **C. Non-recovery of demurrage from DPCL**

M/s Dhamra Port Company Limited (DPCL), which owned and managed Dhamra port, was the service provider for handling import and export vessels at the port. The Transport and Shipping Department (TSD) placed work order on DPCL effective from April 2015. As per the agreement with DPCL, priority berthing was allowed for TSD vessels and demurrage was to be borne by DPCL in case the time taken to discharge the SAIL cargo exceeded the free time<sup>6</sup> allowed under the agreement. Audit observed that demurrage<sup>7</sup> amounting to ₹8.83 crore (₹1.28 crore for cape size vessels and ₹7.55 crore for Panamax vessels) had to be paid to vessel owners by the Company for vessels berthed at Dhamra port during the period 2015-17. The demurrage was not recovered from DPCL by the Company.

The Management stated (June 2017) that DPCL had fulfilled the guaranteed discharge rate in respect of all the cape size vessels and therefore recovery was not made on account of cape size vessels.

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<sup>6</sup> *Free time is the number of free days allowed to DPCL to discharge the SAIL cargo*

<sup>7</sup> *Demurrage was payable by DPCL on exceeding the free time allowed to discharge SAIL cargo as per the demurrage rate in the agreements between SAIL and vessel owners*

Reply of the Management was not acceptable since demurrage was recoverable from DPCL as per the agreement, irrespective of the vessel type. The reply was silent about non-recovery of demurrage charges on account of Panamax vessels.

**D. Under-recovery of idle freight from contractors**

Railway freight is charged based on the permissible carrying capacity of the railway wagon. Even if the wagon is under-loaded, full freight charges have to be paid. Audit noticed that the handling contracts were not uniform in penalising under-loading of railway wagons.

- The handling contract with M/s M Mishra and M/s OSL at Paradip port did not contain any recovery clause for idle freight and therefore ₹69.46 crore paid during 2013-17 for under-loaded wagons could not be recovered from them.
- The handling contracts at Haldia, Vizag and Dhamra included a clause for recovery of idle freight but the Company did not implement it. The contract with M/s DPCL for Dhamra port stipulated recovery of idle freight but against dues of ₹21.82 crore, TSD recovered only ₹2.94 crore from DPCL. At Haldia, against idle freight charges of ₹78.31 crore payable by the handling agent, TSD recovered only ₹6 crore and in Vizag, against the idle freight of ₹105.12 crore paid, TSD recovered only ₹1.08 crore.

Thus, TSD paid idle freight of ₹274.71 crore during 2013-17 for short quantity of coal and limestone loaded in railway wagons but could recover only ₹10.02 crore from the handling contractors while the balance ₹264.69 crore remained unrecovered.

The Management stated that under normal circumstances, imported coal with lower bulk density cannot be loaded technically up to 'permissible carrying capacity' and accordingly no penal provision was envisaged. Further, based on a load-ability study conducted by TSD in 2015-16, the handling agents would now be required to load maximum quantity in rakes so as to minimize idle freight.

The Management's technical concerns regarding full loading of wagons needs to be seen against the contracts it entered with some handling agents penalising under-loading. Even, the loadability study only fixed (April 2015) a minimum loading quantity per wagon while stressing that handling agents should load the maximum quantity in rakes to address idle freight.

**E. Non-recovery of overloading charges from Haldia port**

During 2010-12, the Transport and Shipping Department (TSD) agreed to avail the cargo handling services of Haldia port. It was decided that the representative of TSD would monitor weighment and loading of import cargo on railways wagons. TSD, however, did not depute their representative despite several requests from Haldia port. During this period, Railways recovered ₹2.88 crore from TSD as overloading charges which could not be recovered from Haldia port as TSD had not deputed its representative to monitor weighment and loading.



The Management stated (June 2017) that they have decided to take up the issue with Ministry of Steel as per the existing guidelines. Any commercial claim with the Port would be ultimately dealt with under Major Port Trust Act / Tariff Authority of Major Ports guidelines.

The reply does not justify non-deputation of a representative at Haldia port to monitor weighment and loading.

#### **F. Short receipt of coking coal at steel plants**

Quantity shortages were often noticed when the cargo was weighed at the receiving steel plants. Based on an Expert Committee recommendation, Board of Directors of the Company approved (March 2004) norms for such shortages. The norm for transit losses in respect of imported coking coal received at steel plants was (+/-) 3 *per cent*. Audit reviewed the coal dispatched from Paradip, Dhamra and Haldia to steel plants during the period 2013-17 and noted shortages beyond 3 *per cent* (3.01 *per cent* to 10.47 *per cent*) in the coal received at Bokaro, Durgapur, Bhilai, Rourkela and Burnpur steel plants. Transit losses in excess of the norm accounted for 38,900 MT coal valued at ₹29.23 crore. Audit also noticed that transit losses higher than norm was common and seen in 25 out of the 48 months reviewed. Even after TSD engaged (June 2014) an escort agency for transportation of coal from Paradip port to steel plants, transit losses in excess of the norm was noticed in despatch from Paradip to RSP during 8 out of 12 months annually in 2015-16 and 2016-17.

The Management replied (June 2017) that there was no sign of en-route theft and variation in weighment was due to scale variation between port and plant weighbridge.

Reply of the Management is not acceptable as it failed to calibrate and maintain the weighbridges to retain accuracy despite noticing variations in excess of norms continuously. Due to persistent transit losses during 2013-17, audit is unable to rule out unauthorised diversion.

#### **12.1.3 Conclusion**

Audit observed that vendor base for imported coal remained almost static over last seven years and there were considerable delays in processing of responses received from prospective vendors. Despite persistent borderline quality parameters, the Company did not exercise its right to independently verify the quality of coal, nor ensured rotation of Inspection Agencies. Besides, low levels of production from existing captive mines and delay in development of Tasra coal mines contributed to increased dependence on imported coal. Audit observed that there was poor management of tenders for handling imported material and the possibility that competition was compromised in all four tenders for handling limestone and coal in Paradip and Haldia during 2012-16 could not be ruled out. Audit also observed that Company failed to recover demurrage, idle freight and overloading charges paid by it to the vessel owners/Railways from the handling agents leading to loss to the Company. Transit losses in transportation of coal from the port to the steel plant were also in excess of the norms, with a high loss in 8 out of 12 months annually during 2015-16 and 2016-17 from Paradip port. The financial impact of audit observations cited in the para is ₹319.98 crore.

#### **12.1.4 Recommendations**

- The Company should fast track expansion of its vendor base for import of coal.
- Rotation of inspection agencies and independent inspection of quality should be instituted to ensure that appropriate quality of coal is imported.
- The Company should appropriately scrutinise the tender documents submitted by bidders to ensure that competition is not compromised.
- The Company should protect its own interest by introducing suitable clauses in handling contracts for recovery of demurrage, idle freight/ overloading charges and ensure their implementation.
- Suitable steps need to be taken to eliminate losses during transit of coal from port to steel plants, particularly in Paradip port.

The matter was referred to the Ministry in January 2017; their reply was awaited (February 2018).

#### ***12.2 Sale of Secondary and By-products of steel***

Steel Authority of India Limited (SAIL/Company), a Maharatna Public Sector undertaking under the Ministry of Steel, is the largest steel manufacturing company of India. During the process of production of steel, it also generates by-products like tar, benzol products, ammonium sulphate and blast furnace granulated slag etc. Secondary products like blooms and rails, cuttings of rail/rod/coil, rejected pipe etc. which are defective or rejected and scraps that are iron bearing are also generated during the process. These secondary and by-products are generated in huge volumes and are in high demand in the metallurgical, cement and chemical industry and are sold through e-auction, tender, fixed price and Inter Plant transfer by the Marketing departments of the respective steel plants as per the guidelines issued by the SAIL Corporate Material Management Group (CMMG) from time to time.

The objective of audit was to assess:

- whether the Company had procedures in place for timely identification, segregation and storage of secondary products;
- fixation of reserve price and fixed price was realistic;
- sale/e-auction of secondary and by-products was managed efficiently and effectively;
- Internal controls were adequate.

Audit examined the records in all five integrated steel plants<sup>8</sup> for the period 2013-14 to 2016-17. The sample selected for review comprised 100 *per cent* of secondary product sale and 25 *per cent* of by-product sale.

## 12.2.1 Audit Findings

### 12.2.1.1 Lack of separate storage yard for secondary products

CMMG guidelines stipulate that secondary products identified for sale be removed from the place of generation/main shop and be stored at a separate location for disposal to avoid the mix up with the prime materials.

Separate stockyard helps in proper storage of secondary products to maintain its saleable value and also helps in formation of small-size lots for sale through auction. BSL, BSP and RSP have dedicated in-house stockyard facilities which can stock secondary products for a few months. DSP and ISP, however, do not have separate secondary storage facility and material is sold directly from the stacks of the production units. This resulted in blockage of space at production units and mixing of primary products with such secondary products.

Audit observed that in ISP, prime quality fresh pig iron produced in the blast furnace was traditionally stored in an open yard. During the initial days of operation of blast furnace 5, some off-grade pig iron was generated. In December 2014, 2500 tonnes of such off-grade pig iron were auctioned and two parties were issued delivery orders for 1250 tonne each at a total price of ₹5.95 crore (₹2.96 crore and ₹2.99 crore respectively). Both parties deposited (29 December 2014) their respective amounts. The off-grade pig iron was stored in the yard meant for fresh pig iron and got covered under the fresh pig iron. ISP, therefore, was unable to deliver the off-grade pig iron and had to refund (January 2015) the advance of ₹5.95 crore.

The Management accepted (June 2017) that cancellation of delivery order happened due to inadequate storage capacity and stated that a temporary secondary stockyard had been created (January 2017) at ISP. DSP also assured that the observation had been noted for compliance.

### 12.2.1.2 Unrealistic price fixation for secondary products/ by-products

Secondary products/ by-products<sup>9</sup> are sold through Forward Auction<sup>9</sup> (FA). Lots with unique numbers are formed and put to auction with unsold lots carried forward to the next auction. Forward auction begins with a start bid price and sale orders are issued after comparing the bid price with the reserve price fixed by the Reserve Price Fixation Committee (RPFC). RPFC fixed the reserve price through e-auction after taking into consideration factors such as prevailing market conditions, prices fixed by sister plants, prices of corresponding material, age, condition and availability of stock, rates obtained in

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<sup>8</sup> *Bokaro Steel Plant (BSL), Bhilai Steel Plant (BSP), Rourkela Steel Plant (RSP), Durgapur Steel Plant (DSP) and IISCO Steel Plant (ISP)*

<sup>9</sup> *Forward auction are electronic auctions, which can be used by sellers to sell their items to many potential buyers. Sellers and buyers can be individuals, organisations etc. Buyers can continuously bid for the items they are interested in. Eventually the highest bidder wins the item*

last e-auction or open tender, information available in journals, magazines, newspapers, websites etc. Secondary products/ by-products are also sold on fixed price basis. The CMMG guidelines provide that for such sales, some quantity of the material be sold periodically through e-auction or open tender to assess the realistic market price.

### **12.2.1.3 Loss due to unrealistic fixation of reserve price in BSL**

Audit reviewed the fixation of reserve price in 496 cases of e-auctioning at BSL (April 2013 to August 2016). The lots were repeatedly auctioned upto 71 times with no case finalised in one auction. Repeated auction was on account of un-realistically high reserve price being fixed. With successive auctions, the reserve price was lowered until bids matched with the reserve price. This led to a situation where the actual sale price was often lower than the highest bid received for the lot.

In case of the lots that were auctioned upto 71 times, the highest bid received was higher than the actual sale price, the difference being ₹5.36 crore, leading to an actual loss of BSL. In 52 cases (10.4 *per cent* of e-auction cases reviewed), the lots were sold at prices which were more than 10 *per cent* lower than the highest bid that had been received for the lot. The loss could have been avoided by fixation of realistic reserve prices.

The Management stated (June 2017) that RPFCL fixed the reserve price taking into consideration the prevailing market condition, available stock, order balance, variable cost of material, rates obtained in last Forward Auction, etc.

The reply that prevailing market conditions were considered is not acceptable as reports of 10 RPFCL meetings held during 2014-15 and 2015-16 revealed that there were no discussions on market conditions in these meetings.

### **12.2.1.4 Loss of ₹2.39 crore due to injudicious fixation of reserve price for BFG<sup>10</sup> slag in ISP**

The reserve price for BFG slag at ISP was fixed at ₹900 per tonne. An open tender was issued (March 2014) for disposal of the material and the highest bid received was ₹635 per tonne. Since the highest bid was much lower than the reserve price (29.45 *per cent* lower), the offer was rejected and the tender evaluation committee recommended re-tender. In the re-tender (August 2014), the reserve price was reduced to ₹625 per tonne and the highest bid received was ₹510 per tonne. Though this was 18.40 *per cent* lower than the reserve price, this bid was accepted. In the process, ISP incurred a loss of ₹2.39 crore.

Audit observed that during re-tender, the reserve price was fixed considering market report submitted by M/s. Metal Junction while in the original tender, market trend was not considered for fixing reserve price leading to fixation of an un-realistic reserve price and the Company lost an opportunity to generate additional revenue of ₹2.39 crore<sup>11</sup> being the differential bids obtained in the two auctions.

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<sup>10</sup> *Blast Furnace Granulated*

<sup>11</sup> *1,91,000 tonne\* (₹635-₹510)*

The Management stated (June 2017) that slag price at ISP was traditionally fixed in line with the price trend of DSP and ISP.

The reply was not acceptable because market conditions for fixation of reserve price was not considered, though the Management had access to market inputs.

#### **12.2.1.5 Failure to fix prices in line with price discovered in e-auctions**

For sale of material at fixed prices, the CMMG guidelines provide that such prices should be discovered based on e-auction or open tender. BSL had sold 400 tonnes of Ammonium Sulphate through e-auctions in April 2014 at prices ranging between ₹8000 to ₹8500 per tonne. However, BSL fixed an average price for Ammonium Sulphate at ₹6634 per tonne, without considering the discovered price and sold 5214 tonnes of it at this price (during May to July 2014). This led to BSL disposing Ammonium Sulphate at lower than the discovered market price, the price difference being ₹0.78 crore<sup>12</sup>.

The Management stated (June 2017) that comparison of fixed prices with auction prices was not appropriate and that the material was sold at fixed prices because of their hazardous nature and storage problems.

The reply of the Management does not address the concern of fixing price below the price discovered through e-auction, as provided in the CMMG guidelines.

#### **12.2.1.6 Deficiencies in determining the price for sale through the fixed price mode in DSP**

In DSP, few by-products (Flue dust, Lime fines, Power plant cinder, Waste gas cleaning dust and Liquid nitrogen) were being sold through fixed price mode. Audit observed that in the last two years (ending March 2017), auction for flue dust and power plant cinder were held only in June 2016 and July 2015 respectively. No auction was held for any of the other products.

The Management stated (June 2017) in its reply that the material are of low value. Besides, availability was uncertain and disposal had to be immediate on account of operational hazards.

The reply of the Management does not address the concern of fixing price of products without discovering their price through e-auction, as provided in the CMMG guidelines. Besides, these products were being sold every year, average sale value being ₹3 crore per annum (approximately) and as such, discovery of price through e-auction would be prudent.

#### **12.2.1.7 Inconsistencies in sale below reserve price**

CMMG guidelines stipulated that if the highest bid received in an auction is lower than the reserve price, the material may be sold to the highest bidder (subject to a limit of 90 per cent of reserve price), after approval of the competent authority.

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<sup>12</sup> (Average price obtained in auction ₹8125/tonne—average fixed price at which Ammonium Sulphate sold ₹6634/tonne \* 5214 tonne)

Audit observed that the Company did not follow this guideline in a consistent manner.

- (i) During seven auctions conducted at BSL for sale of mixed coke between December 2013 and December 2014, BSL obtained bids ranging between 91 to 99 *per cent* of the reserve price. BSL, however, did not accept the bid price and decided to re-tender though the bid was within the acceptance range prescribed under the CMMG guidelines.
- (ii) On the other hand, ISP issued an open tender in August 2015 for disposal of Blast Furnace Granulated (BFG) slag with the reserve price of ₹459 per tonne. Only one party (M/s. AC Limited) submitted a bid of ₹100/tonne which was later revised to ₹250/tonne after negotiation. Though a single bid had been received and the price quoted was 46 *per cent* lower than the reserve price, ISP awarded (December 2015) the contract for a period of three years. Audit noted that the previous contract for BFG had been awarded by ISP (September 2014) @ ₹510/tonne (for one year). Accepting a single price bid lower than 90 *per cent* of the reserve price was not in line with the CMMG guidelines.

The Management stated (June 2017) that mixed coke was sold at or above 100 *per cent* of reserve price as per policy. At ISP, regular disposal of granulated slag was necessary for smooth operation and ramping up of newly built blast furnace 5.

The reply does not address the inconsistent application of CMMG guidelines across the units of SAIL.

#### 12.2.1.8 Delay in disposal of secondary products

##### (a) Delay in sending secondary materials for disposal resulted in loss of ₹17.04 crore in BSL

Defective CR un-annealed coil (7737 tonne), HR coil (7200 tonne) and HR plate (8500 tonne) which had accumulated over previous years were sent to the secondary yard during 2015-16 for creation of lots and disposal in BSL. Audit observed that the average market prices for these products over the previous three years (2012-13 to 2014-15) were higher than those in 2015-16 when these were finally disposed. BSL's failure to send the secondary materials to the storage yard in time and the consequent delay in disposal resulted in loss of ₹17.04 crore on account of lower prices as detailed in table below:

Product	Accumulated stock over previous years	Average selling price during last three years per tonne	Actual selling price per tonne	Difference (₹ per tonne)	Loss (₹ in crore)
CR Un-annealed coil	7737 <sup>13</sup>	32482	24587	7895	6.11
Defective HR Coil	7200	30958	24450	6508	4.69
Defective HR plate	8500	30892	23547	7345	6.24
<b>Total</b>					<b>17.04</b>

<sup>13</sup> Data derived at by subtracting average defective quantity sold during 2012-15 (3202 tonne) from 10939 tonne sold during 2015-16

**(b) Delay in identification of surplus assets in BSL**

In BSL, 419 old rolls had gone out of circulation between March 1991 and September 2015 in view of various defects. Of these, 399 rolls had accumulated over more than five years. The scrap declaration committee for rolls of BSL declared these rolls as scrap only in April 2016 after a lapse of 7 months to 25 years. Delay in identification of surplus assets resulted in delay in realising revenue from the sale and loss due to possible deterioration in the quality of the rolls with the passage of time.

The Management stated (June 2017) that marketing and production departments were in constant touch to arrange maximum materials for sale and that sometimes though the materials have favourable market price, they were kept for internal use as melting scraps.

The reply was not acceptable as both stock had accumulated over time and were neither disposed nor utilised as melting scrap.

**12.2.1.9 Sale terminated prematurely leading to loss of revenue**

BSP issued (June 2012) a sale offer valid for one year (June 2012 to June 2013) to M/s International Commerce Limited (ICL) for sale of 1,20,000 tonne of rejected/ broken Ingot Mould and Bottom Stool (IMBS) scrap at the rate of ₹24850 per tonne. ICL deposited payment for 10000 tonne for the month of July 2012 and lifted 6361 tonne till August 2012. BSP suspended delivery of material to ICL (August 2012) and initiated termination proceedings citing failure of ICL to deposit payment for lifting 10000 tonne material in August 2012 by due date. BSP sent two demand letters to ICL (24 September 2012 and 29 September 2012) for payment due for August, September and October 2012. Meanwhile, ICL filed (21 August 2012) an arbitration application in the District Court, Durg. BSP terminated (October 2012) the contract and ₹26.58 crore<sup>14</sup> deposited by ICL was forfeited. In the legal proceedings that followed, Supreme Court considered the special leave petition of ICL and directed the Company to settle the dispute with ICL through conciliation proceedings. The sole arbitrator passed (April 2016) an award in favour of ICL directing BSP to refund the forfeited amount of ₹26.58 crore to ICL along with ₹1.50 crore towards loss of business/profit. Subsequently, BSP auctioned (September/October 2016) the material at prices ranging between ₹17700 and ₹20550 per tonne, much lower than the contract price of ₹24850 per tonne. Undue haste on the part of the Management in terminating the contract resulted in loss of revenue of ₹48.86 crore<sup>15</sup> besides an additional liability of ₹1.50 crore.

The Management stated (June 2017) that action was taken due to non-fulfilment of contractual obligation.

The reply needs to be seen against the sale offer which only stipulated that 1.20 lakh tonne of scrap be lifted during one year without any earmarked quantity for monthly lifting. As per clause 12 and 18 of the RFQ, the purchaser has to make advance payment for the

<sup>14</sup> *Comprising of Security Deposit (₹14.91 crore), Material value (₹10.67 crore) and EMD (₹one crore)*

<sup>15</sup> *113639 tonne (120000 tonne - 6361 tonne)\* ₹4,300/ tonne (₹24850/ tonne - ₹20,550/ tonne being maximum bid price received by BSP) = ₹48.86 crore*

material to be lifted in a particular month by the first week of the month and penalty can be imposed for short lifting of material after review of performance of the bidder on a quarterly basis. On failure of depositing penalty, the contract could be terminated after due notice. Hasty termination of the contract led to revenue loss of the Company.

#### **12.2.1.10 Differences in delivery order and dispatch advice quantity in BSL**

Secondary items generated in BSL shops are transported to secondary yards in trucks/dumpers which are weighed on a weigh bridge after loading. After the accumulation of material in stockyards, lots are formed and offered for e-auction. After the sale of product a delivery order (DO) is issued and the product is weighed and dispatched in trucks/trailers. Dispatch advice (DA) is prepared based on actual lifting from the stockyard.

Audit observed that weight of secondary product as per DA was lower than that recorded in the DO in 691 orders (during 2013-16) in BSL. The difference in weight ranged between five and 86 *per cent*. In 36 of these 691 orders, DA was lower than DO by 25 *per cent* to 50 *per cent* while in 4 cases, it was lower than 50 *per cent* or more. Since the dispatched quantity was lower than the quantity ordered and paid for in advance, BSL had to refund ₹25.31 crore. This resulted in loss of an opportunity to sale in BSL.

The Management stated (June 2017) that due to various weighment related constraints, quite often lots were formed on eye estimation.

Reply of the Management is not acceptable as eye estimation was used to form lots only for products such as coke breeze, lime dust and other fine materials. Trucks carrying secondary goods were weighed at the same weighbridge during entry into the stockyard and during dispatch, hence there was no scope for difference between the DO and the DA on account of weighbridge variations. The Management has not determined reasons for the variations noticed. As such, the internal controls were not effective and possibility of unauthorised diversion or under-reporting of material dispatched to supplier remains.

#### **12.2.2 Conclusion**

Secondary products and by-products, generated during operation of the steel plants need to be stored and disposed of timely and efficiently, in a transparent manner, to maximise returns to the Company. Audit observed that reserve prices for auction of these products were often un-realistic leading to repeated re-auction and eventual loss to the Company. For sale of material at fixed prices, it was noticed that the prices were fixed injudiciously, often without considering prices discovered through e-auction as envisaged in the CMMG guidelines. There were delays in disposal of secondary/ by-products which led to deferment of revenue as well as deterioration of quality. In two of the steel plants, there was no separate stockyard for storing secondary products leading to their mixing with primary products. Significant differences were noticed in delivery order and dispatch advice which could not be explained by Management leaving open the possibility of unauthorised diversion and under-reporting of material. The financial impact of the audit observations regarding sale of secondary and by-products in the sample scrutinised is ₹107.19 crore.



### 12.2.3 Recommendations

- (i) The Company should ensure that reserve prices for auction and fixed prices for sale are fixed judiciously, considering the market inputs and prices discovered during e-auction.
- (ii) Efforts need to be made for separate storage of secondary material in ISP and DSP.
- (iii) The Company should scrutinise the reasons for differences in weights quoted in delivery order and dispatch advice of secondary material and take necessary steps to ensure that such variations are eliminated.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

## 12.3 Land and Township Management

### 12.3.1 Introduction

Steel Authority of India Limited (SAIL or Company) operates five integrated steel plants<sup>16</sup>, three special steel plants<sup>17</sup> and a Ferro Alloy Plant located in the States of Chhattisgarh, Jharkhand, West Bengal, Odisha, Tamil Nadu, Karnataka and Maharashtra. Each steel plant has its own township containing residential quarters, shopping complexes, community centres, educational institutions, hospitals, public gardens and other facilities like electricity and water supply, sewerage and roads etc. Townships are maintained and managed by the Town Services Departments of the respective plants.

A study on 'Land and Township Management in SAIL' was conducted to assess whether land and township services were adequately and effectively managed, leasing and sub-leasing of Company's land and buildings to other parties was in accordance with the policy and rules framed in this regard, leases were renewed on time, estate dues were recovered and adequate legal action taken against the defaulters and adequate and effective system was in place to timely identify and remove encroachment of land and buildings. The scope of audit was limited to examination of records available at the five integrated steel plants at Bokaro (BSP), Bhilai (BSL), Rourkela (RSP), Durgapur (DSP) and Burnpur (ISP) for a period of three years from 2014-15 to 2016-17.

### 12.3.2 Audit findings on Land Management

#### 12.3.2.1 Maintenance of land records

Ownership of land is determined on the basis of revenue records. It is, therefore, essential that ownership records available with the Company be matched with those available with

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<sup>16</sup> *Bhilai Steel Plant (BSP), Bokaro Steel Plant (BSL), Rourkela Steel Plant (RSP), Durgapur Steel Plant (DSP), IISCO Steel Plant, Burnpur (ISP)*

<sup>17</sup> *Alloy Steels Plant, Durgapur; Salem Steel Plant; and Visvesvaraya Iron and Steel Plant, Bhadravati*

the State Governments. Audit noted that as of 31 March 2017, the Company possessed title deeds of 48918 acre (48.15 *per cent*) out of the 101598 acre land available with the five integrated steel plants<sup>18</sup>. The Company would have to incur expenditure (depending on the State Government rates at the time of actual registration) towards registration of the balance land for which title deeds were yet to be obtained.

- BSL did not possess any title deeds for the entire land (28744 acre) occupied by them.
- DSP possessed 12935 acre land. The records maintained in DSP, however, indicated a difference of 3692 acre of land when compared with the land records of the State Government.
- As per ISP records, 3348 acre of land were in its possession but State Government records indicated only 2259 acre.
- Reconciliation of records for 12.07 acre land of BSP with State Government records was under process.

The Management stated (January 2018) that the records of DSP and ISP were being reconciled with the records of the State Government.

The reply is to be viewed against the fact that SAIL Board directed (July 2016) that land records be reconciled with help from revenue authorities and Ministry of Steel, if necessary. The reply is also silent on the delay in registration of 52680 acre land though the land was acquired for the steel plants approximately 50-60 years ago.

### **12.3.2.2 Computerisation of land records**

Traditionally, paper maps of land were maintained which are prone to fire, flood, white ants etc. Land Record Management System (LRMS) was installed in BSL in September 2009 and land records like village maps, possession maps etc. were digitised though it was not being used since 2015. At RSP, the land records have been computerised/ digitised. DSP was still maintaining maps made on paper/cloth. Tender for digitisation of land records was under process (July 2017) in BSP and ISP.

The Management stated (January 2018) that LRMS installed at BSL became inoperative due to obsolescence of the hardware. Finalisation of tender specifications for LRMS at RSP was under process. All possibilities were being explored by DSP to implement LRMS.

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<sup>18</sup> *BSP-28200 out of 28463 acre, BSL-0 out of 28744 acre, RSP-15357 out of 28108 acre, DSP-3623 out of 12935 acre and ISP-1738 out of 3348 acre*

### 12.3.2.3 Utilisation of land

The status of the Company's land as on 31 March 2017 under the jurisdiction of the five integrated steel plants is shown in the table below:

Status	(Area in acre)					
	BSP	BSL	RSP	DSP	ISP	Total
Total land available	28463	28744	28108	12935	3348	101598
Plant area	12841	8333	16203	2984	1659	42020
Township area	11763	5898	6953	4699	1257	30570
Leased and others	2005	3520	651	2260	64	8500
Encroached land	510	1932	391	1163	20	4016
Land not in use	1344	9061	3910	1829	348	16492

**Note:** (i) Plant area includes land occupied by steel plants for factory and office/ administrative buildings. (ii) 9494 acre land available with other steel plants/units of SAIL was not covered in the scope of the present study.

Audit noted that out of the total 101598 acre of land, 29008 acre, i.e. 28.6 per cent was either leased, encroached or vacant and, therefore, not in use in direct plant operations.

### 12.3.2.4 Vacant land

As seen from above Table, 16492 acre land in these five steel plants remained vacant. Of this, 9061 acre (55 per cent of vacant land) was with BSL. Audit noticed that though BSL had prepared a comprehensive land use plan in November 2014, it was not implemented. Besides, the plan did not include utilisation of 1030.2 acre of land in the township area and 119.78 acre in the Garga river area<sup>19</sup>. Other steel plants, however, did not prepare any detailed/ master plan for utilisation of vacant land under their possession.

The Management stated (January 2018) that the unused land has been earmarked for future growth and expansion. It was added that the vacant land at DSP has been earmarked for future modernisation and expansion as per National Steel Policy (Vision 2025) and at RSP for Smart City development, expansion of aerodrome, setting up a 40 MW solar power plant and additional afforestation.

The reply that unused land has been 'earmarked' for future modernisation and expansion is not acceptable as there was no concrete plan in place to utilise the vacant land in accordance with the National Steel Policy or Vision 2025. In fact, the next phase of expansion would be taken up only after stabilisation of the new facilities created in the ongoing modernisation and expansion plan and also after taking into consideration sustained demand growth in the domestic steel industry and availability of financial resources.

### 12.3.2.5 Encroachment of land

SAIL Board had recommended (July 2015) fencing, use of satellite imagery etc. for prevention of encroachment. The Board reiterated this recommendation in July 2016. Audit noticed that despite the large scale encroachment, no signboards/ barbed wire

<sup>19</sup> This area is a water body zone and consist of Garga Dam and reservoir including the catchment area within the land under possession of Bokara Steel Plant

fencing/ compound wall etc. were constructed by the plants. As on 31 March 2017, 4016 acre of land were under encroachment, of which 48 *per cent* (i.e. 1932 acre) was at BSL, followed by 29 *per cent* (1163 acre) at DSP.

The Management stated (January 2018) that due to the fragmented nature of the encroached land, it was difficult to get it fenced or erect a compound wall.

**(a) Non removal of encroachment at BSL**

The anti-encroachment activities in BSL were carried out by the Security Department. Removal of encroachment was done with the help of security personnel, failing which eviction suits were filed in the Estate Court<sup>20</sup>. Audit observed that the details of patrolling/ monitoring activities of Security Department were available only for the last one year. BSL had filed cases in the Estate Court for the entire encroached area of 1932 acre for which it does not possess any title and orders had been passed between January 2010 and February 2017 for eviction of 1790.42 acre. However, BSL was able to evict only 1.07 acre.

The Management stated (January 2018) that Estate Court orders were executed with the help of Police and District Administration. The issue was discussed (February 2016) with Deputy Commissioner, Bokaro. It was decided that whenever some concrete utilisation action was to be taken, the District Administration would be requested to take eviction action about 2 months in advance so that the areas freed from encroachment would not come under encroachment again as had been the case in the past. However, the Company was, as a cost control measure, currently not implementing any land related projects.

The reply is not acceptable. An unauthorised occupant is given 15 days' time to vacate the premises beyond which Estate Court is empowered to get the premises vacated. In the above cases, the Company did not take action for eviction even after seven years of orders being passed by the Estate Court. Allowing encroachments to continue in Company premises, instead of executing the orders of the Estate Court, is not in the interest of the Company and, therefore, not justified. Delay in removal of encroachments may also contribute to further encroachments.

**(b) Inaction against encroachment**

Scrutiny of records revealed that the plants failed to take timely action to repossess the premises under encroachment. It is pertinent to state that the existing lessees encroached Company premises. Even after detection of such encroachment, no effective action was taken by the plants. The following table summarises instances of encroachment by the lessees along with the period when such encroachment came to be known by the plant authorities:

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<sup>20</sup> *Established by SAIL under the Public Premises (Eviction of Unauthorised Occupants) Act, 1971*

## Instances of encroachments by existing lessees

Sl. No.	Name of plant	Name of encroaching lessee	Encroachment	
			Area (Acre)	First noticed in
1	BSL	Bokaro Steel Employees Cooperative House Construction Society Limited	5.00	1975
2	RSP	Ispat Gurudwara Prabandhak Committee (IGPC)	1.38	1965
3	BSP	Bhilai Institute of Technology (BIT)	34.58	2008
4		Shri Sanatan Dharm Sabha (SDS)-Sector 2	1.65	2007
5		Shri Sanatan Dharm Sabha (SDS)-Sector 6	0.61	2001
6		Bhilai Nagar Nigam (BNN)	30.01	2006
7		Bhilai Nagar Masjid Trust (BNMT)	2.58	2011
8		Sindhi Brather Mandal (SBM)	0.11	2008

As seen from the table above, encroachments of land, detected as early as 1965 are yet to be cleared. BSL does not possess title for the cited land under encroachment while BSP and RSP has title for its lands. Audit also noticed that the encroachers had constructed buildings for educational, religious, sports and cultural purposes.

The Management stated (January 2018) that:

- A reputed survey agency was being searched for to find exact quantum of encroachment by Bokaro Steel Employees Cooperative House Construction Society Limited.
- Action was being taken for valuation of the land in case of Ispat Gurudwara Prabandhak Committee and the possibilities of revising license fee based on the fair market value was being explored in case of Bhilai Institute of Technology.
- A decree to evict Shri Sanatan Dharm Sabha-Sector 2 could not be effected as the matter related to public faith/ religion and due to the lukewarm response from District Administration/Police. Legal case against Bhilai Nagar Nigam was not preferred as it would be a lengthy process.
- In the case of Shri Sanatan Dharm Sabha-Sector 6, notices had been issued from time to time, including a show cause notice on 09 June 2012 and electric supply to the premises was disconnected on 08 December 2011.
- The process of renewal of lease in case of Bhilai Nagar Masjid Trust and legal action against Sindhi Brather Mandal were being taken.

The replies are not acceptable as the management of steel plants had failed to take timely and effective action for eviction of encroachments though it was aware of it and these encroachments had come to its knowledge as early as 1965. Disconnection of electric supply to encroached premises is an effective tool for eviction of encroachment as was noticed in the case of Shri Sanatan Dharm Sabha-Sector 6, which the Company could have considered in other cases also. The Company is, however, still contemplating action for regularisation or legal remedy. It was also seen that:

- Though BSL requested (August 2015) Jharkhand Geo-Spatial Data Centre for survey, the agency did not start the work and expressed their inability to complete the work. However, the management has not been able to depute any new agency till date (January 2018).
- IGPC encroached land in 1965 and constructed a school building on the encroached land though lease agreement had not been entered into.
- BIT has been using 34.58 acre over and above their allotment which is tantamount to encroachment. BIT had also taken up construction in the encroached land without any permission from BSP.
- Though the Management informed that lease renewal for BNMT was underway, Audit noticed that BNMT had also encroached land and constructed buildings.

#### **12.3.2.6 Land used for unauthorised purposes**

Audit noticed instances where the lands leased by BSL were being used by the lessees for unauthorised purposes and no effective action had been initiated by the Management. BSL also does not possess title deeds for these lands.

(a) BSL sub-leased 1133 plots over several years starting from 1965. As per the Land Allotment Manual of BSL, plot holders were allowed to run any trade on the leased land except restricted trades for which permission was required to be obtained from BSL. Audit noted that 59 lease holders were running restricted trades such as nursing home/ pathological lab/ hospital/ clinic/ diagnostic centre without obtaining permission from BSL. The State Pollution Control Board had also objected to dumping of bio-medical and solid wastes in the township area by these establishments. BSL served notices (August 2015 and October 2015) to these parties for violation of the terms and conditions of the lease and asked them to stop the unauthorised business/trade. Audit observed that no follow-up action was taken by BSL though the unauthorised businesses continued even after issue of notice in October 2015.

The Management stated (January 2018) that a fresh survey was being conducted to ascertain the lease holders who indulged in restricted trade without permission.

The reply did not address the inaction on part of the Management since August-September, 2015.

(b) BSL leased 413 plots from 1987 for construction of buildings in conformity with the approved plans and drawings. Many lessees constructed additional floor without approval of BSL. BSL issued notices to 160 identified lessees in July 2011 for removal of additional construction. Unauthorised constructions were removed by 10 lessees but BSL did not take any action against the remaining 150 lessees who did not remove unauthorised construction.

The Management stated (January 2018) that a meeting of the Town Development and Allotment Committee was held in September 2013 with all such lessees and action was being taken as per its recommendations.

The reply, however, did not furnish details of the recommendations or the action taken there against since 2013.

### **12.3.2.7 Land leased without agreement**

Audit noticed that the plants had allowed land to be leased in a number of instances without execution of formal lease agreements.

(a) DSP allotted 233 acre land to NTPC Limited (NTPC) for 33 years from May 1984 without a formal lease agreement. NTPC constructed a sub-station on the said land and transferred the rights, title and interest of the sub-station and its underlying land to Power Grid Corporation of India Limited (PGCIL) during 1993-94. Lease charges were never recovered from NTPC. Audit observed that, in the absence of lease deed and land valuation, DSP could not get any financial benefit out of this land. DSP also does not possess title for this land.

The Management stated (January 2018) that the lease deed could not be registered in the absence of the Khatian number of the mouza and would be executed once the requisite data was obtained from the Government Authority. Further, proposal for valuation of land in question would be initiated for renewal of lease.

Absence of title records and valuation pointed out by the Management in January 2018 is not tenable considering that the land had been awarded as early as 1984.

(b) BSP allotted (December 1965) 266283 sq. ft. land (6.11 acre) for 30 years from May 1963/ April 1967 to the P&T Department to construct office building and quarters. BSP did not execute any lease deed at the time of allotment though it had clear title for this land. The initial allotment period expired in May 1993/April 1997. BSP belatedly sent a demand notice (February 2008) to the P&T Department which expressed its willingness (October 2012) to surrender 16250 sq. ft. land in view of dilapidated condition of the colony. BSP demanded (November 2012) ₹1.12 crore as applicable charges and interest for 4.68 acre of land. In the meantime, the erstwhile P&T Department was split into two independent organisations, viz. 'Indian Postal Department' and 'Bharat Sanchar Nigam Limited' and the onus of payment of charges came under dispute.

The Management stated (January 2018) that intimations were sent in September 1969/March 1970 for execution of lease deed and in November 2000 for renewal of the lease. Due to bifurcation of erstwhile P&T Department, BSP worked out the lease renewal charges and issued revised demand in November 2012.

The reply points to inaction of the Management in finalising and renewing the lease agreement leading to loss of lease charges.

(c) SAIL Board approved (February 2012) allotment of 126.15 acre land under DSP to Damodar Valley Corporation (DVC) on lease for 33 years on payment of land premium (based on valuation to be done by authorised valuer). Audit observed that though DVC took possession of the land from 10 April 2013, DSP did not carry out its valuation or recover lease dues. Valuation of the land was done belatedly in September 2015 but the lease deed was yet to be executed. DSP also does not possess title for this land.

The Management stated (January 2018) that efforts were being made to finalise the lease agreement early.

(d) ISP had allotted 19117 sq. ft. in its Riverside Township to Burnpur Riverside School Educational Society for a school in 1977 without any lease/license agreement. ISP possessed title for their land. As the school facilities expanded, the school encroached further land. The land under possession of the school also increased to 5.32 acre. ISP belatedly filed a case in Estate Court in September 2016 for eviction as the school did not respond to its notices for finalising the license agreement.

The Management stated (January 2018) that negotiations with the school since 2012 for license agreement remained futile and the school had been treated as unauthorised occupant since February 2014. Attempts were re-initiated to enter into license agreement with the school.

However, the school was operating without license agreement since 1977 and though it had been declared unauthorised occupant in 2014, a case was filed only in 2016. Besides, even as ISP filed a case for eviction before Estate Court, it has been discussing the matter with the encroacher to finalise license agreement to make it an authorised occupation which points to contradiction in the Management action.

(e) DSP allotted 226.92 acre of land in 1980s to Eastern Railways to construct yard and residence. However, till date (January 2018) no formal agreement was entered into though the title of the land was in the name of DSP.

The Management stated (January 2018) that the issue has been taken up with the Divisional Railway Manager, Asansol for settlement.

#### **12.3.2.8 Non-adherence of lease agreement**

DSP allotted 851.23 acre land to West Bengal Pulpwood Development Corporation Limited (WBDCL) between 1987 and 1989 for plantation and harvest of pulpwood. As per the agreement, ₹50 per ha per year was payable to DSP during the period of agreement (14 years). WBDCL would also pay an amount equivalent to 25 *per cent* of the produce at a mutually agreed rate after completion of each harvest. Presently, 908.189 acre land were occupied by WBDCL, the title for which is in the name of DSP. Audit noted that WBDCL had paid ₹0.57 crore (over 1987/89 up to 2011-12). DSP was unaware of actual harvesting done by WBDCL since allotment of land in 1987/1989. Further, the lease expired in April 2003 and has not been renewed even after the lapse of 14 years.

The Management stated (January 2018) that lease renewal has been taken up (September 2017) with WBDCL and the matter was being followed up.

The reply is silent about non-receipt of payments since 2011-12 and dues from WBDCL for the harvesting done since 1987/1989.



### 12.3.2.9 Delay in lease renewal

As per the policy of SAIL, a lease may be renewed on payment of renewal charges within one year from the due date of renewal without paying charges for delay in renewal. In case the lessee fails to renew it within one year, the lessee shall be considered un-authorised occupant of the premises and action shall be taken as per rules/law. Audit noted, however, that in the following cases, the leases had not be renewed within the stipulated time, causing revenue loss to the Company.

(a) BSL leased 1133 plots to various parties on renewable basis to provide civic amenities/market complexes though BSL does not possess title of these lands. Ground rent, water, electricity and service charges and renewable fee as fixed by the Management were recoverable from the lessee. Audit noted that 399 leases had expired as on 31 March 2017 including 274 cases where the lease had expired more than 5 years ago but had not been renewed. Lease renewal of only 293 out of these 399 plots was under process and in none of the cases, renewal process has been completed due to non-completion of valuation of leased plots. In 120 cases, though the lease period had expired on 31 March 2016, the valuation process was completed only in July 2017. Due to this, BSL was not able to realise ₹19.25 crore<sup>21</sup> as lease charges from these 120 cases.

The Management stated (January 2018) that lease renewal has been completed (01 January 2018) for 106 plots and was under process for 36 plots, valuation had been completed for 120 plots in July 2017 and ₹1.18 crore have been deposited by 11 lessees. Further, notice was being issued to the respective lessees for payment of renewal charges along with delay charges.

(b) Other cases of delays in lease renewal noticed in audit are summarised in the table below:

**Summary of delay in renewal of leases**

Sl. No.	Name of plant	Name of party	Details of lease	
			Area (Acre)	Expired in
1	BSL	35 Educational Institutions (non-profit)	164.42	2004-2016
2		Council for Agriculture Industrialisation and Rural Employment (CAIRE)	4.77	2005
3	RSP	P&T Department	12.68	1993-2017
4		10 various parties	20.895	1993-2017
5	DSP	22 various parties	970.26	1999-2017
6	BSP	Indian Oil Corporation Limited (IOCL)	0.41	2013
7	ISP	Asansol Municipal Corporation	1.00	2009

Thus, leases that had expired as early as 1993 were yet to be renewed though the steel plants except BSL and DSP possessed title of the above lands. Yet, no action had been taken by the plant managements to renew them to ensure recovery of applicable charges from the parties concerned. Audit noted that in 4 out of 7 cases above, the Company could not recover ₹6.83 crore (31 March 2017).

<sup>21</sup> *Renewal charges for commercial plots worked out on the basis of the valuation report of the valuer appointed by the Company (₹48.24 crore @ 25 per cent = ₹12.06 crore) and for non-commercial plots (₹1.94 crore @ 10 per cent = ₹7.19 crore)*

The Management stated (January 2018) that:

- Letters to all the 35 institutions were under issue for renewal of lease.
- Lease was made with CAIRE on monthly rental basis, but the lessee did not make any payment.
- Regular follow ups were being done with P&T Department to ensure realisation of outstanding dues.
- The onus of renewal lies with the lessee, effort was being made to renew the expired lease cases and legal options were explored only as a last resort.
- The Estate Court passed order on 25 October 2017 for eviction of IOCL and recovery of dues and electricity supply to this premises was disconnected on 21 November 2017.
- ISP has referred the matter relating to Asansol Municipal Corporation to corporate office in March 2010.

The replies are not acceptable considering the significant delays that have taken place in renewal of these leases.

### 12.3.3 Audit findings on Township Management

Townships included residential quarters, shopping complexes, community centres, educational institutions, hospitals and public gardens. The construction of townships, their further development and maintenance was the sole responsibility of the plant management. Plant managements also provide basic infrastructure such as electricity and water supply, sewerage and roads etc. in the township.

#### 12.3.3.1 Unauthorised occupation of quarters

Status of quarters in the townships of the five plants, as on 31 March 2017, is summarised in Table below:

**Status of quarters in the Townships as on 31 March 2017**

Name of plant	Number of quarters					
	Available	Allotted	Vacant	Damaged/ unfit	Unauthorised occupation	
					Ex-employee	Others
BSL, Bokaro	37386	32005	3055	198	1934	194
BSP, Bhilai	33638	29013	1915	1608	578	524
RSP, Rourkela	25541	21157	2602	1419	347	16
DSP, Durgapur	19141	17858	243	5	879	156
ISP, Burnpur	7118	6232	82	779	5	20
<b>Total</b>	<b>122824</b>	<b>106265</b>	<b>7897</b>	<b>4009</b>	<b>3743</b>	<b>910</b>

As seen from the table, 13.48 *per cent* of the quarters were either vacant, damaged or under unauthorised construction (7897 quarters were vacant, 4009 were damaged and 4653 were under unauthorised occupation). Test check of unauthorised occupation in BSL and BSP indicated the following:

- In BSL, 194 quarters were under unauthorised occupation by private parties while 1934 quarters were occupied by ex-employees beyond the admissible retention period of two years. BSL had filed eviction cases in the Estate Court for 478 quarters. Though the Estate Court had passed orders in 198 cases during the period 1999 to 2017, the Management had not been able to evict the occupants. Further, the occupants had not been paying electricity charges, water charges and license fees.
- In BSP, 578 ex-employees had been retaining quarters beyond the admissible retention period, outstanding dues against which stood at ₹0.82 crore (30 July 2017).

The Management stated (January 2018) that the matter was being pursued with District Administration to carry out eviction. The Management informed that in BSP, the unauthorised occupation of quarters by ex-employees and others had been reduced to 567 and 446 respectively. Eviction drives were also undertaken at DSP. At RSP, 34 persons had vacated quarters. Steps had been taken in past to evict the unauthorised occupants in ISP.

The reply is to be viewed against the loss sustained by the plants on account of unauthorised occupation of quarters.

### **12.3.3.2 Unauthorised construction in leased buildings**

Under the SAIL Scheme (2001-02) for Leasing of Houses, 17500 quarters had been leased to employees/ex-employees of the Company. During a Board Meeting (July 2008), unauthorised construction in about 50 *per cent* of these quarters was reported and the Board approved regularisation of such unauthorised construction subject to payment of fee at 150 *per cent* of the replacement cost. Audit noticed unauthorised construction in leased buildings in BSP and BSL.

(a) BSP had leased out 4475 quarters under the SAIL Scheme for Leasing of Houses during 2001-03. Over a period of time, around 70 *per cent* of the lessees had carried out unauthorised construction. Survey conducted up to December 2013 revealed that the lessees had occupied extra plot area of 26.82 lakh sq. ft. and carried out unauthorised construction of 18.28 lakh sq. ft. However, BSP did not implement Board's decision (July 2008) as it faced resistance from the occupants/stakeholders.

The Management stated (January 2018) that a committee to address regularisation of unauthorised construction has submitted its report/recommendations in September 2017 and the same has been processed for approval of the local management and corporate office.

(b) As per Clause 4 of the agreement (February 1987) with Delhi Public School (DPS) Society, BSL would temporarily provide one building in the township for running the school and it would set apart a plot of land for construction of a new building by DPS. Audit observed that:

- Even after 30 years, DPS did not construct its own building and was running its school in the temporary building though 8 acre land was allotted in October 1988. Instead of pressing DPS to construct its own building BSL allotted another building to DPS and allowed it to run the school from the existing building. It was also noticed that DPS had constructed a swimming pool in the school premises without prior consent of BSL violating the terms of agreement.
- BSL provides water and electricity, free of charge, to DPS. Audit noted that around 70 per cent of the students in the school were not related to BSL employees from whom full fees were recovered. Though BSL intimated (June 2016) withdrawal of free electricity and water and raised bills from October 2016 onwards, DPS did not pay the bills. The dues in this regard stood at ₹1.01 crore as of October 2017. Audit noted that Research and Development Centre for Iron and Steel of SAIL at Ranchi and RSP were recovering electricity charges from DPS, Ranchi and Rourkela respectively.

The Management stated (January 2018) that a committee has been constituted in November 2017 to review the existing agreement and all related matters with DPS.

The reply was, however, silent on non-recovery of dues.

### 12.3.3.3 Non-realisation of estate dues

Apart from their own employees, the Plants also allotted quarters to employees of Central/ State Governments, other PSUs and other agencies/individuals. License fee, electricity and water charges were recoverable at applicable rates from time to time from the lessees. Audit noted that estate dues amounting to ₹144.87 crore were outstanding as on 31 March 2017, of which ₹63.64 crore were due for more than three years and ₹94.94 crore were recoverable from private parties. Details are shown in the Table below:

#### Details of outstanding estate dues as on 31 March 2017

Lessees	BSL		BSP		RSP		DSP		ISP		Total	
	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years
Govt. parties	19.43	13.83	13.59	8.80	7.21	2.65	6.41	3.21	2.84	0.49	49.48	28.98
Private parties	18.18	16.04	21.26	3.34	26.27	9.61	26.98	5.56	2.25	0.11	94.94	34.66
Employees	-	-	-	-	0.01	-	0.44	-	-	-	0.45	-
<b>Total*</b>	<b>37.61</b>	<b>29.87</b>	<b>34.85</b>	<b>12.14</b>	<b>33.49</b>	<b>12.26</b>	<b>33.83</b>	<b>8.77</b>	<b>5.09</b>	<b>0.60</b>	<b>144.87</b>	<b>63.64</b>

\* Includes house rent, electricity charges, water charges, license fees and other estate dues.

The Management stated (January 2018) that in DSP, the outstanding dues have reduced to ₹30.47 crore as on 30 September 2017 while RSP realised ₹9.45 crore out of ₹33.49 crore outstanding as on 31 March 2017. It was informed that a taskforce has been constituted (May 2017) at BSL which issued notices to all defaulters. The matter was being taken up by ISP with all parties concerned for recovery of pending dues.

Some significant cases noted at BSL are summarised below:

- BSL entered into an agreement with Hans Regency (HR) in March 2008 for leasing out 39 rooms in Bokaro Niwas for use as hotel rooms for three years from October 2007. Audit noted that even after expiry of the agreement in October 2010, HR continued its business and the lease had not been renewed (January 2018) while BSL did not take any action either to renew the lease, raise the monthly bills for the charges receivable from HR or to evict the occupant. The outstanding dues receivable from HR stood at ₹2.54 crore as on 31 March 2017.

The Management stated (January 2018) that unbilled dues were raised in June 2017 and currently bills were being raised regularly.

Audit, however, noted that the outstanding dues had increased to ₹2.83 crores as on 30 November 2017.

- As on 31 March 2017, an amount of ₹6.27 crore and ₹1.96 crore were outstanding against quarters allotted to Superintendent of Police Pool and District Commissioner Pool respectively.

The Management stated (January 2018) that individual notices had been issued to all defaulters.

- BSL provides drinking water to the Chas Municipal Corporation for supply in Chas urban area. Out of the ₹2.78 crore recoverable towards the cost of water thus supplied, ₹0.18 crore was outstanding since September 2000.

The Management stated (January 2018) that water supply had been disconnected since October 2015.

Audit noted that though BSL had disconnected its water supply, the Chas urban area continued to be supplied by Chas Municipal Corporation from other sources. Hence, chances of recovery of dues is doubtful.

#### **12.3.3.4 Non-implementation of Board/Corporate Office decisions**

##### **(a) Recovery of electricity charges:**

Steel plants procured electricity from the State Electricity Boards (SEBs) concerned/ DVC for supply to the townships. The cost of electricity purchased by the plants was significantly higher than the amount recovered from the employees. In order to rationalise the electricity subsidy, SAIL Board decided (March 2002) that the chargeable rate for electricity supplied to the employees in the townships would be at least equal to the

minimum of the domestic tariff of the respective SEBs effective from 01 April 2002. Review of records revealed that RSP, BSP and BSL had implemented the Board decision. DSP started recovery of electricity charges as per applicable SEB tariff from 2002 but did not carry out subsequent revisions made by SEB since 2014-15. At ISP, though tariff was revised from October 2016, electricity charges were not recovered as per the revised tariff. As a result, ISP and DSP extended undue benefits to their employees amounting to ₹7.91 crore and ₹1.78 crore respectively during 2014-15 to 2016-17.

The Management stated (January 2018) that at DSP, electricity charges for executives were recovered at the lowest rate of SEB from 2002 and for non-executives from 01 April 2014 onwards. Electricity charges were being recovered from executives of ISP as per DVC rate and for non-executives at ₹4.94 per unit as per agreement with recognised Workers' Unions.

The reply confirms that the Board decision was not made effective from 01 April 2002.

**(b) Recovery of water charges**

In view of non-uniformity in water charges fixed by individual steel plants, SAIL Corporate Office issued a directive (4 August 2016) to levy water charges in the Company quarters at the prescribed rates<sup>22</sup> with immediate effect. Audit observed that BSL and RSP had implemented the decision. In BSP, the rate of recovery in some type of quarters for executives was less than the prescribed rate. DSP did not implement this directive and continued to recover water charges at the existing rates (between ₹20 and ₹70 per quarter depending on the type of quarter instead of on the basis of BHK). ISP implemented the directive for its executive employees only.

The Management stated (January 2018) that the quarters in the DSP township had been categorised on the basis of plinth area and not on the basis of BHK. At ISP, negotiations were underway with recognised Workers' Unions to deduct water charges as per the directive.

**12.3.3.5 Transmission and Distribution Loss**

Power plants supplied electricity to consumers residing in the townships and for the common facilities such as street lights, hospital, school, club etc. Each steel plant had fixed norms for transmission and distribution loss. Scrutiny of records revealed that the loss at BSL, BSP, DSP and RSP was much higher than their respective norms. Four steel plants<sup>23</sup> incurred extra expenditure of ₹371.93 crore on transmission and distribution losses beyond norms during the period from 2014-15 to 2016-17. Details are shown in the table below:

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<sup>22</sup> *1 BHK: ₹50 per month, 2 BHK: ₹75 per month, 3 BHK: ₹150 per month and 4 BHK & above: ₹250 per month*

<sup>23</sup> *Computation of actual loss is not possible due to different rate slabs, therefore calculation has been done considering cost of power. ISP management booked all TDL (about 42 per cent to 54 per cent) under common facilities hence no TDL is shown for ISP*

### Transmission and Distribution Losses during 2014-15 to 2016-17

Name of plant	Norm	Actual	Excess beyond norm	Loss due to unaccounted energy
				(₹ in crore)
				(per cent)
RSP, Rourkela	8	50 to 75	42 to 67	193.24
BSL, Bokaro	10-11	42 to 52	32 to 41	157.81
BSP, Bhilai	7	12 to 15	5 to 8	15.35
DSP, Durgapur	7	10	3	5.53
ISP, Burnpur	6	-	-	-
<b>Total</b>				<b>371.93</b>

As seen from the table, highest transmission and distribution loss was reported at RSP, which ranged from 42 per cent to 67 per cent beyond the norm, followed by BSL with 32 per cent to 41 per cent. Review of records indicated that:

In RSP, electricity charges were being collected based on self-declaration of the employees or predetermined flat rates, though electricity meters were installed in all the quarters. The flat rates fixed on the basis of quarter type was last revised in November 2009.

BSL noticed that locals were illegally tapping power supply. The raids conducted to control unauthorised drawal of power did not yield results as the teams that conducted the raids were manhandled by the illegal consumers. Local Administration had asked (February 2016) BSL to prepare a plan to prevent repeat unauthorised connections once these had been removed but no such plan had been submitted. As a result, loss due to unauthorised usage remained largely unmitigated.

Audit also noticed the following issues which may be contributing to high transmission and distribution losses in BSL and BSP.

- As per Multi Year Tariff for the year 2013-16 fixed by Jharkhand State Electricity Regulatory Commission, domestic consumers who use electricity for non-domestic purpose and had assessed load of more than 85.044 KV would come under High Tension (HT) consumers. BSL identified only seven HT consumers in its township. Since there were several hotels, shops, commercial establishments, hospitals and nursing homes being run in the township, it was, likely that the number of HT consumers would be much higher.
- In BSP, about 34000 electromechanical meters were installed in the residential units and various public buildings in the township. Majority of these meters were non-functional or sluggish. Hence billing was being done based on standard/ assumed consumption which led to revenue loss. Audit noted that till May 2013, BSP procured and installed 20000 electronic energy meters replacing the old electromechanical meters. Though procurement of another lot of 8000 electronic energy meters was proposed in May 2013, the same did not materialise.

The Management stated (January 2018) that RSP employees were being charged electricity based on actual construction from September 2016 onwards. Unauthorised power connections in BSL township were being removed to reduce transmission and distribution losses. The establishments which required LT to HT conversion in BSL

township had been identified and the process of conversion was underway. In case of BSP, purchase order for 8000 energy meters was placed on 27 November 2017.

### **12.3.3.6 Non-recovery of Property Tax**

Property tax is the annual amount paid by a land owner to the local government or the municipal corporation. The municipal corporation of a particular area assesses and imposes the property tax annually or semi-annually. The tax amount is based on the area, construction, property size, building etc. Since the plants pay property tax against all the buildings in the township including those rented/ leased to employees and others, the proportionate amount pertained to each tenant is required to be recovered along with other dues. A test audit of documents in BSP and DSP revealed the following:

- BSP paid ₹36.27 crore as property tax to Bhilai Nagar Nigam for the period 2011-12 to 2015-16. Since the property tax was paid on behalf of the residents of the townships, it should have been recovered from them. BSP started raising bills on third parties (non-employees) for recovery of property tax from June 2015, but it did not take any decision to recover it from its employees, though the proportionate share of expenditure against the quarters occupied by its employees were significant as ₹18.37 crore (2011-12 to 2016-17).
- DSP did not recover property tax from either third parties or its employees though it paid ₹6.69 crore from 2011-12 to 2016-17.

The Management stated (January 2018) that property tax paid on behalf of BSP employees would be recovered as per Company Policy.

The reply is be viewed against the fact that no company-wide policy was in place. The reply was also silent on recovering property tax from the occupants of DSP premises.

### **12.3.4 Conclusion and Recommendations**

#### **12.3.4.1 Conclusion**

The five integrated steel plants of Steel Authority of India Limited (SAIL) held a total land of 101598 acre. SAIL possessed title deeds of only 48.15 *per cent* of the available land. One steel plant did not possess title deeds for its entire land. Audit noted that 4016 acre land was under encroachment while 16492 acre was vacant and unused as of 31 March 2017. Another 8500 acre land was under lease. About 50 *per cent* of the encroached land was held by one steel plant.

No signboards/ barbed wire fencing/ compound wall were constructed to prevent encroachment, despite Board's directives in July 2015/2016. The Company did not take adequate measures to evict the encroachments though it was aware of it and even after eviction orders had been passed by the Estate Court. In a number of cases, existing lessees of the Company had encroached area outside the leased area and instances were noticed where lease holders were running restricted trades or had undertaken unauthorised construction. Company failed to enter into formal lease agreements with a number of lessees while in other cases it failed to renew existing leases.



The townships in the five integrated steel plants had 122814 quarters of which 13.48 *per cent* were either vacant, damaged or under unauthorised occupation as on 31 March 2017. Estate dues amounting to ₹144.87 crore were outstanding as on 31 March 2017 out of which ₹94.94 crore was due from private parties. The Board's decision to recover electricity and water charges from their employees was not fully implemented by steel plants. Transmission and distribution losses were far in excess of the norms in four steel plants during 2014-17 resulting in extra expenditure of ₹371.93 crore. Two steel plants also extended undue benefits amounting to ₹36.27 crore and ₹6.69 crore respectively to their employees/ third parties due to non-recovery of property tax.

The financial impact of audit observations worked out to ₹596.18 crore.

#### **12.3.4.2 Recommendations**

Audit suggest the following recommendations for consideration and implementation by the Company/plants.

- Lease agreements may be entered into/ renewed immediately on allotment of land or upon expiry of existing lease to avoid non-realisation of lease income. Effective steps may be taken to evict all encroachments and unauthorised occupations of Company premises.
- Computerisation of land records needs to be taken up on an urgent basis. Efforts may be taken to obtain title deeds for all the land possessed by the Company in a time bound manner. Suitable steps may also be taken to reconcile title deeds of all land owned by the Company and correct discrepancies between records of the Company and that of the concerned State Governments.
- Effective steps may be taken to reduce the transmission and distribution losses and an action plan may be formulated progressively to achieve the transmission and distribution losses in line with the norms fixed by each steel plant.

The matter was referred to the Ministry in January 2018; their reply was awaited (February 2018).

#### ***12.4 Avoidable expenditure towards payment of stamp duty and registration charges***

**Unrealistic projection of production from Taldih mine in the Mining Plan for 2010-15, led to avoidable expenditure of ₹10.79 crore towards payment of stamp duty and registration charges by SAIL.**

Steel Authority of India Limited (SAIL) operates captive mines for iron ore which is used as a raw material for making steel. The mines are managed by the Raw Materials Division (RMD) of SAIL. Mining Lease (ML-130) located at Bonai range in Odisha covers three iron ore deposits namely Barsua, Kalta and Taldih. Iron ore has been mined from Barsua Iron Mines (BIM) and Kalta Iron mines (KIM) since 1960s. SAIL decided (2007) to develop Taldih iron ore deposit in order to meet the enhanced requirement of iron ore for higher level of hot metal production in future.

The mining lease (ML-130) was renewed (November 2014) for a period of 20 years from 6 January 2010 to 5 January 2030, through agreement with Government of Odisha (GoO). The stamp duty and registration fees for execution of the lease deed were assessed and paid as per the GoO Gazette Notification (January 2012), which provided for payment on the basis of highest annual production projected in the approved mining plan. The approved mining plan for 2010-11 to 2014-15 formed the basis for this payment.

SAIL had prepared (April 2008) the mining plan for ML-130 for the period 2010-11 to 2014-15 projecting an annual production of 8.05 million tonne (mt) of Run Of Mine (ROM) which included 4.25 mt from Taldih Iron Mines (TIM). The mining plan was approved by Indian Bureau of Mines in July 2008. Based on the annual production projections, the company paid (November 2014) stamp duty and registration fees of ₹89.74 crore, out of which the pro-rata amount for 2010-11 to 2014-15 for the projected production from TIM was ₹10.79 crore<sup>24</sup>.

Audit observed the following:

1. There were a number of pre-requisites for development of TIM. Mandatory clearances would need to be obtained and infrastructure facilities would need to be created. After approval for the mining plan (July 2008), the Management could apply for Environment clearance and Phase-II Forest clearance. Following the clearances, various facilities would need to be created including construction of approach road, installation of primary and secondary crushing unit, washing plant, pellet plant, conveyor system, wagon loading system etc. The Feasibility Report prepared (October 2005) by MECON projected a time schedule of 56 months for the completion of major facilities without considering the time required for the mandatory clearances. Even considering that the Management expected to receive the mandatory clearances by January 2010 and commence work on the facilities immediately afterwards, the development of the mine would take nearly five years. As such, the projected annual production of 4.25 mt from TIM over 2010-15 was unrealistic.

2. During 2010-15, no mining could be carried out at TIM. In the mining plan for 2015-20 (approved by IBM in September 2015), projected production from ML-130 was retained at 8.05 mtpa but that from TIM was reduced from 4.25 mt per annum to 2.05 mt per annum, till the mining facilities could be installed at Taldih. Even the lower production projected from TIM was on the basis of augmentation of capacity of beneficiation plant at BIM and temporary transport of ore by road as against the long-distance conveyor belt envisaged initially.

3. Production from TIM could actually be started in October 2016 after obtaining forest clearance (March 2013) and environment clearance (March 2016) with the help of mining equipment from BIM where mining operations were stopped since May 2014 in compliance of Supreme Court orders. A meagre quantity of 0.174 mt of ROM could be produced from TIM in 2016-17 which is 8 per cent of the projected annual production.

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<sup>24</sup> *Stamp duty and Registration fees is ₹89.63 crore (after excluding surface rent of ₹0.75 crore). Stamp duty and Registration fees for one year is  $(89.63/20)$ , = ₹4.4815 crore. Five years projected production from Taldih is  $(2.38 \text{ (for the first year)} + 4.25 * 4) = 19.38 \text{ mt}$ . Thus, Avoidable expenditure is  $(₹4.4815 \text{ crore} / 8.05 \text{ mt}) * 19.38 \text{ mt} = ₹10.79 \text{ crore}$*

No equipment has yet been procured at TIM (October 2017). The likelihood of achieving the production level envisaged in the mining plan 2015-20 at TIM is remote. Thus, even in the subsequent period, company has made unrealistic projection of production from TIM.

The Management replied (December 2017) that the mining plan for ML-130 approved in 2008 covered the mining lease period 2010 to 2030. It was also stated that grant of forest clearance was expected by January 2010 but was actually obtained in March 2013 and that any subsequent change of plan may have taken further time for obtaining clearances as well as mining plan.

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

- (i) The mining plan approved in 2008 was for the five year period from 2010-11 to 2014-15 and not for the mining lease period 2010 to 2030.
- (ii) The reply is silent on the reasons for projecting production from TIM in the mining plan 2010-15, though it was known that creating the infrastructure facilities at TIM would require considerable time (5 years) even if mandatory clearances were obtained as per the Management expectations by January 2010.

Thus, unrealistic projection of 4.25 mt ROM per annum from TIM in the mining plan for 2010-15 resulted in avoidable expenditure of ₹10.79 crore towards stamp duty and registration fees. The likelihood of achieving the projected production is remote even for the mining plan 2015-20. This reaffirms the audit observation that company incurred avoidable expenditure on payment of stamp duty and registration fees due to unrealistic projection of production.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).