

Chapter I

Introduction

1.1 Profile of the Company

NMDC Limited was incorporated in November 1958 with the main objective of exploring the mineral resources in the country and started its operations with a production capacity of two Million Tons Per Annum (MTPA) of Iron ore, which has grown to a capacity of 44 MTPA as of 31 March 2017. The Registered office as well as the Corporate Office of the Company is located at Hyderabad. The Company was granted Navratna status in 2008 and has been in profit since 1989-90 onwards. It earned a profit (before tax) of ₹4,293.68 crore on an income of ₹9,738.45 crore during the year 2016-17. Production and sale of Iron ore is the main activity of the Company, constituting about 98.63 *per cent* (₹8,708.90 crore) of the turnover during 2016-17 and the balance 1.37 *per cent* (₹120.74 crore) was through sale of Diamonds, Power, Pellets and services.

NMDC caters mainly to domestic demand and produces high quality Iron ore through its open cast mines located at Kirandul (3 mines) and Bacheli (2 mines) in Bailadila sector of Dantewada district in Chhattisgarh State, and at Donimalai (2 mines) in Bellary district of Karnataka State. The maximum allowable capacity of the mines located at Kirandul, Bacheli and Donimalai was 19 MTPA, 13 MTPA and 12 MTPA respectively.

The world's Iron ore production during the calendar year 2016 stood at 2,230 million tons (MT), of which India's production was 160 MT, representing 7 *per cent* of the same and NMDC's share was 34 MT, representing 21 *per cent* of total production in India. The Company had proven Iron ore reserves of 2,407.76 MT as on 31 March 2017 out of total proven Iron ore reserves of 33,276 MT (22,487 MT Hematite and 10,789 MT Magnetite) in the country.

Apart from the production of Iron ore, the Company has taken several business diversification initiatives such as establishment of a Steel Plant at Nagarnar, Chhattisgarh; Diamond mining in Panna, Madhya Pradesh; setting up of a captive Power Plant at Nagarnar; acquisition of a Sponge Iron unit at Paloncha, Telangana; establishment of a Pellet Plant at Donimalai, Karnataka, etc. Further, the Company has made significant investments in joint ventures with Central/State Government undertakings and private companies in India and abroad for establishment of Steel Plants and development of Coal and Iron ore mines. The geographical spread of all the projects of the Company in the country is depicted in **Annexure-I**.

1.2 Organizational set-up

The Company is headed by Chairman-cum-Managing Director (CMD) who is assisted by five Functional Directors for Production, Technical, Commercial, Finance and Personnel divisions. There were two Government of India Nominee Directors and six Independent Directors on the Board of the Company (March 2017). The mines are headed by Executive Directors/ General Managers who report to Director (Production)/ Director (Commercial) for day to day operations.

1.3 Audit objectives

The main objectives of the Performance Audit were to assess whether:

- (i) the Company achieved its targets for production, augmentation of production capacity, improvement in evacuation facilities and sale of Iron ore and other products;
- (ii) the Company achieved its targets for diversification initiatives like setting up of Integrated Steel Plants, Power Plant, Pellet Plant, Diamond mining and manufacturing of Sponge Iron;
- (iii) the Company realized expected benefits from its investments in joint ventures with State Governments and with International partners for acquisition of Iron ore mines as well as other minerals like Coal, etc.; and
- (iv) the Company had an adequate internal control mechanism suitable to its size of operations and whether these controls operated effectively.

1.4 Scope of audit

The Performance Audit covered (i) planning for achieving the targets set for production and sale of Iron ore and other products, (ii) progress made against the projects undertaken for expansion of production capacity, evacuation capacity, and acquisition of mineral reserves both within the country and abroad, (iii) progress made in setting up of Integrated Steel Plants, Pellet Plant and Power Plant envisaged under diversification and strategic investment plans of the Company, and (iv) effectiveness of internal controls.

A Performance Audit on 'Production and sale of Iron ore by NMDC Limited' was conducted covering the period from 2005-06 to 2011-12 and the CAG's Report (No. 20 of 2012-13) was placed in the Parliament on 20 December 2012. The present Performance Audit covers the activities of the Company from 2012-13 to 2016-17. The instances which came to notice in earlier years, but which could not be included in the earlier Audit Reports and the matters relating to the period subsequent to the year 2016-17 have also been included wherever necessary.

1.5 Audit criteria

The performance of the Company was assessed against the following criteria:

1. Project cost and timelines for expansion/diversification projects as approved;
2. Targets set in the Memorandum of Understanding (MoU) signed with the Ministry of Steel (MoS) annually and in the Corporate Plan of the Company;
3. Decisions taken in the meetings of Board of Directors of the Company;
4. Guidelines of Central Vigilance Commission for tendering and procurement;
5. Provisions of the manuals/policies laid down by the Company;
6. Provisions of the Mines and Minerals (Development and Regulation) Act, 1957 and Mineral Concession Rules, 1960, as amended from time to time;
7. Observations made by the Indian Bureau of Mines and the State Pollution Control Boards (PCBs) in their review reports on the mining activities of NMDC; and
8. Guidelines issued by Ministry of Environment, Forest and Climate Change (MoEF&CC) for Environmental/Forest Clearances.

1.6 Audit methodology

An Entry Conference was held with the Company on 13 June 2017 to discuss the audit objectives, scope, methodology and criteria for audit. Audit teams conducted the field audit during June 2017 to January 2018 and examined the records of the production units (i.e. Mines) and Corporate Office of the Company, Ministry of Environment, Forest and Climate Change and Ministry of Steel of the Government of India and the Forest and Revenue Departments of the States of Chhattisgarh and Karnataka.

During the course of audit, we reviewed all records pertaining to production of Iron ore and other products, procurement files relating to HEMM and Capital Equipment, all long term contracts for sale of Iron ore, contracts awarded for planning and execution of NISP steel plant and Pellet plant, and Joint Venture agreements.

The draft Performance Audit Report was issued to the Company on 22 February 2018 for confirmation of facts and figures and their response. An Exit Conference with the Company was held on 8 March 2018. The reply of the Company (received on 3 April 2018) and the views expressed during Exit Conference were suitably incorporated in the draft Report and the same was issued to the Ministry of Steel on 23 April 2018. An Exit Conference was held with the Ministry on 8 June 2018 to discuss the audit findings. The reply of the Ministry (23 July 2018) and the views expressed during the Exit Conference have been appropriately incorporated while finalizing this Report.

1.7 Structure of the Report

This Report contains Chapters on Production, Evacuation and Sale of Iron ore, Diversification Activities, Strategic Investment in Joint Ventures, Internal Control and Monitoring, and Conclusion and Recommendations. The Report also contains Annexures I to VIII and a list of Abbreviations.

1.8 Acknowledgement

Audit appreciates and acknowledges the cooperation and assistance extended by the Management of NMDC Limited, Ministry of Steel, Ministry of Environment, Forest and Climate Change, and the Forest and Revenue Departments of the States of Chhattisgarh and Karnataka at various stages of the Performance Audit.