

CHAPTER VI: MINISTRY OF MINES

Hindustan Copper Limited

6.1 Unfruitful expenditure towards construction of Copper Ore Tailings Beneficiation Plant

Imprudent decision of Hindustan Copper Limited to construct full scale Copper Ore Tailings beneficiation plant without adequately operating the pilot plant and verifying its feasibility/ success thereof, resulted in unfruitful expenditure of ₹158.05 crore.

Hindustan Copper Limited (HCL/ Company) decided to process by-product i.e., copper ore tailings through ore beneficiation process to recover economic material viz., gold, silver etc. Accordingly, the Company awarded (January 2016) a contract for design, supply, civil work, installation, commissioning and operation of a pilot plant at Khetri Copper Complex (KCC) with a capacity to treat 200 tonnes copper ore tailings per day at a total value of ₹6.98 crore as a Research and Development project to M/s Star Trace Private Limited (STPL) after competitive bidding process, to be completed within 12 months from the date of commissioning or earlier as decided by HCL. This pilot project was established to evaluate its techno-commercial feasibility so that a decision regarding setting up of a commercial installation could be taken on the basis of the results achieved.

The Company, even before the commissioning of the pilot project in June 2016, decided (May 2016) to install a full scale plant at Malanjkhand Copper Project (MCP) with a capacity to process 10,000 MT of copper ore tailings per day based on the preliminary findings of KCC pilot plant at trial run stage only to save time. On the basis of the Company's techno-commercial evaluation and SBICAP's financial appraisal (January 2017) of full scale Copper Ore Tailings Beneficiation Plant, the Company awarded (March 2017) the contract of ₹280 crore (including ₹85 crore towards operation and maintenance of the above plant for two years) on single tender basis for setting up of 3.29 million tonne per annum Copper Ore Tailings Beneficiation Plant at MCP to STPL. The above plant was to be completed by November 2017.

In this regard, Audit observed following:

- The Company's techno-commercial evaluation of full scale Copper Ore Tailings Beneficiation Plant and SBICAP's financial appraisal of the same as feasible and viable was based on just three days performance of the KCC pilot project. Therefore, the decision (May 2016) of the Management to install a full scale plant at MCP even before the commissioning of the pilot plant at KCC (June 2016), based on trial stage performance of the pilot plant was imprudent and injudicious. Further, at no stage before taking the decision for up-scaling, was the pilot project's latest performance considered.

- Despite two times extensions with an additional expenditure of ₹2.06 crore, the pilot project failed to achieve its envisaged parameters even after 33 months' operation and was also found unviable on commercial as well as technical aspects by the committee set up (November 2018) for the performance evaluation.
- Trial runs for MCP Plant (August 2018/ October 2018) and reliability test run (December 2018) failed to produce the desired output. Three shift trial run for 30 days conducted (April 2019), without considering failed pilot project closed in February 2019, was also unsuccessful, but the Company accepted fresh commitment given by STPL (June 2019), which was not justifiable. The full scale plant at MCP was not completed even after a delay of 35 months (from November 2017 to October 2020).

By adopting technology which was yet to be proven, the Company not only wasted its resources but also made unjustified and imprudent investment decision of ₹158.05 crore (after adjusting security deposit of ₹8.49 crore) by up-scaling it without waiting for outcome of the pilot plant, which proved to be a failure.

Management while accepting the audit observation stated (November 2020) that the decision of the Company to construct full scale Copper Ore Tailings Beneficiation Plant at MCP with a capacity of 3.29 MTPA without adequately operating the pilot plant and observing the success thereof was not prudent resulting in unfruitful expenditure of ₹158.05 crore.

Therefore, disregard of the results/ findings of an ongoing pilot project and hastening into construction of commercial Copper Ore Tailings Beneficiation Plant at MCP with unproven technology, rendered ₹158.05 crore unfruitful.

The Audit paragraph was issued to the Ministry in January 2021; their response was awaited (July 2021).

Recommendation No. 8

The Company should analyse the lapses in decision taken for construction of commercial plant without considering the results/ findings of a related ongoing pilot project and take necessary action.

National Aluminium Company Limited

6.2 Avoidable expenditure towards stamp duty and registration fee for Mining Lease

National Aluminium Company Limited incurred avoidable expenditure towards stamp duty and registration fee of ₹8.56 crore for extension of mining lease for 20 years by executing two separate supplementary lease deeds instead of one.

National Aluminium Company Limited (Company) has Panchpatmali¹ Mines in Koraput district of Odisha, which is the main captive source of bauxite ore for the Company. The

¹ Central and North Block

mining lease for the above was granted in November 1982 for a period of 30 years by the Government of Odisha in line with the provisions of the Mines and Minerals (Development and Regulation) Act (MMDR Act), 1957 as amended from time to time. As the same was going to expire on 16 November 2012, the Company applied (October 2010) for the renewal of the mining lease for a period of 20 years (upto November 2032) as per the provisions of the MMDR Act.

The MMDR Act, 1957 was amended in January 2015. As there was no provision in the amended Act² for renewal of mining lease in respect of Government Companies or Corporations, Ministry of Mines, Government of India (GoI) ordered (February 2015) that the renewal of mining lease of all the Government Companies or Corporations where mining lease had expired and renewal applications were made within due time would be extended till 31 March 2020. Accordingly, Government of Odisha granted (October 2015) the renewal of mining lease for Panchpatmali Mines for a period of 7 years 4 months and 15 days (upto 31 March 2020). The Company executed (March 2016) the first supplementary lease deed for the above renewal of mining lease by paying ₹8.56 crore³ for the period up to 31 March 2020.

Ministry of Mines, GoI notified (03 December 2015) the Mineral (Mining by Government Company) Rules, 2015 (Rules) which, *inter alia*, stated that the State Government would extend the period of mining lease for a period of 20 years at a time on the basis of application made by the Government Companies or Corporations at least 12 months before the expiry of the mining lease (Sub-rule 2 of Rule 3). Accordingly, on request of the Company (June 2016), the Government of Odisha granted extension of mining lease up to 16 November 2032, and the Company executed (September 2017) the second supplementary lease deed on payment of ₹17.12 crore⁴ as stamp duty and registration fee for the period from 1 April 2020 to 16 November 2032.

Audit observed that the Company did not consider the provisions of the new rules notified on 03 December 2015 and paid ₹8.56 crore as stamp duty and registration fee while executing the first supplementary lease deed in March 2016 for the period upto 31 March 2020. Thereafter, the Company again applied (June 2016) for renewal of lease for the same mining reserve as per the new rules and paid (September 2017) ₹17.12 crore for stamp duty and registration fee for executing the second supplementary lease deed for the period from 1 April 2020 to 16 November 2032.

As per the Indian Stamp (Orissa Amendment) Act, 1986, stamp duty and registration fee for lease term between 5 and 10 years was equal to the amount of the average annual rent reserved and the same for a lease period between 10 and 20 years, was equal to twice the amount of the average annual rent reserved. Thus, the Company executed the extension of

² *The Mines and Minerals (Development and Regulation) Amendment Act, 2015 (10 of 2015) effective from 12 January 2015*

³ *Stamp Duty of ₹6.11 crore and Registration Fee ₹2.45 crore paid in March and April 2016 respectively*

⁴ *Stamp Duty of ₹12.23 crore and Registration Fee ₹4.89 crore*

mining lease for 20 years in two parts instead of one and consequently incurred avoidable expenditure of ₹8.56 crore. This also indicated lack of due diligence on the part of the Company.

Management/ Ministry replied (February 2021/ June 2021) that due to non-receipt of extension order notified on 03 December 2015, the Company requested (June 2016) the Government of Odisha to extend the mining lease for the remaining period 1 April 2020 to 16 November 2032. The Management further stated that the consent to operate renewal would not have been possible without the deposit of ₹8.56 crore as non-payment might have led to stoppage of mining operations. Ministry further added (June 2021) that the Company had already applied (March 2020) to Government of Odisha for examination and refund of additional amount paid on execution of second supplementary lease deed.

The reply of Management/ Ministry is not tenable as the notification for the Mineral (Mining by Government Company) Rules, 2015 dated 03 December 2015 was published on 08 December 2015 by the Ministry of Mines i.e., 3 months and 22 days before execution of first supplementary lease and same was available in public domain. Further, renewal of consent to operate was not dependent upon the payment of stamp duty and registration fee as consent to operate was renewed (February 2016) by State Pollution Control Board, Odisha prior to payment of the registration fee and stamp duty (March 2016). The Company applying to Government of Odisha for refund of additional amount paid on execution of second supplementary lease deed validated the view of the Audit that there had been lapse on the part of the management which led to avoidable expenditure of ₹8.56 crore.

Thus, inaction on the part of Management in processing the extension of mining lease in accordance with the Mineral (Mining by Government Company) Rules, 2015 notified on 3 December 2015 resulted in avoidable expenditure of ₹8.56 crore due to extension of mining lease in two parts instead of one.