CHAPTER XVIII: MINISTRY OF STEEL

MECON Limited

18.1.1 Unfruitful expenditure owing to unjustified acquisition of office space

Decision to acquire additional office accommodation without proper assessment of requirement resulted in unfruitful expenditure of Rs.11.08 crore to the Company besides payment of interest and operation and maintenance charges to the extent of Rs.1.59 crore upto January 2006.

In order to expand its business MECON Limited (Company), decided to upgrade the existing office at Mumbai to the level of an engineering office with a strength of 50 to 60 engineers alongwith supporting staff. As the existing accommodation in the World Trade Centre (WTC), premises in Mumbai was not sufficient for the purpose the Company decided (December 1997) to acquire 5,103 square feet of office space at Vashi, Navi Mumbai and to rent out the WTC premises to generate the resources for paying the EMI towards hire purchase of the Vashi premises. The Company took possession of the office premises at Vashi in March 1998 on lease term basis for Rs.1.88 crore and incurred an expenditure of Rs.28.72 lakh towards internal partition, electrical, carpentry, air conditioning work *etc.* and shifted its operations from WTC to Vashi in January 1999.

It was observed in Audit (January 2006) that the premises at Vashi were never used to house more than 30 personnel. The Company could neither rent out the WTC premises for payment of EMI for the Vashi premises nor sell it due to poor offers. Meanwhile the Company spent Rs.36.90 lakh towards common facilities (upto January 2006) for the WTC premises, though it was lying totally unutilised. Thus, while the existing premises (at WTC) were not utilised, the new premises (at Vashi) were under utilised, thus, denying the Company value for money for the expenditure of Rs.2.16 crore on the Vashi office premises besides payment of Rs.36.90 lakh towards common facilities at WTC.

The Management stated (May 2006) that:

(i) There was decrease in manpower strength at Mumbai office with the implementation of the Voluntary Retirement Scheme (VRS).

(ii) The property at WTC could not be sublet or disposed of due to recession in real estate market but both the properties were worth retaining by virtue of their location and expected price appreciation.

In another case, the Company (December 2004) purchased the 13th floor of North Tower, SCOPE Minar, Delhi from M/s. RITES Limited at a price of Rs.8.28 crore to meet its additional requirement of office space and facilities at Delhi. The Company took possession of the said premises, measuring 1,840.50 square metres (floor area 1,200 square metres) on outright purchase basis on 11 January 2005.

It was observed in Audit (March 2006) that the Company already possessed an area of 1,558.00 square metres on the 15th floor and the 1st floor of the SCOPE Minar. With purchase of the 13th floor there was an increase of 1,840 square metres in the area under occupation. But there was a decline in the men-in-position which came down from 212 as on 31 March 2002 to 201 as on 31 March 2006. Further, the Company had not planned the layout, furnishing and electric works *etc.* for the 13th floor in advance and took about 200 days to award the work for interior fittings (on 30 August 2005 for Rs.62.90 lakh). This was completed on 9 February 2006. Meanwhile, the Company had paid Rs.81.75 lakh towards interest and Rs.41.21 lakh towards operation and maintenance charges for the 13th floor upto January 2006. The Company, thus, incurred an unfruitful expenditure of Rs.8.28 crore besides payment of interest and operational and maintenance charges to the extent of Rs.1.22 crore (upto January 2006). Also, the existing accommodation on the 1st floor (355.56 square metres) could have been disposed of immediately after acquisition of the 13th floor so as to avoid payment of operational and maintenance charges for the former. The 1st floor was disposed of in June 2006 for Rs.1.60 crore.

The Ministry stated (September 2006) that additional floor in SCOPE Minar was acquired to accommodate the expected increase in manpower in Delhi office and despite the Company's eagerness to utilise the premises at the earliest, some of the delays were inevitable and beyond their control.

The reply of the Ministry and the Management was not tenable as the increase in manpower was not properly assessed before acquiring additional accommodation. The VRS scheme was in operation before the acquisition of the additional space and the manpower had actually decreased at both stations. The acquisition and retention of large and costly office accommodation at prime locations without utilisation was a waste of the Company's resources.

Thus, the Company's decision to acquire premises without assessing the actual requirement resulted in unfruitful expenditure of Rs.11.08[♣] crore besides payment of interest and operational and maintenance charges to the extent of Rs.1.59[♥] crore (upto January 2006).

MSTC LIMITED

18.2.1 Loss of Rs.11.66 crore in trading in castor seeds and oil

Due to the decision to enter into a contract with an agency without proper business credentials and inadequate supervision of the activities of that agency, the Company suffered a loss of Rs.11.66 crore in financing the purchase of castor seeds and export of castor oil.

MSTC Limited (Company) approved (October 2002) a proposal received from Dharnendra Industries Limited (DIL) for financing purchase of castor seeds (seeds) from domestic market and arranging export of castor oil through the Company. The Company signed a memorandum of agreement (MOA) in November 2002 with DIL. The MOA

[♣] ***Mumbai (Rs.1.88 crore plus Rs.0.29 crore); Delhi (Rs.8.28 crore plus Rs.0.63 crore)***

[♥] ***Mumbai (Rs.36.90 lakh); Delhi (Rs.81.75 lakh plus Rs.41.21 lakh)***

stipulated that the Company would procure seeds on DIL's indent based on export orders in hand with DIL. DIL would deposit castor oil in the Company's designated tank and receive seeds equivalent to 90 *per cent* of the export value of the oil deposited. The balance of 10 *per cent* would be kept as security with the Company. The stock of seeds with the Company would not exceed the limit of 10,000 MT at any point of time. At least 50 *per cent* of seeds due for issue to DIL were to be lifted within 45 days and the balance within the next 45 days.

Under the MOA, the Company procured 28,084.87 MT of seeds valuing Rs.56.06 crore during the period from December 2002 to August 2003. It issued 12,610 MT of seeds valuing Rs.25.01 crore to DIL and received 6,459.39 MT of castor oil valuing Rs.26.72 crore from February 2003 to August 2003.

It was observed in Audit (June 2006) that the trade arrangement with DIL and its management suffered from a number of deficiencies. DIL was an ice-cream dealer and not listed as a manufacturer/exporter of oil by the Solvent Extractor's Association of India. Still the Company selected it as a business partner and signed the MOA. The agreement did not bind DIL to deposit any given quantity of oil within any stipulated period. The Company started procurement of seeds from December 2002 whereas DIL started depositing oil from February 2003 by which time 5,247.91 MT of seeds had already been purchased. The procurement of seeds was not commensurate with export orders in hand leading to accumulation of stock of seeds. Due to the injudicious procurement of seeds by the Company, the 10,000 MT limit on the stock of seeds, which was an internal control of MSTC Limited, was continuously disregarded from April 2003. Between March 2003 and July 2003 only 5,000 MT of oil with a sale value Rs.20.42 crore was exported against the commitment of DIL to ensure export of Rs.200 crore *per annum*. It was observed that contrary to the terms of the contract, DIL shortlifted 308.495 MT of seeds when the oil was first deposited (February 2003). This gap went on increasing leading to accumulation of 15,454.32 MT of castor seeds valuing Rs.31.05 crore at the time of termination of the contract with DIL (September 2003). The Company also had a closing stock of 1,459.39 MT of oil valuing Rs.6.30 crore at that time.

The left over stock (15,454.32 MT) of castor seeds was crushed with the help of another party between December 2003 and February 2005 and the Company received 6,506.73 MT of castor oil. The entire stock of oil of 7,966.12 MT[♣] was sold or exported by the Company during 2004-05 and 2005-06 for a total sale value of Rs.26.90 crore. The price of castor oil had crashed in the meantime leading to a net loss of Rs.11.66 crore on the entire transaction including Rs.2.03 crore expended by the Company on storage and inspection charges after termination of its contract with DIL.

The Management stated (July 2006) that the financial credential of DIL was not an issue as no credit was given to them. They had the ability to supply oil for export and that although seeds were procured in excess, the entire quantity was backed by export order. The loss occurred due to delay in locating a conversion agency after departure of DIL and rapid fall in the price of castor oil in subsequent years.

[♣] ***(6,506.73 MT from seeds crushed subsequently plus 1,459.39 MT existing stock) = 7,966.12 MT***

The Management's contention was not tenable because the loss suffered by the Company was due to wrong selection of business partner and injudicious procurement of seeds without sufficient export order in hand, as verified during Audit with reference to documents. DIL's activities needed close supervision to ensure seed procurement commensurate with export of oil in order to prevent losses due to market fluctuation. There were, however, no checks and balances in the whole cycle right from procurement of seeds to the supply of oil.

Thus, due to the decision to enter into a contract with an agency without proper business credentials, non-enforcement of contractual provisions and inadequate supervision of the activities of the agency the Company suffered a loss of Rs.11.66 crore in financing the purchase of castor seeds.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

Rashtriya Ispat Nigam Limited

18.3.1 Avoidable extra expenditure of Rs.9.13 crore due to failure to evaluate the financial position of the vendor

The Company did not evaluate the financial position of the vendor before placing an order and incurred avoidable extra expenditure of Rs.9.13 crore.

Rashtriya Ispat Nigam Limited (Company) floated (April 2003) a global tender for the procurement of 30,000 MT of low silica limestone on trial basis conforming to either specification A (containing 0.50 *per cent* to 0.60 *per cent* of SiO2♠) or specification B (containing 0.65 *per cent* to 1.00 *per cent* of SiO2), with the option to increase the quantity of the order by 4,50,000 MT in case the trial quantity was found suitable. Out of the offers received by the Company (June 2003), the quotes of M/s. Mohammed Ahmed Taher Est, Oman (MATE) and M/s. Emirate Trading Agency (ETA), Dubai emerged as L1 for specification A and specification B respectively.

After conducting negotiations with the M/s. MATE, the Company placed (September 2003) an order for supply of 4,80,000 MT of low silica limestone of specification A at an FOB (T)♥ price of US$ 8.70 per MT (equivalent to Rs.401.94 per MT♣). The trial quantity of 30,000 MT was to be delivered by October 2003. M/s. MATE, however, did not supply any material though the period of delivery was extended till January 2004 on its request. While extending (January 2004) the period of delivery till January 2004 for trial shipment, the Company informed M/s. MATE that in case of failure to perform the contract, the Company would procure the contracted quantity from alternative sources at the risk and cost of M/s. MATE. M/s. MATE, however, failed to supply the material. The Company encashed the bank guarantee given by M/s. MATE and realised Rs.7.55 lakh. The Company procured 4,80,000 MT of low silica limestone, between April 2004 and July 2005, from M/s. Bramco WLL Bahrain (at weighted

♠ ***Silicon Dioxide***

♥ ***Free on Board (Trimmed)***

♣ ***Rate of exchange of one US$ = Rs. 46.20 considered for evaluation***

average landed cost of Rs.1,357.82 per MT) after inviting tenders and incurred an additional expenditure of Rs.9.13 crore. This was the difference between the landed cost of procurement from M/s. Bramco WLL and estimated landed cost of procurement from M/s. Emirates Trading Agency who was the regular supplier, reduced by an amount of Rs.7.55 lakh. However, an amount of Rs.79.64 lakh only, being the amount of risk purchase on 30,000 MT, was recoverable from M/s. MATE, as per the advice of legal department of the Company.

It was observed in Audit that the Company did not consider the adverse financial position[♥] of M/s. MATE before placing the order which was evident from financial statements and audit report submitted alongwith their tender documents.

The Management accepted (May 2006) that the financial information sought for as per the tender was not considered for evaluation, ranking and placement of the order. It further stated that risk and cost notices were sent to the vendor but the same were received back undelivered and efforts were being made to utilise the diplomatic channels for locating the supplier for serving the risk purchase. The Ministry endorsed (January 2007) the reply given by the Management.

The reply was not tenable as they had the financial data of the parties to ascertain the capacity of the suppliers to execute the supply order. Since the Company could not locate the supplier for serving the risk purchase notice (May 2006) the chances of recovery of even Rs.79.64 lakh were remote.

Thus, failure of the Company to evaluate the financial position resulted in an avoidable extra expenditure of Rs.9.13 crore.

Steel Authority of India Limited

18.4.1 Non-disposal of iron ore fines accumulated at Gua Ore Mines

Non-disposal of iron ore fines accumulated at Gua Ore Mines resulted in non-realisation of revenue of Rs.1507 crore.

The mechanised mining of Gua Iron Ore Mine, a captive mine of IISCO[♣], was started in May 1958. The iron ore lump produced in the mines was directly consumed by IISCO in its blast furnaces but the fines generated were required to be converted into pellets in the Pelletisation Plant or sinter in the Sinter Plant before they could be consumed. As IISCO had no Sinter Plant, the fines could not be consumed in IISCO. The fines were either sold or dumped in the stockyard.

Examination of records (April 2005) revealed that Bokaro steel plant and Durgapur steel plant of Steel Authority of India Limited had sinter plants and supply of iron ore fines to

[♥] ***The auditor of MATE, Oman in their report for the year ended 31 December 2002 stated that the establishment capital was eroded by owners drawings and there was a net liability position. It further stated that these factor indicated that the establishment activity was dependent on improvement in profitable operations and required continued financial support from proprietor and bankers.***

[♣] ***A fully owned subsidiary company of Steel Authority of India Limited (SAIL) since merged with SAIL with effect from 1 April 2005***

these plants from Gua mines was economically feasible. Bokaro steel plant regularly received iron ore fines from the Kiriburu mines (368 km) and Meghahataburu mines (369 km) linked to it but was accepting iron ore fines from Gua mines (272 km) only to meet the shortage of ore fines. Similarly Durgapur steel plant received iron ore fines from Bolani mines (319 km) and not from Gua (312 km).

The sale/dispatch of fines from Gua mines had been very poor. Out of the average production of 1.78 MMT *per annum* during the five years 2000-01 to 2004-05 only 0.71 MMT (40 *per cent*) was dispatched and the balance of 1.07 MMT was being added every year to the accumulated stock of 12.16 MMT (March 2000) dumped in the stock yard. As a result there was accumulation of 35.04 MMT of iron ore fines valuing Rs.1507[♥] crore as on 31 March 2005.

The Management while accepting the facts (September 2006) stated that the fines stockpile had accumulated over a long period (from 1958) and could not be liquidated within a short span of time due to various constraints such as:

(i) Railways did not have adequate capacity to dispatch fines from Gua station,

(ii) Supply through land routes to different ports was not economically viable,

(iii) Price of fines was erratic and

(iv) Poor quality of fines.

Further, efforts were being made to increase the dispatch of fines from Gua mines and about 1.52 MMT were dispatched during 2005-06.

The reply of the Management did not reflect the position fairly as the stockpiling was mainly due to the inability of the Management to dispose of enough quantity of fines. Dispatch of 1.52 MMT of fines subsequently during 2005-06 provided evidence that it was possible to dispatch substantial quantity of iron ore fines from Gua. This was despite export of large quantities of iron ore fines from the country and significant increase in the price of the iron ore fines in recent years.

The matter was reported to the Ministry in November 2006. The Ministry while accepting the fact (December 2006) stated that the Government of Jharkhand had raised objection to the sale of iron ore for export on the plea that SAIL was not an iron ore trading company. The reply did not appear to be relevant since the Audit comment was on sale of iron ore fines and not export of iron ore.

Thus, the accumulation of iron ore fines resulted in non-realisation of revenue of Rs.1507 crore. In addition, accumulation of iron ore fines was an environmental hazard and attracted objections from environmental authority also.

[♥] ***Calculated at Rs.430 per MT, the rate at which fines were supplied to Rashtriya Ispat Nigam Limited***

18.4.2 Extra expenditure of Rs.10.04 crore in purchase of Moly Oxide

Notwithstanding rising prices, the Company purchased Moly Oxide on piecemeal basis resulting in extra expenditure of Rs.10.04 crore during 2004-05.

Alloy Steel Plant (ASP) of Steel Authority of India uses Molybdenum Ore and Moly Oxide (concentrate) for manufacture of Moly bearing Steel. Its average requirement ranges from 25 to 30 MT *per* month.

Scrutiny of the records (January 2006) revealed that:

(i) ASP floated (May 2004) an open tender enquiry for import of 200 MT of Moly Oxide for consumption upto March 2005 with the stipulation that 100 MT of the material was to be shipped during the quarter June to August 2004. Techno-commercial bids for 200 MT of the material were frozen for supply upto March 2005. However, price bids were opened (June 2004) for 100 MT for shipment upto August 2004 but the order was placed for 36 MT only on M/s. KTC Korea, principal of M/s. Metallic Corporation at Rs.8.93 lakh *per* MT. The purchase of smaller quantity was on the ground that the price of the material was very high and the international market was fluctuating.

(ii) ASP invited another price bid in July 2004 from six vendors for purchase of 60 MT of material for shipment in August 2004. Of this, 40 MT was purchased from M/s British Metals at Rs. 9.17 lakh *per* MT. Though the remaining 20 MT was available at the same rates from other suppliers, ASP decided (July 2004) not to place further order but to go in for fresh tendering keeping in view the downward fluctuation in prices of the material during a few days in July 2004.

(iii) Later on, ASP purchased 18 MT of Moly Oxide from M/s. KTC Korea for December 2004 shipment at Rs.18.64 lakh *per* MT and 80 MT from M/s. Jinduicheng Molybdenum Corporation, China during the last quarter of 2004-05 at an average rate of Rs.19.61 lakh *per* MT.

ASP thus purchased its requirement piecemeal instead of in bulk. The procurement on piecemeal basis was not justified as the price of Moly Oxide had been increasing sharply from 2002 onwards and there was no indication that the trend of rise in price would stop or reverse. The procurement decisions should have been in concordance with the market trend. As there was sharp upward movement of prices, the Management should have considered bulk purchase. By making piecemeal purchase of Moly Oxide and paying successively higher prices, the Company incurred extra expenditure of Rs.10.39 crore during 2004-05.

The Management in reply (July 2006) stated that there was unprecedented increase in the prices in June 2004 over January 2004 and bulk procurement of yearly requirement would have pushed up inventory level, leading to blocking of funds. It was further contended that procurement in smaller lots based on requirement assessed from time to time reduced the risk of speculative buying in the volatile market situation. The Ministry endorsed (January 2007) the reply of the Management.

The contention of the Management/Ministry regarding unprecedented increase in the price of Moly Oxide was not acceptable as the price was rising since 2002 and the clear trend of rising prices should have been considered while making purchases. As regards blocking of money in inventory, the purchase cost of the total required quantity would have been less at lower price and extra expenditure incurred in purchasing the material subsequently at higher price could have been avoided by the Company. The loss of interest due to blocking of funds in bulk purchase would have been Rs.35 lakh only.

Thus, due to purchase of Moly Oxide on piecemeal basis disregarding the rising price trend, ASP incurred extra expenditure of Rs. 10.04♣ crore on purchase of Moly Oxide during 2004-05.

18.4.3 Extra expenditure and production loss due to delay in finalisation of tenders

Delay in finalisation of tenders for 'Back up rolls' resulted in extra expenditure of Rs.8.20 crore due to subsequent purchase at higher price and production loss of Rs.375.52 crore due to unscheduled change of the rolls.

Bokaro Steel Plant (Plant) of Steel Authority of India Limited (SAIL) was using 'Back up Rolls' of forged steel in its Hot Strip Mill since inception. After modernisation due to change in Mill condition, spoiling of Back up Rolls increased leading to unscheduled roll changing and consequent loss of production. The Plant decided (October 2003) to use forged Back up Rolls with chromium content of 3 to 3.5 *per cent.*

The Plant invited (December 2003) a global tender for procurement of forged Back up Rolls. In response, only two offers were received and these were not opened as per purchase procedure of the Company (where minimum three offers are required). In April 2004, the Plant issued a limited tender enquiry to nine parties. In response, five parties quoted their rates and the offer of M/s. Sidenor Villares, Spain was found technically and commercially acceptable after several rounds of discussions. The Tender Committee, however, considered the price of Euro 1,15,700 (Rs.67.11 lakh♣) each roll to be high and therefore, negotiated (November 2004) for price reduction. The party did not agree to any reduction in price and reduced the offered quantity from 40 rolls to 20 rolls with validity upto 30 November 2004. The Plant placed purchase orders for the supply of 20 rolls at a price of Euro 1,15,700 *per* roll on 24 November 2004. On the same day but before placement of the order by the Plant, M/s. Sidenor Villares withdrew the offer on the ground of extreme rise in raw materials prices.

In December 2004, M/s. Sidenor Villares submitted an alternate proposal for supply of four rolls at the earlier quoted FOB price of Euro 115700 *per* roll, next eight rolls at the quoted price plus Euro 17,000 (Rs.9.86 lakh) *per* roll and the remaining eight rolls at the quoted price plus Euro 22,000 (Rs.12.76 lakh) *per* roll. The Plant however, considered the increase in price to be unjustified and did not accept the offer. Instead it took up the matter with the Spanish Embassy to persuade the supplier to accept its earlier (November 2004) offer. However, the party did not accept the order.

♣ ***Extra expenditure of Rs.10.39 crore minus Rs.35 lakh being the interest on blocking of funds in bulk purchase***

♣ ***At Euro =Rs.58.00***

The Plant again issued (March 2005) a limited tender enquiry to 18 parties including M/s. Sidenor Villares against which only six quoted their rates. This time also, the offer of M/s. Sidenor Villares was found lowest at FOB price of Euro 203000 (Rs.1.18 crore) *per* Roll. The Plant, finally, placed the purchase order (May 2005) on M/s Sidenor Villares at the above quoted price for 20 rolls which was subsequently increased to 40 rolls. The Plant received eight rolls upto March 2006.

Audit observed that the delay in finalisation of tender and failure to place purchase order within the validity period provided opportunity to the single technically acceptable party to withdraw their offer and ask for an increase in price. Since the raw material prices of rolls were increasing it was prudent for the Management to accept the offer of December 2004 when the party had withdrawn their earlier offer. By not accepting the December 2004 offer and procuring rolls at higher price from the same party the Company incurred extra expenditure of Rs.8.20 crore. The Plant also suffered production loss of Rs.375.52 crore due to unscheduled change of the rolls during 2004-05 and 2005-06.

The Management stated (July 2006) that since the item was new, several rounds of discussions were held with the user department and with the firm before taking decision for purchase of rolls on 24 November 2004. The counter offer of December 2004 for part quantity and with higher price could not be considered as the Plant decided to chase up through the Spanish Embassy for acceptance of the order for full quantity. The Ministry endorsed (January 2007) the reply of the Management.

The contention of the Management/Ministry was not tenable as in the rising price scenario the Plant should have acted expeditiously in finalising the tender, particularly since the tender committee had already concluded (September 2004) that re-tendering might not yield better response. As there was no concluded contract in November 2004, acceptance of the counter offer of December 2004 would have considerably reduced the extra expenditure on procurement of rolls.

Thus the Company incurred an extra expenditure of Rs.8.20 crore in procurement of 20 rolls at higher price and suffered production loss of Rs.375.52 crore due to unscheduled change of the Rolls during the period from April 2004 to March 2006.

18.4.4 Irregular payment of Turnover Discount

Hot Roll Coil lifted under Export Incentive Scheme was irregularly considered towards fulfilment of MOU quantity. In another case enhancement of MOU quantity was allowed in contravention of Company policy. These resulted in irregular payment of Turnover Discount of Rs.8.03 crore by the Company.

Steel Authority of India Limited (Company) entered into an MOU (April 2003) with M/s. Surya Roshni Limited (SRL) for sale of Hot Roll (HR) Coil of 1,45,000 MT in 2003-04, which was increased to 1,70,000 MT in November 2003. The MOU provided for a Turnover Discount (TOD) subject to lifting of 100 *per cent* of the MOU quantity.

In May 2003, the Company framed an Export Incentive Scheme, which was applicable to the customers exporting pipes and tubes made from HR coils purchased from the Company. The scheme, *inter alia*, provided that:

(i) Incentive would be allowed at Rs.25 *per* MT on the entire quarterly lifting of HR Coils provided the Customers export pipes of minimum five *per cent* of total HR Coils lifted in a quarter.

(ii) The quantity to be supplied under the scheme would not be counted towards fulfilment of MOU quantity; lifting would be over and above the MOU quantity.

In 2003-04, SRL lifted 1,80,345 MT of HR Coil which included 58,857 MT lifted under the Export Incentive Scheme during April-September 2003. The quantity exported by SRL during the period was 5,404 MT. The Company allowed Export Incentive of Rs.25 *per* MT on 58,857 MT of HR Coil lifted by the party under the Export Incentive Scheme. In addition, the Company paid TOD at Rs.375 *per* MT on the entire quantity of 1,80,345 MT lifted by the party which worked out to Rs.6.76 crore. For determining the eligibility of the party for TOD, the Company took the MOU quantity as 1,74,941 MT by deducting exported quantity of 5,404 MT from the total quantity of 1,80,345 MT instead of deducting the quantity lifted under the Export Incentive Scheme which was 58,857 MT.

Though the achievement of the party towards the MOU was only 71 *per cent* at 1,21,488 MT (1,80,345 MT minus 58,857 MT supplied under Export Incentive Scheme), the party was paid TOD which was payable for lifting 100 *per cent* quantity of 1,70,000 MT.

The irregular computation of the quantity supplied towards fulfilment of MOU booking quantity resulted in an irregular payment of TOD of Rs.6.76 crore to the party.

The Management while accepting the above facts contended (June 2006) that the spirit of the incentive scheme was to encourage exports and only the quantity physically exported was to be excluded for the purpose of TOD calculation under MOU. The Ministry endorsed (December 2006) the reply of the Management.

The reply was not acceptable as the Scheme clearly provided that the quantity to be supplied under the scheme was to be excluded for the purpose of TOD calculation under MOU.

In another case of MOU executed with Bharat Heavy Electricals Limited (BHEL) for supply of steel material for a period of two years 2003-04 and 2004-05, 90,000 MT of material was to be supplied during 2003-04, while the quantity for the year 2004-05 was to be indicated by March 2004. TOD was extended subject to lifting of not less than 100 *per cent* of the annual MOU quantity as per prevailing scheme and payable against lifting upto 120 *per cent* of annual MOU quantity.

In March 2004, the Company framed an Order Booking Scheme under MOU for Projects, Construction Companies, Multi Product and Multi Location PSUs and other Government Departments excluding small scale industrial corporations for the year 2004-05 which provided that enhancement of MOU quantity would be considered only if the lifting was within 120 *per cent* of the original booked quantity and was prior to minimum two months before the expiry of the period of MOU.

For the year 2004-05, BHEL booked MOU quantity of 1,00,000 MT in May 2004 which was enhanced to 1,40,000 MT in October 2004 and to 1,80,000 MT in December 2004.

Another proposal was moved in March 2005 to enhance the MOU quantity to 2,05,000 MT which was approved on 5 April 2005. Meanwhile, BHEL lifted 2,34,208 MT of steel material and the Company paid TOD on the entire quantity lifted.

The approval of enhancement of the MOU quantity in April 2005 *i.e.* after the period of MOU was contrary to the Company's policy. The enhancement of MOU quantity was possible only within two months before the period of MOU (*i.e.* by January 2005). The payment of TOD on the entire quantity was also irregular as the quantity eligible for payment of TOD was 2,16,000 MT (120 *per cent* of 1,80,000 MT, quantity enhanced within January 2005) only. This resulted in undue payment of TOD amounting to Rs.1.27 crore to BHEL.

The Management in its reply (June 2006) stated that the enhancement of MOU quantity after cut off date was done with a view to liquidating the stocks of plate mill plates and other items in the stockyards. Moreover, had the MOU quantity not been enhanced, BHEL would not have lifted the additional tonnage in 2004-05, leading to the tonnage remaining in stock, which in all probability would have fetched either a lower realisation in 2005-06 or remained in stock adding to the inventory carrying cost. The Ministry endorsed (December 2006) the reply of the Management.

The reply was not acceptable as BHEL had requested to enhance the MOU quantity to take care of their increased demand of steel materials due to good orders in hand. Further, BHEL had already lifted the entire quantity of 2,34,208 MT by 31 March 2005 *i.e.* before enhancement of MOU quantity.

Thus, by considering the quantity supplied under Export Incentive Scheme towards fulfilment of MOU quantity and allowing enhancement of MOU quantity in contravention of the Company policy, irregular payment of TOD amounting to Rs.8.03♣ crore was made by the Company.

18.4.5 Extra expenditure due to poor performance of ingot mould

Poor performance of ingot moulds produced in-house at Durgapur Steel Plant foundry due to deficiencies in processing and manufacturing resulted in excess consumption of ingot moulds involving an extra expenditure of Rs.7.02 crore during 2003-04 and 2004-05.

Ingot moulds are used in Steel Melting Shop to teem and shape the liquid steel into ingots. The performance of ingot moulds is determined by the number of heats obtained from them. Durgapur Steel Plant (DSP) a unit of Steel Authority of India Limited meets its requirement of ingot mould through in-house production in its foundry and also through purchase from the market.

The average number of heats obtained from the ingot moulds manufactured by DSP foundry varied from 24 in 2003-04 to 28 in 2004-05. As against this, the number of heats given by those manufactured by the Bokaro Steel Plant (BOSP) and the Bhilai Steel Plant (BSP) varied between 39 and 53 in 2003-04 and 2004-05. The number of heats given by

♣ ***Rs.6.76 crore plus Rs.1.27 crore***

the ingot moulds purchased by DSP from established outside sources was also much higher at 47 to 64 heats.

A study of the process parameters for making of ingot moulds conducted by the Research and Control Laboratory in DSP foundry in July 2004 found that the main reasons for poor performance of ingot moulds manufactured by DSP were:

(i) Majority of the defects in the moulds were related to adoption of faulty sand practice. The granulometry of sand was found to be quite adverse with undesirable undersize fraction being more than 40 *per cent* against the norm of 10 *per cent*.

(ii) Absence of any system for ensuring proper proportioning of various ingredients of sand mix *i.e.* re-cycled and fresh components of silica sand and additives.

(iii) Absence of dry milling which led to segregation of additives without attaining uniformity of binder coating on sand grains.

(iv) No control over sand mould heating and soaking regime. As a result heating was abrupt and at times very high (more than 100 degree centigrade/hour against the desired heating of 50 centigrade/hour).

(v) Non-attainment of proper compaction due to faulty jolting (lateral movement of table) which led to improper strength of moulded sand especially in the core portion.

An analysis of the reasons for poor quality of sand indicated that though the purchase orders for supply of river sand stipulated the strict quality requirement of the foundry department, there was a clause for acceptance of sand with relaxed specifications (beyond the minimum specifications) after levying penalty.

The above deficiencies in processing and manufacturing of ingot mould resulted in poor performance of in-house produced moulds as compared to those produced in the foundries of BOSP and BSP or those purchased from established outside source. This resulted in excess consumption of 1,287 ingot moulds manufactured at DSP foundry, involving an extra expenditure of Rs.7.02 crore during 2003-04 and 2004-05.

The Management stated (June 2006) that the study covering monitoring of process parameters was made to identify weaknesses and take necessary corrective action to improve the heat life. Accordingly, quality specifications for sand had been made more stringent and corrective measures such as installation of instruments for control of heating of sand mould, development of system for proportioning of various ingredients of sand mix, action for proper compaction *etc.* had been taken to improve the life of moulds and minimise defects. The Ministry endorsed (January 2007) the reply of the Management.

The reply was not tenable as even after taking these measures, there had been no improvement in the life of ingot moulds and in fact the average life of ingot moulds in

2005-06 and 2006-07 (upto January 2007) decreased to 26 heats as against 28 heats achieved in 2004-05.

18.4.6 Loss due to non-recovery of electricity charges from employees at domestic rate

Non-implementation of the Company's decision for recovery of electricity charges as per tariff of State Electricity Board from employees resulted in loss of Rs.1.22 crore to the Company.

Bolani Ore Mines (BOM) is a captive mine of Durgapur Steel Plant of SAIL (Company) and has its own township. The power requirement of BOM including its township is met from the electricity purchased from North Eastern Electricity Supply Company of Orissa Limited (NESCO). The rate of electricity charged by NESCO for domestic consumption is Rs.2.30 *per* KWH whereas Management actually recovered a fixed amount from each type of quarter. The actual consumption of electricity for individual quarters was not ascertainable in the absence of individual meters. But the rate charged from the occupants was much lower compared to the prescribed tariff since there was a huge deficiency in the overall recovery of charges for domestic consumption of electricity in the township.

In order to rationalise the subsidy on electricity, the BOD of the Company decided (March 2002) that for the employees residing in the township, the chargeable rate for electricity should be at least equal to the minimum of the domestic rate as *per* tariff of State Electricity Boards. This decision was to be implemented from April 2002.

It was observed in Audit (March 2006) that Management continued to charge the employees at the concessional fixed charges for each type of quarter. This resulted in less recovery of electricity charges of Rs.1.22 crore from the employees during the period April 2002 to March 2006.

The Management while accepting (June 2006) that electric meters had not been installed, stated that the recovery was being made on the basis of fixed charges for each type of quarter and the quarter-wise charges had been enhanced for executive (with effect from August 2003) and non-executive employees (with effect from August 2005) though they were not brought at par with the State Electricity Board rates. They added that the law and order situation had been deteriorating in the area due to intrusions by extremist groups in the nearby areas which had created a sense of panic and utter demotivation among the employees and that the situation was not congenial at present for a total revision of the rates.

The Ministry stated (January 2007) that action had been initiated for installation of meters in houses/quarters in township in phases.

The reply was not acceptable as deteriorating law and order situation cannot be considered a valid basis for non-installation of meters and the non-recovery of due charges. Even with the enhanced rates per quarter, the amount recovered for domestic consumption fell far short of the amount paid to NESCO. Recovery of electricity charges as per domestic tariff for the actual units consumed from the employees had not been made.

Thus, non-implementation of BOD's decision to recover the energy charges at the minimum domestic rate as *per* tariff of the State Electricity Board resulted in a loss of Rs.1.22 crore to the Company during the period April 2002 to March 2006.

18.4.7 Loss of revenue on sale of granulated slag

Agreement to sell a quantity of 3.50 lakh MT of granulated slag against the willingness of the buyer to purchase four lakh MT, resulted in a loss of revenue of Rs.1.06 crore to the Company.

Rourkela Steel Plant (RSP) of Steel Authority of India Limited (SAIL) was generating granulated slag (slag) from its furnace operation which was used for making cement. OCL India Limited (OCL) was the major consumer of slag generated by RSP and was lifting 2.50 lakh MT of slag *per annum*. In February 2003, OCL expressed willingness to enter into a long term agreement for purchase of five lakh MT of slag *per annum* at Rs.250 *per* MT but this was not agreed to by RSP due to low price. OCL again offered (October 2003) to enter into an agreement to buy four lakh MT of slag *per annum* at Rs.370 *per* MT. In April 2004 RSP entered into an agreement with OCL for sale of granulated slag for a period of three years effective from 1 June 2004 to 31 May 2007. The agreement was for a contracted quantity of 3.50 lakh MT every year with a provision to sell an additional quantity of 0.50 lakh MT subject to availability against a quantity of four lakh MT desired by OCL. The price of slag was Rs.370 *per* MT, which was to be escalated by Rs.12 *per* MT every year. As clarified by the Management (May 2006), they did not agree to supply four lakh MT annually to OCL as the production was around 4.2 lakh MT and it was considered desirable to try and develop other customers to avoid total dependence on a single party.

Examination of records (February 2006) revealed that OCL did not lift the additional quantity of granulated slag of 0.50 lakh MT *per annum* during the first and the second year of the agreement as there was a downward trend in prices. The stock of slag with RSP started increasing as the Company could not get other customers and so RSP agreed (February 2005) to sell to OCL of 1.2 lakh MT of granulated slag at Rs.300 *per* MT for the period February 2005 to July 2005. Subsequently, another proposal to sell one lakh MT of slag to OCL at Rs.265 *per* MT for the period October 2005 to March 2006 was accepted by the Company in October 2005.

The decision of RSP to sell a contracted quantity of 3.50 lakh MT with an additional quantity of 0.50 lakh MT subject to availability was not justified as more than 4.20 lakh MT of granulated slag was being generated annually and OCL had offered to buy four lakh MT. The performance of other customers was also not satisfactory as they had lifted only about 60 *per cent* of the contracted quantity of about 1.50 lakh tonne during 2000-01 to 2002-03. Had RSP entered into the contract for a firm quantity of four lakh MT *per annum*, OCL would have lifted the entire quantity at the rate of Rs.370 *per* MT. As a result of the stipulation to sell additional quantity of 0.50 lakh MT subject to availability, there was no binding on OCL to lift the additional quantity and they did not do so. This necessitated sale of slag subsequently, at lower rates, resulting in a loss of revenue of Rs.1.06 crore to RSP during February 2005 to March 2006.

The Management in its reply (May 2006) stated that provision for sale of 3.5 lakh MT *per* year was kept in the contract and the remaining quantity likely to be generated was to be offered to other buyers at the same price as in the case of OCL. However, the sale to other buyers could not be effected due to depressed market condition and development of the use of fly ash as a cheaper substitute of granulated slag for use in the cement industry. The matter was reported to the Ministry in October 2006. The Ministry while endorsing the views of the Management (December 2006) stated that the Company had awarded the quantity based on availability, past performance of the customers and the requirements given by them.

The reply of the Management and the Ministry did not reflect the correct position as OCL had indicated (October 2003) their willingness to buy a quantity of four lakh MT *per annum* at Rs.370 *per* MT. With a production of around 4.2 lakh MT *per annum*, it was feasible to accept OCL's proposal and also to supply the requirement of other smaller customers but only 3.50 lakh MT were offered to them instead. The Management's argument of developing more than one customer for alternate route of disposal was also not acceptable as the performance of other customers has been found unsatisfactory. As against a quantity of 72,000 MT offered, the alternate buyers lifted only 44,382 MT during June 2004 to May 2006. The Management had to sell the remaining quantity to OCL only.

Thus, the decision of RSP to enter into agreement for the sale of granulated slag at contracted quantity of 3.50 lakh MT instead of four lakh MT led to subsequent sale at lower rates. This resulted in loss of Rs.1.06 crore to the Company during February 2005 to March 2006.