C.P.U. No. 289

COMMITTEE ON PUBLIC UNDERTAKINGS

(1975-76)

(FIFTH LOK SABHA)

Sixty-ninth Report

CEMENT CORPORATION OF INDIA LTD.

(MINISTRY OF INDUSTRY AND CIVIL SUPPLIES)
(DEPARTMENT OF INDUSTRIAL DEVELOPMENT)

LOK SABHA SECRETARIAT
NEW DELHI

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(1975-76)

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2. Shri K.S. Bhalla - Senior Financial Committee Officer

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Sixty-ninth Report on the Cement Corporation of India Ltd.

2. This Report of the Committee is based on the comprehensive appraisal of the working of Cement Corporation of India Ltd. as contained in the Report of the Comptroller and Auditor General of India for the year 1973--Union Government (Commercial) Part III—Cement Corporation of India Ltd. and also on an examination in depth of the working of the Cement Corporation of India Ltd. upto the year ending 31st March, 1974.

3. The Committee on Public Undertakings took evidence of the representatives of the Cement Corporation of India Ltd. on the 22nd January, 1975 and of the Ministry of Industry and Civil Supplies (Department of Industrial Development) on the 19th March, 1975.

4. The Committee on Public Undertakings considered and finalised the Report at their sittings held on the 26th and 27th June, 1975.

5. The Committee wish to express their thanks to the Ministry of Industry & Civil Supplies (Department of Industrial Development), the Cement Corporation of India Ltd. and the labour unions for placing before them the material and information they wanted in connection with the examination of the Cement Corporation of India Ltd. They wish to thank in particular the representatives of the Ministry and the Undertakings who gave evidence and placed their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendered to them by the Comptroller & Auditor General of India in connection with the examination of the Cement Corporation of India Ltd.

NAWAL KISHORE SHARMA,
Chairman,
Committee on Public Undertakings.

NEW DELHI;
July 17, 1975.
Asadha 26, 1897 (*S*)

I

INTRODUCTORY

A. Historical Background

With the exception of a few factories owned by the State Governments, the cement industry in India was previously with the private sector. As against the installed capacity of 15 million tonnes and production of 13 million tonnes of cement envisaged by the end of Third Five Year Plan (*i.e.* March, 1966), the capacity and production actually attained by the end of 1965 were 11.70 million tonnes and 10.59 million tonnes respectively. It was anticipated by Government in 1964-65 that the demand for cement would reach the level of 25 million tonnes by the end of the Fourth Plan *i.e.* March, 1971 and this called for a massive expansion of the then existing capacity of 11 million tonnes to 27 to 30 million tonnes. As the magnitude of this task was clearly beyond the capacity of the private sector, it was decided that the public sector should enter the field in a big way.

1.2. Accordingly, Cement Corporation of India Limited was registered on 18th January, 1965 as a Company wholly owned by the Government of India with the following principal functions:—

(a) Intensive prospecting and proving of lime-stone deposits, lack of which had retarded the development of cement industry in India in recent years. (In this capacity, the Company had to act as the store-house of information on the cement grade lime-stone deposits in the country for the expansion of capacity in the public as well as private sector).

(b) Setting up of capacity for cement manufacture so as to help achieve the cement production target in the Fourth Five Year Plan.

1.3. Upto November, 1967, the Company had prospected and established 1074.33 million tonnes of cement grade limestone at 12 sites (including one site investigated by the Geological Survey of India having a reserve of 46.33 million tonnes). As the proved deposits were far in excess of the requirement of the Company for setting up the plants, Government directed the Company in January, 1968 to maintain only a skeleton lime-stone Investigation Division capable of conducting investigations at the rate of one site a year.

1.4. As regards setting up of capacity the Company has so far established two cement plants having a capacity of 2 lakh tonnes per annum each at Mandhar (Madhya Pradesh) and Kurkunta (Karnataka) which went into production in July, 1970 and October, 1972 respectively. In addition 2 projects of the capacity of 2 lakh tonnes each at Bokajan (Assam) and Paonta (Himachal Pradesh) under erection/construction and expansion of the capacity of Mandhar (Madhya Pradesh) Plant by 1.8 lakh tonnes is under implementation.

B. Objectives

1.5. The principal objectives which were envisaged in the Ministry's letter of 4th May 1965 for the Cement Corporation were as follows:—

(i) Survey, prospecting and proving of cement grade limestone deposits in the country;

(ii) Installation of sufficient capacity for the manufacture of cement in the public sector to help achieve the cement production targets to be set for the Fourth Plan.

(iii) All ancillary and supporting activity connected with the growth of the Cement Industry and the development of expertise.

In regard to objectives (ii) and (iii) above, it was further stipulated in the letter of 4th May, 1965 as follows:—

(a) The target of cement manufacturing capacity to be set up by the Corporation should be 1.5 million tonnes by 1968-69 and on additional 3.5 million tonnes by 1970-71 thus totalling a capacity of 5 million tonnes by the end of fourth plan period.

(b) The Corporation should take steps to set up within the ceilings referred to in (a) above two large cement plants, each of approx. one million tonnes per annum capacity. As soon as possible suitable locations for the plants shall be investigated *inter-alia* in the Jagdalpur Baster area and in Kothagudan area.

(c) The Corporation shall undertake (within the ceiling referred to in (a) above) the establishment of about six plants of smaller capacity, in lieu of schemes of private parties who are unable to implement their licences under the Industries (Development and Regulation) Act. The locations to be selected on economic considerations.

(d) The Corporation shall also extend such technical assistance to State Governments proposing to establish new cement plants in the Fourth Five Year Plan, as the Central Government may direct.

(e) The Corporation shall build up its strength of technical personnel quickly, if necessary by employing foreign experts for a limited period.

1.6. In their letter No. 9(156)-70-BPE(GMI), dated 3rd November, 1970, the Bureau of Public Enterprises asked all Government companies to formulate a statement of their objectives/obligations clearly and communicate the same to Government.

1.7. In the light of these instructions the Management was asked about the action taken by it to review and redefine the initial objectives laid down in May, 1965. In reply, it has been stated as under:—

"The initial objectives laid down in May 1965 were reviewed and implemented as changed and permitted by Government from time to time. The programmes and policies of the Corporation are intimated to the Government and are taken up for implementation as approved by Government. As directed by Government plants are being set up in deficit areas of Bokajan and Rajban. After the Government permitted establishment of plants in other areas, proposals were formulated and action is being taken to set up plants at other places. As approved by Government limestone investigation work is also being reviewed. Depending on the financial resources available from time to time, action is being taken to implement the programmes as approved by Government. A corporate plan for the next 10 years is also being drawn up for implementation in consultation with Government."

1.8. The Committee regret to note that even though the Bureau of Public Enterprises had asked all the Public Undertakings as far back as November, 1970 to formulate a statement of their objectives/obligations clearly and communicate the same to the Government and even though the need for formulating such a statement was reiterated in the 40th Report (5th Lok Sabha) of the Committee on Public Undertakings on Role and Achievements of Public Undertakings the CCI has not so far formulated its statement of objectives/obligations, except that it has only taken action to define the scope of work of the Corporation. The Committee recommend that the Corporation/Ministry should finalise the statement of objectives/obligations of CCI without any further delay and place it before Parliament.

II

SETTING UP CEMENT MANUFACTURING CAPACITY

A. Setting up of Capacity and Non-achievement

In May, 1965 Government issued the following directions to the Corporation in their letter dated 4th May, 1965:—

"(a) The target of cement manufacturing capacity to be set up by the Company should be 1.5 million tonnes by 1968-69 and an additional 3.5 million tonnes by 1970-71, thus creating a capacity of 5 million tonnes by the end of the Fourth Plan period.

(b) The Company should take steps to set up, within the ceilings referred to in (a) above, two very large cement plants, each of approx. 1 million tonnes per annum capacity as soon as possible; suitable locations for these plants to be investigated *inter alia* in the Jagadalpur, Bastar area and in the Kothangudam area.

(c) The Company shouldu ndertake, within the ceiling referred to in (a) above, the establishment of about six plants of smaller capacity in lieu of schemes of private parties who were unable to implement their licences under the Industries (Development and Regulation) Act; the locations to be selected on economic considerations.

(d) The Company should also extend such technical assistance to State Governments proposing to establish new cement plants in the Fourth Five Year Plan, as the Central Government may direct.

(e) The Company should build up its strength of technical personnel quickly, if necessary by employing foreign exporters for a limited period."

2.2. Just when the Corporation was taking preparatory steps towards the attainment of above objectives, Government decontrolled cement with effect from 1st January, 1966 and extended certain fiscal reliefs (*e.g.* 25 per cent tax free credit certificates for 5 years for production in excess of the level of 1964-65 and a price increase of Rs. 16 per tonne (including an element of Rs. 4 per tonne for expansion of capacity) to the industry, with the expectation that the private sector would put up additional capacity in a big way. The requirement of licence under the Industries (Development and Regulation) Act was also dispensed with from 13th May, 1966. In the meanwhile, recession set in and also there was a plan holiday resulting in a severe restriction in the Governmental expenditure on construction, etc. with its consequential effect in the off-take of cement by Government agencies.

2.3. Accordingly, it was felt by Government that the additional capacity to be set up in the public sector need not be on the same scale as was anticipated earlier. In the light of the changed circumstances, the Planning Commission suggested a reduction in the capital outlay of the Corporation during the Fourth Five Year Plan. In September, 1966 Government informed the Corporation that the Planning Commission had earmarked an investment of Rs. 25 crores (subsequently reduced to Rs. 23 crores) for the setting up of the capacity by the Company. As a result, the target of 5 million tonnes capacity was scaled down to 1.6 million tonnes in the first instance (September, 1966) and to 1.2 million tonnes subsequently (December, 1969). This outlay earmarked by the Planning Commission was considered by the Corporation just sufficient to set up a capacity of 1.2 million tonnes.

2.4. In July, 1967, Government decided that the Corporation should take the initiative to set up cement plants in the deficit areas, as the private sector was not expected to give its full cooperation in this regard.

2.5. In December, 1971 the Planning Commission, in the light of cement shortage in the country and the likely demand during the Fifth Five Year Plan, desired that the restrictions laid down on the Corporation to invest only in the deficit areas might be removed. In May, 1972, Government also estimated that the gap between the demand and production of cement would be of the order of 3 to 4 million tonnes by the end of March, 1974. Accordingly, Government decided in June, 1972 as follows:—

(a) Company should set up manufacturing plants in areas other than deficit areas also.

(b) It should provide technical and managerial assistance to State Government ventures for cement manufacture and also participate in equity, if necessary.

2.6. With effect from February, 1970, the cement industry was again brought within the purview of the licencing provision of the Industries (Development and Regulation) Act.

2.7. It will be seen from above that there was change in policy regarding role of the Corporation in the expansion of cement industry from time to time, with the result that no time bound programme for the setting up of capacity with complete details could be laid down and acted upon by the Corporation.

2.8. In the above background, the Corporation continued to submit from time to time proposals to the Government for permission to set up cement factories. The particulars of these proposals are tabulated below:—

Serial No.	Name of the Project	Annual capacity (in lakh tonnes)	Feasibility Report submitted to Govt. on	Proposal approved by Govt. on	Detailed Project Report submitted to Govt. on	Detailed Project Report approved by Govt. on	Remarks
1	2	3	4	5	6	7	8
1	Kurkunta (Karnataka) . .	2	March, 1966	June, 1966	January, 1967	June, 1969	Went into commercial production w.e.f. 1-10-1972.
2	Mandhar (Madhya Pradesh) .	2	March, 1966	November, 1968	January, 1967	June, 1969	Commissioned in July, 1970.
3	Neemuch (Madhya Pradesh) .	2	March, 1966	June, 1966	May, 1972		Government accepted in November, 1966 the proposal of the Company to earmark the Plant ordered for Neemuch for installation at Mandhar. Approved for inclusion in 5th Plan with a capacity of 4 lakh tonnes.
4	Jagdalpur (Madhya Pradesh)	2	June, 1967		..	..	..
5	Tandur (Andhra Pradesh) .	2	June, 1967		April, 1972	March, 1974	Approved for inclusion in 5th Plan with an enhanced capacity of 4 lakh tonnes.
6	Bokajan (Assam) .	2	January, 1968	April, 1969	October, 1969	May, 1971	Construction is in progress and scheduled to be completed by May, 1975.

1	2	3	4	5	6	7	8
7	Paonta (Himachal Pradesh) .	2	August, 1968		February, 1970	May, 1971	The Project is scheduled to be completed by October 1976. Construction of Camp Office godown, hutments, etc. completed in November 1972.
8	Yerraguntla (Andhra Pradesh) .	2	August, 1969		April, 1972	March, 1974	Approved for inclusion in 5th Plan with a capacity of 4 lakh tonnes.
9	Baruwala, Dehradun (Uttar Pradesh)	2	October, 1970				..
10	Akaltara (Madhya Pradesh)	2			May, 1972		Approved for inclusion in 5th Plan with a capacity of 6 lakh tonnes.
11	Adilabad (Andhra Pradesh) .	2			May, 1972	March, 1974	Approved for inclusion in 5th Plan with a capacity of 4 lakh tonnes.
12	Mandhar Expansion . .	2	..		February, 1971	March, 1972	Steps for implementation of the Project are being taken. Expected to be commissioned by December, 1976.

2.9. Out of the revised targeted capacity of 1.2 million tonnes to be achieved during Fourth Plan, only a capacity of 0.4 million tonnes had been installed by the Corporation so far at Mandhar and Kurkunta and no other project was commissioned by the end of Fourth Five Year Plan, *i.e.* March, 1974. The actual production achieved during that period was 3 lakh tonnes of cement per annum. The Corporation was thus far behind the revised projection 1.2 million tonnes envisaged in the Fourth Plan. It could not even realise its own expectation of December, 1969 of attaining production level of 4 lakh tonnes by March, 1971 and 6 lakh tonnes by March, 1974.

2.10. Explaining the reasons and circumstances for not achieving the target of 5 million tonnes during the Fourth Five Year Plan, as envisaged in the Detailed Project Report, the Chairman and Managing Director of the Corporation stated, during evidence, as under:—

> "When the Corporation was formed, it was aimed to put up cement factories in different parts of the country to a total capacity of five million tonnes. Unfortunately, there was a plan holiday in 1968 onwards and there was a recession in the general industry and so there was not much demand for the cement and as regards the cement that was available, there was no sufficient market available for that. Then the Government advised us to go slow and instead of five million tonnes, they asked us to set up two cement factories at that time, one at Mandhar and other in Kurkunta, each of two lakhs tonnes of capacity. At that time, it was thought that there was not much demand and also the availability of funds was very tight, hence the Corporation was asked to go slow with the projects."

2.11. Asked whether the target of creating a capacity of 5 million tonnes by the end of the Fourth Plan was fixed in consultation with the Corporation, the Chairman and Managing Director stated:—

> "Normally, the Government fixes the targets in consultation with the Cement Corporation. Suppose, in the 5th Five Year Plan, the targets fixed were about 3.1 million tonnes. Now, we have got funds to put up three cement factories only with the total capacity of 1.4 million tonnes as against 3.2 million tonnes. But we do not have funds for putting up more factories. This must have happened earlier also. Earlier the targets were fixed, but we did not take steps to put up more factories, because the funds were not available."

2.12. Asked about the reasons for non-attainment even of the reduced capacity of 1.2 million tonnes during the Fourth Plan period with the financial allocation of Rs. 23 crores, the Management informed the Committee in a written reply that 'after clearing the two projects *viz.*, Mandhar and Kurkunta, each with a capacity of two lakh tonnes, the Corporation was advised by the Government to go slow with its projects. It was further explained as under:—

> "In March, 1966, the Corporation with a view to initiate building capacity production of 0.8 million tonnes, sent up proposal for setting up cement plants at 4 sites, each of the capacity of 2 lakh tonnes per annum. The Government of India conveyed sanction for setting up two cement plants of two lakhs tonnes capacity each. These two plants have gone into production. Subsequently Government emphasised that CCI should concentrate on creating capacity in deficit areas during IV Plan period. In line with this, the Corporation submitted proposals for setting up cement plants one at Bokajan (Assam) and the other at Paonta (H.P.) each of the capacity of 2 lakh tonnes per annum. Government also cenveyed sanction for the expansion of Mandhar Project to manufacture Blast Furnance Slag Cement of capacity of 1.8 lakh tonnes for utilising Bhilai slag, a waste material from Steel Plant. The Bokajan Project is under erection and for Mandhar expansion and Paonta Projects orders for machineries have been placed and the preliminary civil construction have been taken in hand. Since there was no other site available with CCI in deficit areas, Corporation could not go ahead with the implementation of the programme of setting up new capacity."

2.13. Asked for the reasons for not realising even its own expectation of December, 1969 of attaining production level of 4 lakh tonnes by March, 1971 and 6 lakh tonnes by March, 1974, the Management stated in a written reply that the Kurkunta cement project had taken more than the normal lead time due to late delivery of Plant and machinery and rectification work of the defective machinery. The Corporation, therefore, could not attain the capacity of 4 lakh tonnes in the two projects by 1971. Due to the activities for liberation of Bangladesh, the transport bottleneck for movement of machinery had caused delay in attaining additional 2 lakh tonnes capacity by 1974.

2.14. Explaining the reasons for the scaling down of the target of 5 million tonnes to 1.2 million tonnes and non-achievement of the revised capacity, the representative of the Ministry of Industry and Civil Supplies stated as under:—

"There was a meeting of the Cabinet sub-Committee in December, 1964 where broadly atarget of 5 million tonnes was envisaged. It was stated that two very large cement plants, each of one million tonnes capacity may be established and the rest of smaller capacity with a total capacity of 3 million tonnes so that a total 5 million tonnes of capacity may be made available through public sector corporation. This decision was also communicated in May, 1965 to the CCI. Thereafter certain developments took place. One was, in the month of November, 1965, some discussions took place between the Planning Commission and our Ministry where it was pointed out that it would not be possible at that stage to set up plants with a capacity of one million tonnes each. The maximum that we can have is 4-5 lakh tonnes capacity.

* * * *

We found that in the ultimate analysis, the total allocation made for the Cement Corporation of India was Rs 23 crores and with this Rs. 23 crores, at most a traget of 1.2 million tonnes could be sustained. But, thereafter, on 1st January, 1966 cement was delicensed. When this decision to delicense the cement industry was taken, it was felt that there would be a spurt in private investment—that private investors would come into operation and put up cement plants, and therefore the load to be taken up by the public sector corporation would be correspondingly reduced. Therefore, this conscious decision was taken at that time that the public sector corporation should concentrate only on deficit areas, where generally, the privote sector was not likely to establish plants. Based on their surveys and feasibility studies the CCI submitted feasibility reports about several sites to the Government beginnig from March, 1966. The reports relating to Kurkunta and Mandhar were accepted in 1966 and further action in respect of those projects continued inspite of the decision to confine the future activities of the CCI only to deficit areas. Of the remaining places suggested for projects only Bokajan and Paonta happened to be in deficit zones. Action was taken only on the reports relating to these two places and action in respect of the remaining places remained suspended. Thus, though even the revised target of the CCI was 1.2 million tonnes, adequate number of projects could not be taken in hand to achieve this target."

2.15. Asked about the reasons for taking a decision to delicense the cement industry in January, 1966, the Additional Secretary of the Ministry explained that 'in 1966, after two years of drought, the funds of the Government were somewhat limited and therefore it was felt that as much of the investment required for the cement industry as possible should come from the private sector. With that end in view, the cement industry was delicensed so that the private sector could go and set up plants throughout the country. It was also felt, he stated, that the target of the Cement Corporation should be scaled down too and that the private sector should be allowed to come in and take its place.'

2.16. The restriction imposed on the Cement Corporation in July, 1967 to confine only to deficit areas was withdrawn in May, 1972.

2.17. When enquired about the reasons for withdrawing the restriction, the Addl. Secretary of the Ministry stated that even though the Cement industry was delicensed in 1966, the expected investment in the private sector did not materialise. As such, Government felt that having given the private industry every chance, it was time to take that limitation away and try and get the Cement Corporation organise and gear themselves to build up as many cement plants as possible, within the resources of Government.

2.18. Asked as to why this decision with regard to the CCI going only to the deficit areas was revised only in the year 1972 and why it was not revised earlier in 1970, when it was found that the private sector was not coming up as expected and there was acute shortage of cement in the country, the Additional Secretary of the Ministry stated as under:—

> 'In the year 1970, although the costs were quite high, they had not escalated to the present order. At that point of time it may have been a wrong decision on the part of the Government."

2.19 The Committee note that the Cement Corporation of India (CCI) was set up in 1965 to create cement manufacturing capacity of 5 million tonnes by the end of 4th Plan by setting up two very large cement plants of one million tonne capacity each and the remaining plants of smaller capacity. Just when the Corporation was taking preparatory steps towards the attainment of the capacity, Government decontrolled cement w.e.f. 1st January, 1966 and extended certain fiscal reliefs to the industry and later on delicensed the cement industry w.e.f. May, 1966. In the anticipation that the private sector would, in the changed circumstances, put up additional capacity in a big way, the target set for the CCI was scaled down from 5 million tonnes to 1.6 million tonnes in the first instance and then to 1.2 million tonnes and an outlay of Rs. 23 crores was earmarked for the CCI for the purpose. Subsequently in July 1967 Government asked the CCI to set up cement plants in the deficit areas only as the private sector was not expected to give its full cooperation in this regard, but in June 1972 the restriction laid down for the CCI to invest only in the deficit areas was removed as it was found that the private sector was not coming up as expected and there was acute shortage of cement in the country. After clearing two projects, viz., Mandhar and Kurkunta, each with a capacity of 2 lakh tonnes, the Corporation was advised by the Government to go slow with its projects. The Committee find that in the short span of time between 1965 and 1972 the policy of the Government in regard to the role of CCI changed rather frequently with the result that no time bound programme for setting up of capacity with complete details could be laid down and acted upon by the Corporation. The Committee are unhappy at the lack of planning and the inconsistency displayed by the Government in this respect and feel that the role and targets set for a public sector organisation should be worked out after great thought and care taking into account the demand of the product availability of technical and financial resources etc. and once these are worked out and communicated to the undertaking, frequent changes therein should be avoided to enable it to concentrate its energies on the fulfilment of its role and to formulate concrete time bound schemes to achieve the targets.

2.20 The Committee regret to note that the Government delicensed the cement industry with effect from May, 1966 in the anticipation that the private sector would put up additional capacity in a big way, and scaled down the target of the CCI from 5 million tonnes to 1.6 million tonnes and reduced it further to 1.2 million tonnes.

The Committee are also surprised at the decision of the Government in July, 1967 to restrict the CCI to set up cement plants only

in the deficit areas and allowing the private sector to have the benefit of developing the industry in the more profitable areas. The Committee regret that it took five years for Government to remove this restriction.

2.21 The Committee feel that even when a decision was taken in February, 1970 to bring the cement industry under the purview of the licensing of provisions, of the industries (Development and Regulation) Act, the Government had an opportunity of reviewing their earlier decision restricting the activities of CCI to deficit areas and could have rectified the position and gone ahead with the implementation of their schemes. But it took more than two years for Government to remedy the situation and withdraw their earlier order. As admitted by the reprssentative of the Ministry, 'at that point of time it might have been a wrong decision on the part of Government.'

The Committee also feel that it should not have been difficult for Government to foresee that with only two projects in the deficit areas and the capacity already taken up, the maximum capacity that could be developed would only be 8 lakh tonnes against the target of 1.2 million tonnes.

2.22 Even against the reduced target of 1.2 million tonnes a capacity of 0.4 million tonnes only could be installed by March, 1974 and other project was scheduled to be commissioned by the end of Fourth Plan. The Corporation was thus far behind the revised projection of 1.2 million tonnes envisaged in the Fourth Plan nor could it realise its own expectation of December, 1969 of attaining production level of 4 lakh tonnes by March, 1971 and 6 lakh tonnes by March, 1974. The Committee have given separate recommendation in regard to non-attainment of the capacity elsewhere in the Report.

2.23 The Committee regret to observe that because of frequent changes in the decisions, and placing of the restrictions, for an unduly long period, on the Cement Corporation for putting up Cement Plants only in the deficit areas, valuable time was lost in developing the cement capacity in the Public Sector in the country with the result that shortage of cement persist.

B. Delay in setting up of Cement Plants

2.24 Delay in setting up of Cement plants by the Corporation had led to a substantial increase in the capital outlays, as per particulars given below:—

(Rs. in crores)

Project	Investment as per: Feasibility Report	Investment as per: Detailed Project Report	Original estimates as approved by Govt.	Revised estimates as approved by Govt.
Mandhar	3·78 (March'66)	4.65 (Jan. '67)	4·52	4·90
Kurkunta	3·78 (March'66)	4·69 (Jan. '67)	4·43	5·14*
Bokajan	8·32 (Jan. '68)	11·26 (Oct.'69)	10·98	10·98 (Estimate not revised so far)
Paonta	6·08 (Aug. '68)	7·61 (Feb., '70)	7·61	11·78
Mandhar Expansion	2·11 (No. F.R. prepared)	2·18 (Feb. '71)	2·11	4·12

*Actual expenditure has already exceeded this figure.

Revised estimates for Rs. 617·08 lakhs were sent to Govt. in July, 1974 for which approval is awaited.

2.25. The Committee were informed that after approval of Detailed Project Report and financial sanction accorded, based on indigenous castings and H.T. Motors, a plant could be set up in 4½ years to 5 years time. The time taken/expected to be taken for setting up the following cement plants of the Corporation were as follows:—

Mandhar	49 months
Kurkunta	75 months
Bokajan	60 months
Paonta	57 months

2.26. Asked whether it was possible to cut down the overall period for setting up of a plant in future, the Management stated in a written reply that if long delivery items such as Girth Gears and pinions, Discharge Head, Feed End Head, Discharge End Trunion Liner, Live Rings, H.T. Motors, etc. were allowed to be imported, it was possible to cut down the period of setting up the plant to 3½ years to 4½ years time.

2.27. Asked for the reasons for taking more than the normal lead time and delay in setting up of these projects with reference to their own projections initially framed, and whether the cost over-run was caused by such delays, the Management informed the Committee that Mandhar Cement Project had taken a normal lead time of 48 months and there was no cost over-run. Kurkunta Cement Project had taken more than the normal lead time (i.e., more than a year) and there was cost over-run due to late delivery of plant and machinery and prolonged teething trouble. In case of Bokajan, the delay was due to transport bottlenecks, receipt of casting and power cut in manufacturer's workshop. In case of Paonta and Mandhar Expansion, it was stated that the position could not be indicated at this stage.

2.28. The CCI, however, stated that for monitoring purposes a cell had been set up and effective action for timely completion was being pursued vigorously.

2.29. Asked to what extent the supply of indigenous plant and machinery contributed to the higher capital outlay or delay in completion of projects, the Management stated as under:—

> "To our knowledge, imported machinery with customs duty and ocean freight by and large costs the same as compared to indigenous machinery. By importing certain long delivery items; there is likely to be saving in the time of completion of the project."

2.30. Explaining the reasons for delay in setting up the Cement plants in the past and the remedial steps taken for the future, the representative of the Ministry stated during evidence that there have been delays in the past due to lack of experience, but in future we will go on systematic basis. He added:—

> "We are certainly trying to see that in future either these delays are eliminated or kept to the minimum by having at the plant level and at the Board level a monitoring organisation. Instead of delaying the sanction, right in the first year of the Fifth Plan. We should issue sanction. We felt that other things can be tided over. But there are certain critical components, critical machineries. These are long delivery items. If there is any delay in their delivery, then the whole project will not come through. We have isolated these items and advance orders for the plants and equipments have been placed.

> We have worked out the detailed net work as to what will be the responsibility of the Manager of the Corporation and of the Government. We check it up quarterly so that

there may not be any slackness anywhere and if there is any we try to attack that problem."

2.31. Asked as to how the Ministry kept a watch on the progress made in the setting up of the cement plants to ensure that there was no avoidable delay in the installation of the plants, the Ministry in a written note stated as under:

"Quarterly reports about the project under construction and other periodical reports are being obtained from the Management. In addition to the expenditure, these reports also indicate the physical progress achieved. The progress is discussed in various meetings with the officers of the Company and also in the Board meetings in which the representatives of the Government are present."

2.32 The Committee note that due to delay in setting up of cement plants by the Corporation, there has been a substantial increase in the capital outlay. In the case of Mandhar, while according to the feasibility report of March, 1966, the cost was Rs. 3.78 crores, in the Detailed Project Report of January, 1967, the cost was estimated at Rs. 4.65 crores i.e. an increase of Rs. 0.87 crore. Similarly, in the case of Kurkunta, the increase in cost was from Rs. 3.78 crores in March, 1966 to Rs. 4.69 crores in January, 1967 almost a crore of Rupees. In the case of Bokajan, the cost increase was from Rs. 8.32 crores in January, 1968 to Rs. 11.26 crores in October, 1969. In the case of Paonta, the increase was from Rs. 6.08 crores in August, 1968 to Rs. 7.61 crores in February, 1970.

2.33 The Committee understand that a plant with indigenous castings normally takes 4½ to 5 years time for being set up after the approval of the Detailed Project Report and financial sanction. The time could, however, be reduced only if certain critical parts and equipments are allowed to be imported.

2.34. The Committee were informed that while the Mandhar plant had taken normal lead time of 48 months, in the case of Kurkunta, the lead time was more than the normal lead time by over one year and there was cost over run due to late delivery of plant and machinery and prolonged teething trouble. In the case of Bokajan, there have been delays due to transport bottlenecks, delay in receipt of castings, power shortage etc. In the case of Paonta and Mandhar Expansion, it was stated that the position could not be indicated at this stage. Lack of experience was also stated to be as one of the reasons for the delay. The Committee were assured that

the delays in future will be eliminated or kept to the minimum through a monitoring organisation. The Committee were also informed that advance action has been taken to procure critical equipments, components and machinery which are long delivery items in respect of new projects and a system of PERT has already been introduced to work out the responsibility of the Corporation and that of the Government.

2.35. The Committee feel that it should be possible for Government/Corporation to reduce the lead time for setting up the plant after approval of the DPR and financial sanction by proper planning procurement of equipment and adherence to schedules which should be monitored through a system of PERT/critical path and other management techniques. The Committee would also like Government to investigate the causes for the abnormal increase in the lead time in regard to Kurkunta and Bokajan plants so that suitable action to arrest the delays is taken. The Committee recommend that Government should draw lessons from their experience so that they may guard against such delays in the future plants being set-up.

C. Setting up of Cement manufacturing capacity in the Deficit Areas

1.36 According to the Feasibility Report for Adilabad (A.P.) Project, the Corporation had estimated the following surplus(+)/deficit (—) of cement with reference to the production and demand in the various zones of the country during 1971 to 1978

(In million tonnes)

Zones	1971	1972	1973	1974	1975	1976	1977	1978
East	(+)0·274	(—)0·826	(—)0·513	(—)0·623	(—)0·872	(—)0·122	(—)0·512	(—)0·896
North .	(—)1.388	(—)2.664	(—)3.094	(—)3.829	(—)4.385	(—)3.486	(—)3.615	(—)4.164
West .	(+)0·689	(—)0·464	(—)0·381	(—)0·533	(—)6·877	(—)1·531	(—)2·266	(—)2·584
South . .	(+)2·033	(+)0·946	(+)1·074	(+)0·572	(+)0·013	(—)0·424	(—)1·119	(—)1·678
	(+)1·608	(—)3·008	(—)2·914	(—)4·413	(—)6·121	(—)5·563	(—)7·512	(—)0·322

NOTE.—Figures for 1971 ond 1972 are based on actuals.

2.37. It will be seen from the above that the deficit in Northern zone has been the highest in the past.

2.38. Although the need to put up cement factories in the deficit areas was considered to be urgent in July, 1967, no plant in the deficit areas has come up so far Bokajan (Eastern Region) and Paonta (Northern Region) projects are still under erection/construction.

2.39. In this connection the Planning Commission at their meeting held on 26th October, 1968 emphasised the need for setting up cement plants in deficit areas as follows:—

> "Irrespective of the final targets that might be decided, there would be areas in which for obvious reasons, the private sector would not be forthcoming to set up cement projects. In particular there was need for setting up cement projects in the northern region for meeting the requirements of Punjab, Himachal Pradesh and Jammu and Kashmir and in the eastern region for meeting the requirements of Assam and neighbouring areas. The Planning Commission would therefore consider that the establishment of cement plants to meet these deficits in such regions would be appropriate."

2.40. Asked about the difficulties in setting up capacity in the deficit areas and steps being taken to solve those difficulties, the Management stated in a written reply that 'by and large' in the northern and eastern deficit areas, there are not many known favourable States where cement plants could be set up. Therefore a proposal has been made to revive Limestone Investigation Division to locate potential sites positively in deficit northern and eastern regions to be taken up in Sixth and subsequent plants.

2.41. In this connection, the representative of the Ministry stated during evidence as under:—

> Limestone deposits are not uniform. Therefore, certain areas have become deficit because rich limestone deposits are not there. We have to tackle this problem in various ways. It so happens that steel plants are located in those areas. Slag comes out of the steel plants. If it granulated, that can be mixed with clinker. Our anxiety now is that in these deficit areas where the slag is available from the steel plants, that must be granulated and mixed with the clinker in the ratio of 50 : 50. That is one line of approach which we are adopting in order to tackle this problem of deficit. For Aklatara project, we want to

utilise Rourkela slag. Bhilai slag is being used for Mandhar Expansion. We can meet the demand by utilising slag."

2.42. The witness further stated that the eastern and northern zones had been perpetually deficit for the last 15 years and western and sourthern zones had been perpetually surplus. It was in the deficit areas that they wanted to encourage slag utilisation.

2.43 The Committee are informed that the Northern and Eastern Regions had been deficit for the last 15 years and there are not many known favourable sites in these regions where cement plants could be set up. The Corporation is therefore proposing to revive the Limestone Investigation Division to locate beneficial sites in the deficit northern and eastern regions to be taken up in the Sixth and subsequent Plans. Since limestone deposits are not uniform, Government propose to tackle this problem by utilising the slag coming out of the steel plants. Although the need to put up cement factories in the deficit areas was considered to be urgent even as early as July, 1967 no plants in the deficit area have come up so far. Bokajan in the eastern region and Paonta in the northern region are still under erection/construction.

2.44. The Committee regret to observe the absence of an advance action in the matter of planning project in the deficit areas, where necessary, by linking these with the slag from the steel plants. The Committee also feel that the Limestone Investigation Division should have been utilised much earlier to locate Limestone deposits in these regions.

The Committee expect that at least now Government should view this with concern and take immediate and definite steps to set up cement capacities in the deficit areas of northern and eastern regions.

2.45 The Committee also note that the western region is also becoming deficit and according to the projections of the Fifth Plan, the deficit would be of the order of 1 million tonnes by 1978-79, 1.3 million tonnes in 1979-80 and 1.8 million tonnes by 1980-81. The Committee recommend that Corporation should lose no time to take advance action for locating the areas and setting up the capacities in the western region also so that it may not face the same situation as in the northern and in the eastern regions.

D. Setting up of Plants of Higher Capacity

2.46. One of the objectives mentioned in the Ministry's letter of 4th May, 1965 was that the Corporation should take steps to set up two very large cement plants, each of approximately one million tonnes per annum capacity. Locations for these plants were to be investigated *inter alia* in Jagdalpur in Bastar area and Kothangundam area. The Corporation has not so far set up a plant of one million tones capacity either at the sites mentioned in the Ministry's letter or any other site.

2.47. In this conection, the Management stated (March, 1974), as follows:—

(i) "Since the setting up of one million tonnes plant would have required higher quantum of foreign exchange or otherwise perhaps the entire plant would have to be imported, the Corporation decided to go for setting up number of standard plants of 600 tonnes per day capacity."

(ii) "The main constraints for setting up cement plants of higher capacity are indigenous production of larger castings and transport of O.D.C. components."

2.48. During evidence, the Chairman and Managing Director informed the Committee that the present standard size of the Plant was 1,200 tonnes per day capacity as against 600 tonnes in the past. In foreign countries it was 3,000—4,000 tonnes, minimum was 2,000 tonnes.

He stated, 'In India, we have constraints, particularly the railway lines cannot take over-size dimensioned parts from the manufacturers workshops to the factory site. At present it is severally restricted to 1,200 tonnes in India. If the railways are in a position to transport much bigger sized machinery, this may go up'.

2.49. In a subsequent written reply, the Management stated as under:—

"Earlier in order to develop indigenous capacity of production of cement plant, 600 tonnes per day plants were standardised. Recently it has been decided by CCI to establish cement plants of 1,200 tonnes per day capacity (which would mean 4 lakh tonnes capacity per year and all the proposal of 5th Five Year Plan period are based on 1,200 tonnes per day capacity. Government of India has set up a panel under NCST programme to evaluate the possibility of setting up cement plants of 2,000 TPD capacity and to that extent to develop the facilities of technical know-how in the country to manufacture such plants and also to study indigenous production like larger castings, larger gear boxes and also transport problems of ODC components connected with 2,000 tonnes PD capacity plant. CCI is playing an important role in this development. The report of the PCST is awaited."

2.50. In this connection, the Addl. Secretary of the Ministry stated during evidence as under:—

"In foreign countries, large size Plants are being set up for economic reasons. One of the thoughts was to investigate the possibility of setting up such plants here. One of the problems here is that we do not have the transportation capacity to carry such very large and heavy size plant and equipment to the site. One of the limitations is technology, but even that can be got over. Somebody can say that we can import the equipment. But the problem would be that it would not be possible to transport the same to the site. These are some of the practical problems for which it has not been possible to go in for one million tonnes capacity by this point of time."

2.51. The representative of the Ministry, informed that one plant had been established with 1,500 tones per day in the private sector. He, however, stated that the Cement Research Institute was carrying out research whether 'we can go upto 2,000 tonnes per day.'

2.52. The Committee note that the Government had issued a directive in 1965 that the Corporation should take steps to set up two very large cement plants each of one million tonne capacity per annum. They were informed that there were certain practical difficulties in the setting up of such large size plants and in view of these difficulties the Corporation decided to go in for setting up a number of standard size plants of smaller capacity. The Committee are surprised to note that the Government chose to issue a directive which turned out to be impracticable and which had to be modified later on in view of certain constraints of which Govt. ought to have been aware at the time of issuing the directive.

2.53. The Committee were informed that, as against the maximum capacity of 1200 tonnes per day designed so far by the CCI for its plants, a plant in a private sector has already been established with a capacity of 1500 tonnes per day. They would like the CCI to study as to how the private sector plant of such a high capacity could be set up in the fact of constraints which are stated to have been standing in the way of CCI going in for plants of a capacity higher than 1200 tonnes per day and draw lessons therefrom.

2.54 Cement industry being one of the oldest industries, the Committee feel that Government should have standardised their cement

plants according to economy of scale and utilised the capacity available in the country for machinery manufacture to produce equipment required for cement plant in the public sector. In this context, Government should have also examined the feasibility of utilising the unutilised capacity of MAMC, HMT and HEC for the manufacture of cement plants.

2.55. The Committee find that the Government have already set up a panel under NCST programme to evaluate the possibility of setting up of cement plants of 2000 tonnes per day capacity and to that extent to develop the facilities of technical know-how in the country to manufacture such plants and also to undertake feasibility study of indigenous production like larger castings, larger gear boxes and also transport problems of ODC components connected with 2000 tonnes per day capacity plant. It has been stated that the report of the NCST is awaited. The Committee recommend that as soon as the report is received, Government should work out the economics of setting up plants of 2000 tonnes per day capacity vis-a-vis plants of 1000 to 1200 tonnes per day now proposed by CCI and take a decision about standardising the capacities of the plants and machinery required therefor.

E. Fifth Five Year Plan Projects

2.56. In the 5th Five Year Plan proposals submitted to Government in April, 1973, the Corporation included the following projects involving an estimated outlay of Rs. 136.60 crores.

	Name of the Project	Capacity envisaged
1.	Akaltara (M.P.)	6 lakh tonnes
2.	Baruwala (U.P.)	4 ,, ,,
3.	Yerraguntla (A.P.)	4 ,, ,,
4.	Neemuch (M.P.)	4 ,, ,,
5.	Tandur (A.P.)	4 ,, ,,
6.	Adilabad (A.P.)	4 ,, ,,
7.	Kurkunta Expansion (Karnatak)	4 ,, ,,
8.	Kivarli (Rajasthan)	4 ,, ,,
	TOTAL :	34 ,, ,,

2.57. The Management stated (November, 1973) as follows:—

"The task Force set up by Government of India identified that 12 million tonnes of cement capacity is to be added in the 5th Plan period. As a sequel to this, in May, 1973 after discussion with Ministry of Industrial Development and Planning Commission, an exercise was made on bringing up projects under crash programme during Fifth Plan period. According to the revised proposal (i) CCI is to put up 6 new projects, viz., Akaltara, Yerraguntla, Neemuch, Tandur, Adilabad and Kurkunta Expansion with a total capacity of 26 lakh tonnes at an estimated cost of Rs. 97.96 crores, (ii) CCI will complete three projects presently under implementation by 1975-76 adding to the existing capacity by 5.8 lakh tonnes."

2.58. Thus the total capacity set up and to be set by the Corporation up to the end of 5th Five Year Plan will be 35.8 lakh tonnes as per details given below:—

Project	Capacity	
Mandhar	2 lakhs tonnes	Already set up.
Kurkunta	2 ,, ,,	
Bokanjan (Assam)	2 ,, ,,	Under implementation.
Paonta (H.P.)	2 ,, ,,	
Mandhar Expansion	1.8 ,,	
Akaltara	6 ,, ,,	Proposed to be set up in VTH Plan period
Yerraguntla	4 ,, ,,	
Neemuch	4 ,, ,,	
Tandur	4 ,, ,,	
Adilabad	4 ,, ,,	
Kurkunta Expansion	4 ,, ,,	
TOTAL	35·8 ,	

2.59. The date of completion of each of the projects which the Corporation had proposed to be set up during the Fifth Five Year Plan period is stated as under:—

Project	Date of completion
1. Akaltara	May, 1978
2. Yerraguntla	Jan., 1979
3. Neemuch	Sept., 1978
4. Tandur	Not known
5. Adilabad	Not known.
6. Kurkunta Expansion	.

2.60. As regards the progress made in the implementation of those projects and whether any shortfall in the capacity in the Fifth Plan was anticipated, the Management informed in a written reply

that out of six projects listed, the project estimates for Tandur, Yerraguntla, Akaltara and Adilabad had been approved by the Government. The project estimates for Neemuch was under consideration of the Government.

2.61. As regards expansion of the Kurkunta project, it was stated that there had been continuous power cut in the Karnataka State and the production of the Kurkunta factory had been affected by this power cut. In view of the assessment of the Central Water and Power Commission that this power cut was likely to continue during the 5th Five Year Plan period in the Karnataka State, the Board of Directors of the Company had decided that the preparation of the Detailed Project Report need not be taken up for the present.

2.62. As against 4 project estimates approved by the Government and the 5th pending consideration with the Government, the Corporation had placed orders for main plant and machinery for 3 projects. In view of the financial stringency and tight funds position, the Government decided that orders may be placed for 3 plants. The question of placing orders for the other 2 projects was under consideration in consultation with the Ministry of Finance. It was further stated that action will be taken to set up this capacity during the Fifth Plan period. But it was likely that actual production in some units may commence towards the end of the Fifth Plan or the beginning of the Sixth Plan.

2.63. The demand projections for the requirements of cement during Fifth Plan period, zone-wise, are given in Appendix I.

2.64. The representative of the Ministry informed the Committee during evidence that although the Fifth Plan had just started, right in the first year, Government had sanctioned all the five projects sent by the Corporation except one (in respect of which only the formalities remained) and advance orders for equipment had also been placed for three projects.

2.65. The Committee note that the Task Force set up by the Government of India identified that 12 million tonnes of cement capacity was to be added in the Fifth Plan period. As a sequal to this in May, 1973 after the discussion with the Ministry of Industrial Development and Planning Commission, an exercise was made on bringing up projects under crash programme during the Fifth Five Year Plan. According to the revised proposal, the Corporation is to put up six new projects—Akaltara, Yarraguntala, Neemuch, Tandur, Adilabad and Kurkunta Expansion with a total capacity of 26 lakhs tonnes at an estimated cost of Rs. 98 crores. Thus, the total capacity set up and to be set up by the Corporation at the end of the Fifth Plan will be 35.8 lakhs tonnes. Of those, project estimates

of four plants (viz. Tandur, Yerranguntla, Akaltara and Adilabad) have already been approved and those of Neemuch are under the consideration of the Government. The preparation of detailed project report in respect of the sixth plant (viz. Kurkunta Expansion) has not been taken for the present in view of the power shortage in Karnataka State which is considered likely to continue during the 5th Plan period. The Committee feel that the estimates for all the projects which are to be implemented in the Fifth Plan should have been ready after the economic viability of the projects had been examined by Government.

The Committee feel that, on the assumption of power shortage in Karnataka State, the postponement of Kurkunta expansion project is unfortunate. They would like the Corporation/Government to take up the question of supply of power for their Kurkunta expansion project with the State Government at a high level with a view to finding out a solution thereto and go ahead with the Kurkunta expansion programme.

2.66. The Committee expect that the estimates in respect of the sixth project Kurkunta expansion would also be approved by Government soon and be available for operation before the project is taken up for implementation. The postponement of Kurkunta Expansion Project will have the effect of scaling down the targets set for the Fifth Plan. The Committee recommend that this should be avoided to prevent the gap between the demand and supply of cement becoming wider to the detriment of construction activity.

2.67. The Committee note that while the dates of completion have been proposed only in the case of three of the Five plants, the dates in respect of Tandur and Adilabad have not yet been indicated. The Committee are not clear as to why the target dates for the completion of these two projects have not been finalised especially as project have not been framed, especially as project estimates for these projects have already been approved by Government. The Committee expect that the Government/Corporation should work out the realistic target dates for the completion of the projects and ensure that these dates are adhered to so that the targets set for the 5th Plan may be realised. The Committee also note that, out of the five projects which have been approved, the Corporation had placed orders for the main plant and machinery for three projects and the question of placing orders for the remaining two is stated to be under consideration in consultation with the Ministry of Finance. The Committee recommend that the progress in respect of the supplies of the machinery for these projects should be monitored to ensure that there is no slippage in the schedule of supplies resulting in delay in the completion of the projects.

III

SURVEY, PROSPECTING AND PROVING OF CEMENT GRADE LIMESTONE DEPOSITS

A. Lime-stone Investigation Division

3.1. For achieving the target of 5 million tonnes capacity by 1970-71, the Corporation assesssed in March, 1965 that it should have at least 12 manufacturing plants of 0.2 to 0.4 million tonnes capacity each and two plants of a million tonnes each. Since the task was huge and was to be achieved within a short period, it was decided (April, 1965) to invoke the assistance of the Associated Cement Companies, the Geological Survey of India and the Indian Bureau of Mines for proving of lime-stone deposits in addition to setting up a Lime-stone Investigation Division within the organisation.

3.2. While negotiations were started with the Associated Cement Companies and the Geological Survey of India in June-July, 1965, the Limestone Investigation Division (LID), of the Corporation was set up in April, 1965 by taking over the Lime-stone Investigation Division of the Hindustan Steel Limited, which had 12 drills and connected accessories and 135 personnel. As these were not considered adequate, it was decided in July, 1965 to add 6 more drills along with the complementary staff so that investigations could be carried out simultaneously at 6 sites. Accordingly, 6 drills and other equipment costing Rs. 6.89 lakhs were bought between October, 1965 and April, 1966. By February, 1966 investigations had been started at 6 different sites in addition Geological Survey of India had been entrusted with the job of investigation of lime-stone deposits at Paonta. After some preliminary work had been done at Chittorgarh and Kotah by ACC it was decided not to entrust any major investigation work to the ACC. No work was finally entrusted to the Indian Bureau of Mines.

3.3. In view of the delicencing of cement industry with effect from May, 1966 and other related developments the Corporation decided (July, 1966) to reduce the site investigation work from 6 sites to 3 sites at a time after March, 1967, by which date the lime-stone investigation programme for the Fourth Five Year Plan had been nearly completed. In November, 1967, the scope of the Lime-stone Investigation Division was again reviewed by the Board of Directors. By this time, the Corporation had prospected for cement grade lime-stone at 12 sites (including 46.33 million tonnes at one site investigated by the G.S.I.) and the invesigation work at 3 other sites was on hand. As a result of the investigation of 12 sites, a total reserve of 1,074.33 million tonnes (898.33 million tonnes 'proved reserve' and 176 million tonnes indicated reserve), was established.

3.4. The Board felt that Corporation had done sufficient limestone investigation for the projects it was likely to set up in the near future. As any further investigation in terms of the directives issued by Government under Article 144 of the Articles of Association was considered only in the larger interest of the cement industry and not connected with the needs of the Corporation, it informed (December, 1967) the Ministry as follows:—

(i) With the tentative provision of Rs. 25 crores (subsequently reduced to Rs. 23 crores) earmarked for the Company in Fourth Five Year Plan, the Company could at best set up 5 or 6 plants capable of producing one million tonnes of cement. To enable setting up these five plants, the Company would require proved deposits of about 75 million tonnes of lime-stone. As against this, deposits of 898.33 million tonnes already proved by the Company were far in excess of the requirement.

(ii) The prospecting and proving of the resources of limestone was done in pursuance of Government's directives of 4th May, 1965 and also because the Company was given to understand that the prospecting of lime-stone should be not only for its own use but also for putting the knowledge thus gained to commercial use by placing it at the disposal of private sector. The Company, therefore, wanted a directive from the Government as to whether to continue further lime-stone investigation and whether Government would be prepared to subsidise the expenditure on such investigation.

3.5. In January, 1968, Government directed the Corporation to maintain a skelton Investigation Division capable of conducting investigation at the rate one site a year. When this decision was received, the Corporation had already completed investigation of 12 sites (including one site investigated by GSI) and investigations at these locations were completed in April, 1968, June 1968, and July, 1969 respectively.

3.6. After the receipt of Government direction of January, 1968, only one site (Maihar in Madhya Pradesh) was selected by the Corporation for detailed prospecting in January, 1968. The prospecting work at this site was commenced on 21st November, 1972 and abandoned on 7th February, 1973 after incurring an expenditure of Rs. 11,747 (excluding depreciation and Head Office over-heads), as the investigation indicated a high quantity of over-burden and low percentage of lime.

3.7. Appendix II incorporates the details of the sites investigated, quantity of lime-stone proved and indicated and the expenditure incurred in respect of each site investigated by the Corporation (including one site investigated by the Geological Survey of India).

3.8. The Management informed the Committee that by 31st March, 1969 the Limestone Investigation Division which had a strength of 52 persons, was in the process of being wound up. At that time there was only one site under investigation and the staff working in this division was reduced by absorbing them in the headquarters and in the plants of the Corporation. As such there was no limestone investigation division at the end of 31st March, 1970 or later.

Utilisation of the proved reserves of lime-stone

3.9. Out of 14 sites investigated and proved for its own projects, the Corporation has already set up plants at 2 sites (Mandhar in Madhya Pradesh) and Kurukunta in Karnatak State). The construction work on 2 other sites (Paonta in Himachal Pradesh and Bokajan in Assam) is in progress. Setting up of 8 projects at the following sites had been proposed to Government in April, 1973:—

(1) Akaltara (Madhya Pradesh)

(2) Baruwala (Dehradun)

(3) Yerranguntla (Andhra Pradesh)

(4) Neemuch (Madhya Pradesh)

(5) Tandur (Andhra Pradesh)

(6) Adilabad (Andhra Pradesh)

(7) Kurkunta Expansion (Karnatak)

(8) Kivarli (Rajasthan).

3.10. Out of the above referred 8 projects, only 6 projects referred to at Sl. Nos. 1 and 3 to 7 have been included under crash programme envisaged in the Fifth Plan. While Akaltara (Madhya Pradesh) Project is linked with the lime-stone deposits investigated by the Hindustan Steel Limited, the remaining 4 projects (excluding Kurkunta expansion) would utilise the reserves proved at 4 sites (*viz.*, Yerraguntla, Neemuch, Tandur and Adilabad) referred to in Appendix II thereby leaving 6 proved sites, *viz.*, Alampur, Baruwala Jagdalpur, Gokak, Katni and Chittorgarh, un-exploited. Out of 14 proved sites (excluding the site investigated for a private party) referred to in Appendix II mining leases had been secured in respect of 10 sites. For the remaining 4 sites (*viz.*, Katni, Gokak, Alampur and Chittorgarh), prospecting licences had either not been taken or not been renewed.

3.11. As to the reasons for taking up the investigation at the 6 proved sites, *viz.*, Alampur, Baruwala, Jagdalpur, Gokak, Katni and Chittorgarh which would remain unexploited during Fifth Plan the Management stated in a note that before the Corporation took up these sites they had not been proved for exploitation of lime-stone for cement manufacture. It was stated that these sites were not being taken up for setting up cement plants, for the present, due to some inherent difficulties.

3.12. As regards setting up cement plants at Katni, Gokak, Alampur and Chittorgarh sites in regard to which prospecting licences had either not been taken or not been renewed, the Management informed as follows:—

> "Action has been taken to obtain mining leases in respect of Alampur and Chittorgarh. No action has been taken on Katni site because of quality problems besides the possibility of inundation of the lime-stone deposit itself by the proposed dam across Son river. Gokak site is situated in Karnatak in South, where there is power shortage in addition to the site itself being situated at a longer distance from rail-head, because of which the site has not been considered."

3.13. When asked whether it would not be feasible and economical proposition to utilise the existing proved reserves which were stated to be far in excess of the Corporation's requirement instead of going in for investigation at other sites, the Management stated as under:—

> "Of the 12 sites proved by the CCI, the Corporation had proposed to put up cement plants at eight sites. The Corporation has not been able to put up cement plants at other sites for one or the other reasons of transport bottlenecks, transport facilities, lack of infrastructure facilities quality of lime-stone railway clearance, distance from rail head, etc. Hence, LID is being revived to locate suitable sites to be taken up for project implementation in Sixth and

subsequent plans specially in northern and eastern deficit areas."

B. **Revival of Limestone Investigation Division**

3.14. In November, 1973, Ministry of Industrial Development approved the proposal of the Corporation for the revival of the Limestone Investigation Division. It was further stated by the Ministry that the question of reimbursing the unremunerative expenditure of the past and in the future on the limestone investigation was separately under consideration.

3.15. As regards the need for revival of Limestone Investigation Division, the Management stated (March, 1974) as follows:—

"The revival of Limestone Investigation Division is mainly for carrying out the prospecting operations for the Company, both in projects under construction and for new projects to be taken up in VI and subsequent Plans, particularly in the deficit areas. The Corporation may also take up work for private agencies on payment basis or undertake exploration work abroad."

3.16. The Corporation had already prospected and established cement grade limestone reserves in respect of the projects under construction and those included in and approved for execution during Fifth Plan period. No projections had been made by the Corporation so far regarding the prospecting to be done for the projects to be taken up in the VI and subsequent plans, particularly in deficit areas.

3.17. In this connection, the Ministry stated (June, 1974) as follows:—

"Aspects relating to the prospecting to be done for the projects to be taken up in the VI and subsequent plans and the size of the Limestone Investigation Division. Considered necessary for meeting the requirements are under consideration and there will be decided before actual revival of the LID."

3.18. When asked to state the considerations which weighed with the Management in asking for the revival of the Limestone Investigation Division, the Management informed the Committee in a written reply as under:—

"In consideration that there are not many known limestone deposits in the country which could be exploited in the VI Five Year Plan, particularly in the deficit northern and eastern regions, it was felt necessary to revive the Division for Survey, prospecting and proving of cement-grade limestone deposits for the reasons enumerated below:—

"The anticipated demand of cement by the end of V Five Year Plan period was 28.0 million tonnes. CCI has already prepared feasibility/project reports for a number of sites for the total capacity of 3.5 million tonnes, based on the exploratory work done by the LID from 1965-68. By and large these sites fall in southern and central region. The demand/capacity for cement in the VI Five Year Plan has not been assessed. However, the capacity growth would not be less than that of V Plan for a self generating economy. In order to meet the requirement by the VI Five Year Plan, sufficient plants of 0.4 million tonnes capacity each are required to be set up.

At present there is no known organised agency which can undertake the work of survey, prospecting and proving of lime-stone for cement industry. Therefore, it is essential that for the healthy development of cement Industry, LID has to be revived particularly to exploit cement-grade lime-stone in the north and eastern deficit regions. It is obvious, to locate 10—12 suitable sites for setting up of cement plants, exploration work has to be undertaken in at least 15 sites because all the sites may not prove successful. It is also emphasised that it would take approximately one year to organise a team and send to the site for investigation as this much time would be required for selection sites, preliminary investigation and obtaining mineral concessions, etc."

The Management has stated in a written reply the revival of L.I.D. is under active consideration.

3.19. When asked about the necessity of having such a huge LID. in the Corporation when there were other institutions and organisations like Geological Survey of India, State Government Department of Mining, etc., who were also working in the field of survey and investigation and whether the LID was really doing any good service to the Corporation or to the country as a whole, the Chairman and Managing Director of the Corporation stated during evidence as under:—

"I would like to submit that the Geological Survey do not normally give detailed indication of the availability of the various raw materials throughout the country. They normally do not carry on a detailed investigation about the total quantum or availability, quality and other characteristics of the limestone. Before investing huge funds, we must have all these basis data. ** ** **

Normally, any cement factory must have a limestone investigation department or a geological department for the survey of limestone. Every cement Company has got a big or small cell for this purpose. There are about 52 cement factories, most of which have got such a limestone investigation division, according to the requirements of investigation of limestone for themselves. Every cement company must do it on its own or it must engage a team of consultants to do it. The ACC for instance has got its own cell, and most of others have got their cell headed by a geologist."

3.20. Asked if this job could not be done by the consultants, the witness stated:—

"If it is a temporary thing, we can get it done through them, for instance, if it happens, say, once in five years or so. But this a regular process.

Now, we have to investigate limestone not only for the new plants but also for the expansion of the existing plants, especially the Kurkunta and Mandhar Plants. We have to investigate whether there are sufficient quantities of limestone deposits of good quality not only to meet the immediate requirements of the existing plants, but for the next fifty years as well. Also the deposits are underground and the quality of it may sometimes vary from place to place, and that requires constant investigation. So, for this purpose, every cement company must have a small cell for the geological survey. Of course, in some places it may be a bigger department and in some factories it may be piece-meal. The expenditure incurred on this limestone investigation is very much less when compared to the total expenditure on a cement factory."

3.21. Replying to a question whether various aspects relating to the prospecting to be done for the projects to be taken up in the Sixth and subsequent plans and the size of the L.I.D., had been considered and if not what was the justification for reviving it at this stage, the representative of the Ministry stated during evidence as under:—

"At present, we are just thinking in terms of cement demand in the Sixth Plan and in which region we should go in for establishing cement plants so that transportation costs are reduced. These broad projections are there but no location for Sixth plan has been finalised as yet. CCI is also in touch with the GSI and with other corporations. They will put up a detailed paper. Even the Corporation itself has not considered a paper so far.

For the projects that have to be taken up in the Sixth Plan, unless we pick up enough sites for investigation, there will be a problem. We will have to go into a number of alternatives so that we can pick and choose the more economic of them."

3.22. In reply to another question whether the expenditure incurred by the Corporation on the sites that had not been taken up or that had been abandoned as a result of dismantling the LID., had been re-imbursed to the Corporation, the witness stated that out of the total expenditure of Rs. 61 or 62 lakhs which was incurred by the CCI on limestone investigation, quite a substantial portion had already been capitalised by charging to projects which had been sanctioned. There was an amount of Rs. 23.16 lakhs only till date which had not yet been capitalised. Consultation with the Finance Ministry as to how to treat this expenditure of Rs. 23.16 lakhs was going on and their decision was awaited.

3.23. When asked whether the activities of the revived L.I.D. would be confined only to the needs of the Corporation or it would cater to the needs of the entire cement industry, the Corporation informed the Committee in a written reply that the revived L.I.D. would be manned in such a manner to be sufficient to meet the demands of the Corporation only. However, if the services were required for any party or any public sector undertaking, the Corporation would take up the work on payment basis if the Corporation's own priorities could be readjusted without affecting the work load on hand for the time being.

3.24. The Committee note that the Limestone Investigation Division (LID) of the Corporation was set up in April, 1965 by taking over the Limestone Investigation Division of the Hindustan Steel Limited to carry out investigations at 6 sites simultaneously. In view of the delicencing of cement industry in 1966, the Corporation decided to reduce the site investigation work from 6 sites to 3 sites at a time after March, 1967 by which time the limestone investigation programme for the Fourth Five Year Plan had been nearly completed. By November, 1967, the Corporation had prospected for cement grade limestone at 12 sites (including one site investigated by the Geological Survey of India) and the investigation work at 3

other sites was on hand. As a result of investigation of 12 sites, a total reserve of 1074.33 million tonnes (898.33 million tonnes proved reserve' and 176 million tonnes indicated reserve) was established. As the Corporation could at best set up 5 or 6 plants capable of producing one million tonnes of cement during Fourth Five Year Plan with the funds placed at its disposal, for which the company would require proved deposits of about 75 million tonnes of limestone as against proved deposits of 898.33 million tonnes already investigated, Government directed the Corporation in January 1968 to maintain a skeleton. Investigation Division capable of conducting investigation at the rate of one site a year. The investigation of the 3 sites already in hand was completed by July, 1969 and the Limestone Investigation Division was wound up by 31st March, 1970. The Committee note that after the direction of Government was received in January, 1968, the Corporation selected only one site in Madhya Pradesh for detailed prospecting in July, 1968. The Committee regret to note that after incurring an expenditure of Rs. 11747, the prospective work done on this site was abandoned in February, 1973 because of heavy over-burden and low percentage of lime. In November, 1973, the Ministry of Industrial Development approved the proposal of the Corporation for the revival of the L.I.D.

3.25. The Committee were informed that of the 14 sites proved by the CCI, cement plants were set up or are proposed to be set up at 8 sites and the remaining 6 sites (Alampur, Baruwala, Jagdalpur, Gokak, Katni and Chittorgarh) on which a total expenditure of Rs. 34.66 lakhs had been incurred are not suitable for setting up cement plants due to certain inherent difficulties, such as transport difficulties, lack of infrastructure, quality of limestone, distance from railhead, etc. It was therefore necessary to revive the LID as there were not many limestone deposits in the country which could be exploited in the Sixth Five Year Plan and subsequently, particularly in the deficit Northern and Eastern Regions.

3.26. The Committee cannot understand why the so-called 'inherent difficulties' which are now stated to be standing in the way of setting up cement plants at these 6 sites could not be visualised before starting investigation work there. They would like the Government to look into the so-called 'inherent difficulties' and independently examine the feasibility of utilising these sites for the purpose of setting up Cement plants in public sector. They would also like that Government should investigate how these sites were at all selected for investigation with view to fixing responsibility. They would also like the Corporation to make sure before taking up any new site for limestone investigation work, that the facilities

and infrastructure necessary for setting up a cement plant at that site are available or will definitely become available in due course at that site if ultimately adequate deposits of limestone happen to be located there. The Committee recommend that before taking up investigation the Corporation should ensure that selection of sites for investigation should as far as possible be related to the prospects of establishing cement manufacturing capacity.

3.27. The Committee also note that besides Limestone Investigation Division, Geological Survey of India and Mineral Development Corporation are also working in the field of survey and investigation of limestone deposits. They were informed that the Geological Survey of India do not normally give detailed indication of the availability of the various raw materials throughout the country and it does not normally carry out detailed investigation about the total quantum or availability, quality and other characteristics of the limestone and because of these limitations of the Geological Survey of India, it was considered necessary to have a separate Limestone Investigation Division of the Corporation. The Corporation also thought it necessary to have a separate Limestone Investigation Division as each cement factory should and does have such a division, big or small, and as it has to investigate sufficient quantities of limestone deposits not only to meet its immediate needs of the existing plants but also for the next 50 years. The Committee are not quite convinced of the reasons advanced in support of a separate Limestone Investigation Division. They would like the Government to examine before reviving the Limestone Investigation Division of the Corporation whether the role of the already existing organisations (viz. Geological Survey of India and Mineral Development Corporations) cannot be suitably enlarged to cover the functions which the proposed Limestone Investigation Division of the Corporation is expected to perform or whether the working of all these organisations cannot be integrated in the interest of economy, coordination and better results. While undertaking the proposed examination, Government should also keep in view the recommendation of the Estimates Committee made in paragraph 4.24 of its Sixtieth Report (1973-74).

3.28. The Committee note that in November, 1973 the Ministry approved the proposal of the Corporation for the revival of the Limestone Investigation Division. The Committee also note that the revival is mainly for carrying out prospecting operations for the Corporation both for projects under construction and for new projects to be taken up in the Sixth and subsequent Plans, particularly in the deficit areas. The Corporation may also take up work for private agencies on payment basis or undertake exploration work abroad. The Committee are, however, informed that the

Ministry are still thinking in terms of cement demand in the Sixth Plan and in which region the Government should go for establishing cement plants so that transport costs are reduced. Though the broad projections are there, no location for the Sixth Plan had been finalised. The Corporation is also stated to be in touch with the G.S.I. and other Corporations. The Committee are surprised that how in the absence of any information about the demand in the Sixth Plan or about the location of the plants, the Ministry have approved the proposal of the Corporation for the revival of the L.I.D. The Committee suggest that before the Division is actually revived, Government should assess the usefulness of the Division especially in the context of the sites already prospected and utilised.

C. **Investigation of limestone deposits on behalf of private parties**

3.29. The Corporation conducted during May/June, 1967 limestone investigation at Nimbahara (Rajasthan) on behalf of a private party for a fee of Rs. 1.98 lakhs.

3.30. One of the functions of the Corporation is to act as the store house of information on the cement grade limestone deposits in the country for the expansion of the capacity in the public as well as private sectors. It is seen that only one site had been prospected by the Corporation for a private party so far.

3.31. Asked how far the Corporation had been able to achieve the above objective and what were the reasons for which the private entrepreneurs were not availing of the services of the Corporation in this regard, the Management stated as under:—

> "Consequent on Government's directive to scale down prospecting activities of the Corporation, the LID of the Corporation was reduced to skeleton staff and equipment and with these only the Corporation's work with the running and envisaged projects could be attended to. However, with the proposed revival of LID, Corporation would be in a position to undertake work of private parties side by side with its own work."

3.32. Asked whether any plants in the private sector had been set upon the basis of investigations done by the Corporation or by the Bureau of Mining, GSI, the representative of the Corporation stated during evidence as follows:—

> "We have not done much work for private parties. M/s. Associated Cement Co., a private party, were doing this job. They had a Limestone Investigation Division. The private parties have set up cement plants in very good areas

where the limestone deposits were already known. When, we started there was not much known limestone deposits and we had to proceed keeping in view that 5 million tonnes capacity had to be established by the Corporation.

* * * *

We are getting enquiries whether we can investigate for them, so that they can set up cement plants."

3.33. On being asked whether the Corporation had got some contracts from private parties, the witness stated:

"They have been asking our fees and we have been quoting for the same. It has yet to be finalised.... We have worked for Nimbahara (J.K. Industries) Project. This has gone into production recently."

3.34. One of the objectives of the Corporation was to make the information relating to lime-stone investigation available to the private sector industry also, for expansion purposes. A request was received from M/s. J. K. Rayons, Kanpur for making available the data relating to Baruwala Project for setting up a Cement Plant by them. The deal, however, did not materialise, as the party considered the amount demanded by the Corporation as very high. There was no offer from the private sector industry for any other site prospected by the Corporation.

3.35. In this connection, the Management informed the Committee in a note that for making available the data relating to this site to M/s. J. K. Rayons, Kanpur, they had demanded a sum of Rs. 10.55 lakhs which according to party appeared to be on the higher side. But before making the final deal, they wanted to possess the technical information for examination to which the Corporation did not agree.

3.36. The Committee note that one of the functions of the Corporation is to act as the store house of information on the cement grade limestone deposits in the country for the expansion of capacity in the public as well as private sectors. The Corporation has been receiving enquiries from private parties and submitting quotations in reply to the enquiries but only one site (Nimbahera—Rajasthan) has been investigated by the Corporation for a private party so far, for a fee of Rs. 1.98 lakhs.

3.37. The Committee are informed that M/s. Associated Cement Co. a private sector organisation, which also has a Limestone Investigation Division, had been doing work for the private parties. Further, the parties had set up plants in very good areas where deposits were already known. The Committee were also informed that when L.I.D. was started there were not much known deposits

and the Corporation had to work on the basis of a 5 million tonnes capacity of cement.

3.38. The Committee recommend that Government should critically analyse the reasons as to why it has not been possible for the Corporation to secure work from private parties, so that suitable remedial action may be taken.

3.39. In view of the past experience the Committee however suggest that Government/Corporation should consider whether the L.I.D. on revival should at all undertake work on behalf of private parties.

D. **Baruwala Project**

3.40. In November, 1967, the Corporation took up prospecting work near Buruwala (Dehradun) which is a deficit area. After proving the lime-stone deposits, the Corporation prepared a Project Report for setting up a standard size plant of 600 tonnes per day. The consultants, however, suggested a higher capacity plant for achieving economies in production. In view of the difficulties in transporting oversized consignments, the Corporation recast the Project Report in September, 1972 based on:

(a) two 600 tonnes/day units; and/or

(b) two 750 tonnes/day units.

3.41. The Project Report as recast, envisaged installation of a ropeway which had to negotiate a very steep range and had to cross one or two small ranges of hills before reaching the factory. As the rope way had to go down a very steep slope which is normally avoided, the Corporation was studying the problems. In the meantime, execution of Baruwala Project stood deferred.

3.42. The Committee were informed that the fact that the ropeway had to go down a very steep slope, came to the notice of the Management when the work was entrusted to a ropeway expert who undertook the alignment study.

3.43. Asked about the reasons for not taking up the Buruwala project which was in deficit area and where survey work had also been done, the representative of the Corporation stated during evidence that this project had not been taken up in the Fifth Plan because they had entrusted the alignment work of the ropeway to a party who had surveyed it. After receipt of their report, the Corporation would consider taking it up.

3.44. As regard the execution or otherwise of this project. the Management stated that the Railways were also not inclined to provide any siding facilities at the nearest railhead. Hence the project implementation had been deferred.

3.45. The total expenditure incurred on this project so far was Rs. 10.56 lakhs.

3.46. The Committee note that in November, 1967 the Corporation took up prospecting work near Baruwala in Dehra Dun which was a deficit area and after proving limestone deposits, prepared a project report for setting up standard size plant of 600 tonne per day capacity. Since the consultants suggested a higher capacity plant for achieving economy in scale, the project report was re-cast and the revised project report envisaged installation of a ropeway which had to go down a very steep slope. The Corporation was therefore studying the problems. In the meantime, the execution of the project stood deferred.

3.47. The Committee are informed that the study of the alignment of the ropeway has been entrusted to an expert who had surveyed the area and the project could be taken up only after this work is over. The Committee are also informed that the execution of this project could not be taken up because the Railways are not inclined to provide any siding facilities at the nearest railheads. The Committee regret to point out that the Corporation should have foreseen the necessity for the installation of the aearial ropeway even at the time of the feasibility study of the Project and should have tied its arrangements with the Railways before taking up the project and incurring an expenditure of Rs. 10.56 lakhs and ultimately deferring the Project. The Committee would like Government to investigate as to why these aspects were not considered before the execution of this project in the deficit area was taken up, responsibility fixed and Committee informed of the action taken. The Committee would also like the Government to press upon the Railways for providing siding facilities at the nearest rail heads in view of the cement shortage in the region.

E. Estimates of expenditure

3.48 While selecting the sites and employing the parties for investigation work, no estimate of expenditure was framed for any of the sites. The scope of the work was also not mentioned. The Ministry stated (June, 1974) that due to initial stage of the organisation, estimates, could not be prepared and the estimates for such work would be prepared in future.

3.49 The Committee, pointed out that the Corporation was set up in January, 1965 and almost the entire prospecting was completed by 1968. They asked whether a period of three years was not adequate to build up the organisation and expertise for the purpose of framing the estimates. The Corporation stated in a note as under:—

> "After the initial period of three years, the investigation division was wound up. The revival of the Limestone investigation Division is stlil in progress. Presently estimates are being prepared before work is taken up ..The estimates now being prepared are as a result of the expertise gained during the earlier period of 3 years."

3.50. The Committee regret to note that, while selecting the sites and employing the parties for investigation work, no estimate of cost was framed for any of the sites nor the scope of work mentioned. It was stated that, the organisation being in initial stage, estimates could not be prepared and they would be prepared in future. The Committee need hardly stress that estimates of cost are essential for the purpose of control of cost and assessing the performance. The Committee, therefore, recommend that the Corporation should take steps to see that, before taking up the work, estimates of cost are prepared with complete details so that the investigating parties know in advance the parameters of work and the ceiling of expenditure within which thy have to operate.

IV

PROCESS OF MANUFACTURE AND QUALITY CONTROL

A. **Process of manufacture**

4.1 The process of manufacturing portland cement consists in the incorporation of the raw materials, one of which is composed mainly of calcarious materials, such as, limestone and argillaceous materials, such as, clay or shale, to form a homogeneous mixture, the burning of the mix in a kiln to form a clinker, and the grinding of the clinker with the addition of a small proportion of gypsum to a fine powder. Two processes, known as the wet and dry process according as to whether the raw materials are ground and mixed in a wet or dry condition, are used. In a variant of these processes, the semi-dry process, the raw materials are ground dry and then mixed with 10—14 per cent, water and formed into nodules.

4.2 Amongst all the factors to be considered, in selecting the manufacturing process, the most decisive factors are the fuel and power consumption which together account for as much as 40 per cent of the prime cost. On account of the lower consumption of fuel the dry process is preferable to the wet process if the material components are not too wet (water content above 15 to 18 per cent) or contain deleterious admixures which have to be removed by washing. However, when Mandhar and Kurkunta Plants were proposed to be set up, by and large, the wet process plants were in vogue in India (only about 4 dry process and 8 semi-dry process plants being in operation at that time).

4.3 During evidence, the representative of the Corporation informed the Committee that in the wet process, because the material was brought in the form of slurry with 30 to 37 per cent moisture and there were insertions inside the kiln, dust coming out was comparatively less than in the dry process. In the dry process, the raw meal was completely dry. So. the quantum of dust coming out from the kiln was more. To arrest the dust in the dry process, it was necessary to install efficient dust collector like electrostatic filters costing more than Rs. 20 lakhs for a 600 tonnes plant whereas it was not essential in the case of the wet process.

4.4 As regards the economics of the dry process vis-a-vis, the wet process, the witness stated that there was a saving of about 30 per cent in coal consumption in dry process. Secondly, for a dry process plant, less quantity of water was required, as compared to the wet process. It was stated that in certain areas, where there was good limestone, but not sufficient water and where a wet process plant could not be put up, dry plants could be put up with just sufficient amount of water. However, power consumption was 10 to 15 per cent more in the dry process than in the wet process.

4.5 Asked whether it was advisable to go in for highly power consuming dry process just to take care of the shortage of water, the witness stated in reply as under:—

> "......Indian limestone by and large now available is just marginal quality in the calcium carbonate content. But if you go in for the wet process where we are using a higher percentage of coal 30 per cent as against 20 percent, the precipitation of coal ash with the clinker will be more, and as a result, the clinker minerological composition will undergo a change and so we shall not be able to maintain the quality of cement all the time. This is one aspect which is very important. The second aspect is that when we are putting up plants, we have to see the overall economy aspect. When we put up plants and prepare project reports, we study techno-economical aspects taking the power cost as well as the total consumption of power into account, along with other elements......The main constraints of dry process is the minor mineral content in the raw material, such as alkali content and the chloride content which should be as minimum as possible. Otherwise, it will give rise to difficulties for the dry process. The other main constraint is that our limestone in India is just marginal, as far as calcium carbonate content is concerned, the lime in the burning process combine with the silica and alumina having various mineralogical compositions. Here, if we introduce high coal ash, some of the minerals which give rise to early strength get depressed. So, the dry process from the point of view of quality, is very important, with our raw materials."

4.6 The Management informed the Committee in a note that all the plants envisaged by CCI to be undertaken during the Fifth Five Year Plan for execution were 1200 tonnes per day 'Dry Process Plants'.

4.7 In this connection, the representative of the Ministry stated during evidence that one particular advantage of dry process plant was that the coal consumption was very much less, which was in the neighbourhood of 20 per cent as against 30 per cent for wet process.

But some other expenditure was required to be incurred on maintaining the dry plants. Even then, if the two process as were compared, the dry process plant was certainly more economical.

4.8 The witness further informed the Committee that 95 per cent of the new letters of intent which had been issued in the last two years were all for dry process plants and the manufacturers were also concentrating more and more on dry process plant.

4.9 There were seven manufacturers of the dry process plant in the country who had foreign collaboration and had the capacity to manufacture such plants.

4.10 The present indigenous capacity for manufacture of dry plants and wet plants was stated to be 18 plants per year.

4.11 Asked whether there was any proposal to convert the existing wet process plants of Mandhar and Kurkunta to dry process plants, the Management informed the Committee that there was no such proposal and therefore, the economics of the conversion had not been worked out.

4.12 The Action Committee on Public Enterprises headed by Shri M. S. Pathak, who visited Mandhar in April, 1973 suggested certain measures for improving the plant performance. One of the recommendations made by this Committee was that for long term improvement of operation, converting the existing wet process in the Mandhar Plant to a dry process system should be taken in hand. But the Board of Directors has decided that in view of the present financial position it may not be possible to undertake this work on immediate basis.

4.13. The Committee note that the cement plants are of two types—dry process plants and wet process plants. In a dry process plant there is a saving of about 30 per cent in coal consumption and the requirement of water is also less, as compared to wet process—but power consumption is 10 to 15 per cent more in the dry process plant than in the wet process plant. On comparison, the dry process plant is stated to be more economical. At the time when Mandhar and Kurkunta Plants were set up wet process plants were more in vogue in India. All the plants envisaged by the Corporation to be undertaken during 5th Five Year Plan are dry process plants and 95 per cent of the new letters of intent which have been issued in the last two years are also for dry process plants. Even if the dry process plants are stated to have advantages over wet process plants, the Committee cannot but take note of the acute shortage of power experienced almost all over the country. They hope that the Corporation too is not oblivious of this phenomenon. The Committee also

understand that there are two main constraints in the dry process viz., the minor mineral content (alkali and chloride content) in the raw material and the calcium carbonate content of the limestone in India being just marginal. Introduction of high ash coal may, therefore, depress some of the minerals which give rise to early strength and hence may have an effect on the quality of cement. The Committee would like that Government should review the economics of each one of the projects approved in the Fifth Plan after taking into account the availability of power and keeping in view the constraints of the dry process. The Committee would like to be informed of the results.

4.14. The Committee also note that the Action Committee on Public Sector Undertakings headed by Shri M. S. Pathak, Member, Planning Commission, had made a suggestion that for long term improvement of operation of Mandhar Plant, converting the existing wet process to a dry process system in the plant should be taken in hand but the Board of Directors decided that in view of the present financial position, it may not be possible to undertake this work on immediate basis. They would like the Government to give a serious thought to the considerations and the objectives underlying the recommendations made by the Action Committee and see whether the decision taken by the Board of Directors of the Corporation is in the interest of the Corporation in the long run.

B. Fly Ash Pozzolana Cement

4.15. The Corporation started manufacturing Fly-ash Pozzolana cement at their Kurkunta Plant in February, 1974 as the clinker at Kurkunta is of high quality and elite type. As an experimental measure it was tried earlier and a sample was also test-evaluated in the National Test House. The results of the test proved that the fly-ash pozzolana cement production at Kurkunta was even better than the prescribed Indian standard specifications of ordinary Portland Cement in certain respects. Therefore, the Corporation has started manufacturing fly-ash Pozzolana Cement on a commercial scale.

4.16 The total quantity of pozzolana cement produced by using fly ash up to 31st December, 1974 was 7166 tonnes. The Committee were informed that according to the Cement Research Institute, the present availability of the fly-ash in the country is about 4 million tonnes per annum.

4.17. As regards the source of supply of pozzolana material, it was stated that Fly-ash is an industrial waste obtainable from the 30 thermal power plants in different parts of the country.

4.18 **Enquired about the plans for accelerating the production of pozzolana fly-ash cement, the Management informed the Committee as follows:—**

> "A quantity of 4.09 lakh tonnes of fly-ash could be used immediately for the manufacture of cement. The Cement Research Institute has prepared two project reports relating to the manufacture of portland fly-ash cement using fly-ash from the Delhi-Badarpur Faridabad complex of thermal power stations. The institute feels that it will be technically and economically a feasibility proposition. The Cement Research Institute has also completed a feasibility report for a cement manufacturer to utilise fly-ash from Nellore thermal power plant in Andhra Pradesh and is now engaged on the question of utilising fly-ash from Panki thermal power plant in Uttar Pradesh for another cement manufacturer."

4.19 The Committee were informed that the feasibility of producing fly-ash pozzolana cement at Mandhar Cement factory had also been examined. It was found that the mineralogical composition of the clinker at Mandhar was such that it was not possible to produce fly-ash pozzolana cement.

4.20 Asked about the economy in cost achieved by the Corporation as a result of substitution of gypsum by fly-ash for intergrinding with clinker, the Management informed that fly-ash used for integrinding with clinker was not a substitute for gypsum. Thus for producing pozzolana cement besides clinker and fly-ash gypsum also will have to be used.

4.21. The Committee note that the Corporation has started manufacturing fly-ash pozzolana cement at its Kurkunta Plant from February, 1974. The results of the test are stated to have proved that the fly-ash pozzolana cement is even better than the prescribed Indian standard specifications of ordinary portland cement in certain respects, Fly-ash is an industrial waste obtainable from the thermal power plants in different parts of the country. According to the Cement Research Institute, the manufacture of portland fly-ash cement using fly-ash from the Delhi, Badarpur, Faridabad complex of thermal power stations will be technically and economically a feasible proposition. The Institute has aslo completed a feasibility report for manufacture of cement from fly-ash from Netore Thermal power plant in Andhra Pradesh for a cement manufacturer and is now engaged on the question of utilising fly-ash from Panki thermal power plant in Uttar Pradesh for another cement manufacturer.

The Committee would urge the Corporation to examine the economics of this new process and see how it can make use of this process to set up new cement factories in areas particularly in the deficit Northern and Eastern regions wherever the fly ash is available in plenty.

C. Quality Control

4.22 Under the Cement (Quality Control) Order, 1962, manufacture and sale of cement, not conforming to the prescribed standards, is prohibited.

4.23 The Corporation has a Quality Control Organisation under the charge of the Chief Chemist at each of its operating plants. Samples of cement are taken out in each of the plants every hour and its strength is checked after allowing the requisite period for its setting. These sample are also sent to Government Test House, Calcutta|Bombay, once a week.

4.24 In this connection, the Management stated (March, 1974) as follows:—

> "Chemical and physical analysis are required in cement plant for appraising performance, evaluating quality of raw materials and finished products in respect to chemical constituents and physical characteristics and effecting manufacturing control at each stage starting from winning of limestone, crushing|milling|pyro processing and grinding of clinker|despatch. At each stage rigid quality control is maintained in the plants............at par with other cement manufacturing concerns. Rapid method of analysis which can save time and labour and also add to overall operational efficiencies, are followed, wherever feasible."

4.25 It will be seen that each plant has a mechanism to ensure quality control upto the point of despatch. For the industry as a whole, there is no mechanism in the country to ensure quality control after the cement leaves the respective plants. In order to ensure that cement of requisite quality is supplied to the ultimate consumer, the Estimates Committee in paragraph 6.32 of its 60th Report (Fifth Lok Sabha—April, 1974) recommended that suitable measures for quality check of the cement supplied to the consumers be taken by Government.

4.26 Asked as to the steps taken to check the quality of cement at consumers end, the Management informed the Committee as under:—

"The Corporation has no organisational set-up to check the quality of cement at consumers end. This is being done by the local civil supplies Authorities of the individual State. However, the Corporation had not received any such complaint in the recent past."

4.27 In this connection, the Ministry has stated in a note as under:—

"Standards for the manufacture of different varieties of cement like portland cement, rapid hardening cement, low heat cement, blast furnace slag cement, portland pozzolana cement etc., have been laid down in consultation with the Indian Standards Institution. According to Cement (Quality) Control Order, 1962, issued under Section 3 of the Essential Commodities Act. no person shall himself or by any person on his behalf, manufacture or store for sale, sell or distribute any cement which is not of the prescribed standard. The Essential Commodities Act provides for imposition of penalties for contravention of orders issued under Secton 3 of the Act and necessary powers have also been delegated to the State Governments under the Act.

Sale of adulterated cement is a cognisable offence and any person contravening the provision of the Essential Commodities Act can be proceeded against in a Court of Law on a report, in writing, of the facts constituting the offence, made by a person who is a public servant as defined under Section 21 of the Indian Penal Code. The office of the Cement Controller has also addressed a communication to all State Governments and Union Territories to take necessary action against any case of adulteration of cement brought to their notice.

At the manufacturers' level, weekly samples are drawn and sent for test to the National Test House, Alipore, Calcutta. From consumers' angle, the facilities are available for testing cement mainly at Calcutta, Bombay and Delhi through the National Test Houses and Cement Research Institute and other laboratories of I.S.I. and C.S.I.R."

4.28. The Committee note that under the Cement (Quality Control) Order, 1962, manufacture and sale of cement not conforming to the prescribed standards is prohibited. The Corporation has a Quality

Control Organisation to ensure quality control upto the point of despatch but it has no organisational set up to check the quality of cement at consumers' end. They feel that the Corporation is responsible not only for manufacturing cement of the prescribed standard but also for ensuring that the cement being sold by the dealers authorised by it under its trade name conforms to those standards. The Corporation should not merely wait for complaints from consumers but should also conduct surprise checks on the quality of cement stocked with the dealers. In this connection they would wish to draw the attention of the Corporation to the recommendation made by the Estimates Committee of Lok Sabha in paragraph 6.32 of their 60th Report (Fifth Lok Sabha, April, 1974) on availability and distribution of Cement and reiterate that suitable measures should be taken by the Corporation in respect of the cement manufactured by it and sold by its authorised dealers to ensure that cement of requisite quality is supplied to the ultimate consumers.

V

MANDHAR PLANT

5.1. In June, 1966 the Ministry of Industry accepted in Principle the proposal of the Corporation for setting up 4 cement factories, each of an annual capacity of 2 lakh tonnes, in respect of which feasibility reports had been submitted. At the same time, the Ministry, however, authorised the Corporation to place orders for the plant and machinery for only 2 plants to be located at Kurkunta (Karnatak) and Neemuch (M.P.). In November, 1966 the Ministry agreed to the proposal of the Corporation to earmark the Neemuch Plant for Mandhar (M.P.) site.

A. Deposits of lime-stone and its characteristics

5.2. Lime-stone investigation at Mandhar had been done by the Director of Geology and Mining, Madhya Pradesh on behalf of a private firm and about 48.25 million tonnes of cement grade lime-stone had been established in an area of 4.48 sq. kms. The independent investigation conducted by the Corporation in January—June, 1966 in an area of 2.4 sq. kms. (583.31 acres) also proved that it contained a minimum of 15 million tonnes of cement grade lime-stone which was sufficient to support a plant of the standard size of 600 tonnes per day for 50 years. The lime-stone found was of solid nature and covered by an over-burden of 4 to 5 feet Blasting operations were expected to be easy and the cost of raising limestone and removal of overburden was estimated at Rs. 5 per tonne and Rs. 4 per tonne respectively.

5.3. In November, 1966 the Corporation applied to the State Government for a mining lease of 583.31 acres of land. State Government, however, granted in April, 1967 the mining lease for 404.09 acres (71.66 acres of Government land and 332.43 acres of private land) and lease agreement was executed in October, 1967. In December, 1971 the Corporation again applied for the grant of lease of an additional area of 198.59 acres (98.61 acres of private land and 99.98 acres of Government land). In January, 1973 the State Government, however, granted the mining lease for an additional area of 195.49 acres (103.06 acres of Government land and 92.43 acres of private land) and lease agreement was executed in March, 1973.

5.4. The possession of Government land for which lease was granted in April, 1967, was taken in October, 1967 but action to acquire 332.43 acres of private land was taken in February, 1969 and a total area of 236.21 acres was acquired through negotiations up to November, 1972 at a total cost of Rs. 4.73 lakhs. Negotiations for the balance area were still in progress.

5.5. Asked about the reasons for delay of one year and four months in taking action for the acquisition of private land for quarry purposes, after execution of lease agreement in October, 1967. The Management stated in a written reply that the question of acquisition of private land for quarry through government was taken up with the Collector in 1967 itself. As the proceedings for acquisition were still pending with Government till, 1969, the Corporation sought permission from the collector to acquire the private land in questions through direct negotiation.

5.6. It was stated that the entire land of 424.86 acres had not been acquired by the corporation so far. Acquisition Proceedings were still in progress for completing the acquisition of the entire land. Only a small piece of land was left to be acquired from a private party.

5.7. In reply to a question whether in the absence of entire land being acquired any difficulties in mining operations had been experienced, it was stated that in the initial stages of mining, some difficulties regarding disposal of overburden and heavy blasting operations were experienced.

B. Project—Estimates

5.8. According to the Feasibility Report sent to the Ministry in March, 1966, the capital outlay of Mandhar plant was estimated at Rs. 3.78 crores. However, in the D.P.R. prepared in January, 1967 the capital outlay envisaged was Rs. 465.48 lakhs. In June, 1969, the Ministry approved the project estimates for Rs. 451.51 lakhs. After commissioning of the plant in July, 1970, the project estimate was again revised to Rs. 495.87 lakhs and submitted to Government in February, 1971 for approval. In July, 1972, the Government approved the Project estimates for Rs. 490.37 lakhs.

5.9. Comperative break-up of the project estimates framed from time to time, those approved by the Government and the actual expenditure incurred there against is given below:—

(Rupees in lakhs)

Sl. No.	Particulars	Estimates as included in the DPR prepared in Jan., 1967	Estimates as sanctioned by Govt. in June, 1969	Revised estimates submitted to the Govt. in Feb., 1971	Estimates as sanctioned by the Govt. in July, 1972	Actual Expenditure upto 31-3-73	Actual Exp. upto 31-3-74
1	2	3	4	5	6	7	8
1.	Plant and Machinery (including sales tax) . .	235·64	235·64	234·79	234·79	222·76	232·19
2.	Contingency . . .	18·69	5·19	5·50	—	—	—
3.	Civil works (including land)	160·00	165·53	173·00	173·00	173·39	174·05
4.	Erection cost	16·50	16·50	15·29	15·29	15·29	15·29
5.	Establishment expenditure during construction .	—	—	14·30	14·30	14·35	14·35
6.	Electrical installation including street lighting .	7·50	7·50	12·13	12·13	9·82	9·82
7.	Proving of limestone. .	2·50	2·50	2·85	2·85	2·85	2·85
8.	Head-quarter over-heads .	5·20	5·20	21·43	21·43	20·43	20·43
9.	Interest during construction	19·45	13·45	16·58	16·58	12·58	12·58
	TOTAL :	465·48	451·51	495·87	490·37	471·47	482·56

NOTES :—1. Commitments aggregating Rs. 19 lakhs approximately (excluding the cost of Railway siding) were outstanding as on 31st March, 1973. The bill for the Railway siding was still (August, 1974) awaited.

2. Estimates included in the Detailed Project Report had been framed after the plant and machinery had been ordered and investigation of lime-stone deposits completed.

5.10. The Committee were informed that the total expenditure incurred upto December, 1974 on the Mandhar project was Rs. 488.08 lakhs, against the revised approved project-estimates of Rs.490.37 lakhs. The final Bill for Railway siding was yet to be received. The value of balance private land, covered by the mining lease, yet to be acquired was approximately Rs. 3.5 lakhs.

5.11. Asked as to how the amount actually claimed by the Railways compared with the provision made for the same revised estimates, it was stated in reply that as the final bill from Railway was yet to be received it was not possible at present to state whether the approved project estimates would be exceeded (marginally) or would be sufficient. It was, however, stated depending upon the cost of the Railway siding and the exact value of the private land to be acquired, the total expenditure on the project may be just equal to the approved revised project estimates or exceed the same marginally.

5.12. During evidence it was stated 'we may marginally exceed the given figure by about rupees half a lakh or one lakh. That is all.

5.13. It is seen that increase in the estimates sanctioned by Government in July, 1972, over those included in the Detailed Project Report and sanctioned by Government in June, 1969, was mainly under 'Establishment expenditure during construction, civil works, electrical installation and headquarters overheads'.

5.14. The expenditure during construction was provided for in the Detailed Project Report under 'Erection Cost' and 'Civil works'. The erection of plant and machinery was proposed to be done departmentally and it was anticipated by the management that the provision of Rs. 16.50 lakhs made in the approved estimates would be adequate to cover the expenses of the staff employed during construction period as well as the staff employed for erection purposes. In July, 1968, however, the Management decided to get the erection work done through the suppliers (Messrs. K.C.P. Ltd., Madras) of the plant and machinery so as to avoid the problem of surplus labour as also the complaints from the suppliers. The contract for erection and technical know-how for erection absorbed Rs. 15.29 lakhs. Thus, a provision of Rs. 1.21 lakhs remained to meet the expenditure on the maintenance of establishment during construction. Against this, the actual expenditure amounted to Rs. 14.35 lakhs.

5.15. The Management informed the Committee in a written reply that the provision of Rs. 16.50 was both for expenditure on staff employed for erection purposes and that employed during the construction period and no break-up of the provision of Rs. 16.50 lakhs was available.

5.16. Asked whether the finally settled price of Rs. 15.29 lakhs payable to plant suppliers for erection work was examined in the light of estimate included in the Detailed Project Report, the Management informed the Committee as under:

> '|At the time of placing orders for erection work in July, 1968, the Detailed Project Report Estimates had not been sanctioned. At this time the Government was intimated that the provision of Rs. 16.50 lakhs would not be sufficient to cover the erection cost, for which the work was given

on contract, and also the expenditure on establishment required to be maintained during construction and erection period. The Detailed Project Report submitted by the Corporation in January, 1967, contained a provision for contingency of Rs. 18.69 lakhs. The excess expenditure on erection and establishment expenditure during construction and erection period was contemplated to be met out of the proposed provision of Rs. 18.50 lakhs under contingency. This matter was again brought to the notice of the Government in April, 1969, *i.e.* prior to the Government's sanction of the estimate in June, 1969. The Government however, in their original sanction for the project included only a sum of Rs. 5.19 lakhs against contingency".

5.17. When asked about the total staff anticipated in the D.P.R. for erection work and that required during construction period and the actual staff employed under these two categories separately, the Management informed that no break-up was available of the total staff anticipated in the DPR for erection work and that required during construction period. The staff was however, employed during construction and erection period from time to time depending upon the minimum requirements. As the staff employed was looking after both construction and erection work simultaneously, no clear cut division between the two categories was available.

5.18. There was an overall increase of Rs. 13.39 lakhs in the actual expenditure over the Detailed Project Report estimate for 'Civil works' after absorbing the savings under 'Water supply and sewage disposal' and 'Residential building'. The Management attributed (March, 1974) the excess to the following factors:

(i) There was an extra expenditure of Rs. 25 lakhs (Rs. 16.96 lakhs on account of increase in the quantum of work and Rs. 8 lakhs on account of deeper foundations) on 'Factory buildings, foundations and welfare buildings' due to increase in the quantities of work as compared with the provision made in the Detailed Project Report and deeper foundation as a result of change in the design of the Crusher plant. The increased quantum of work was due to absence of complete data and civil design at the time of making provision in the Detailed Project Report which underwent changes subsequently. The original design of the Crusher plant had to be altered as the quality of limestone was found (1968) to be harder than originally assessed (1966) by the plant suppliers, thereby leading not only to more powerful crusher and conveyor but also to deeper foundations. As a result, not only there was an extra expenditure of Rs. 8 lakhs under 'Civil works' on account of deeper foundations but also the plant suppliers had to be paid an extra amount of Rs. 1.50 lakhs.

(ii) There was an extra expenditure of Rs. 1.54 lakhs on roads and drains as it was found necessary to change katcha roads to pucca water bound roads.

5.19. In a written reply the Management stated that in terms of the letter of intent dated 29th June, 1965, sample of raw material was to be collected by the plant supplier in association with the undertaking and tested before commencement of manufacture of machinery. There was, however, no mention in the letter of intent for varying the quoted price of Rs. 1,37,58,000. In clause XII of the agreement executed in August, 1969 with plant supplier also, it was mentioned that the undertaking and the plant supplier had, in the light of the tests conducted by the plant suppliers, mutually agreed for change in the specification of crusher unit. There was however, no mention about price escalation on this account. In view of the above Contractual position, the Committee enquired about the justification for the additional payment of Rs. 1.50 lakhs to the plant suppliers.

5.20. The representative of the Corporation stated during evidence as under:

"The cost of civil engineering works of the main plant and its foundation depends on the lay-out and load data furnished by the machinery suppliers. In the project report, provisions were made at a time when we did not have the load data and lay-out details from the machinery suppliers. Therefore, they were *ad hoc* provisions. Later on, the cost incurred was on the basis of the detailed lay-out submitted by the machinery suppliers, and certain amendments made by them from time to time, in the lay-out details etc. given by them. That is why there is some excess in expenditure compared to the provisions made on an *ad hoc* basis. The provision in the detailed project report was made in the absence of lay-out data and load data. The actual cost thereof can be worked out only when the civil engineering designs are carried out based on lay-out drawings, load data and other details. still, the overall excess in the cost of civil engineering works is well within ten per cent. The provision for civil engineering works in the detailed project report Rs. 168.53

lakhs, and in the revised detailed project report it was Rs. 173.0 lakhs, and the expenditure incurred up to September, 1974 was Rs. 173.62 lakhs. Additional works costing Rs. 2.5 lakhs are to be executed. These are additional works now required keeping in view the functioning of the plant. So, the overall excess is only marginal, in spite of the fact that the provisions were made *ad hoc* in the absence of lay-out drawings."

5.21. As regards the prices of certain items having been increased in the contract as compared to those indicated in the letter of indent, the Chairman and Managing Director stated:

> "....We are not in a position to say under what circumstances this was agreed to. But we find that this was not approved by the Board of Directors at that time...."

5.22. The representative of the CCI also informed the Committee that the contract Price put in the Contract was after adjustments allowed of Rs. 1.5 lakhs for the Crusher Plant. The issue was decided before signing of the Contract and the price mentioned had already taken into account the extra price of Rs. 1.5 lakhs, and the Contract was entered into after taking into consideration the excess price of Rs. 1.5 lakhs The witness further explained that in the letter of intent, this was not included, but when the contract was signed, subsequently the price was changed, and various adjustments not only on account of the Crusher Plant but some other equipments also were effected subsequently in the contract.

5.23. In this connection, the Management further informed the Committee in a subsequent written reply as under:

> "At the time of giving letter of intent for plant supplies in June, 1965, the order was only for a standard plant of 600 tonnes per day capacity. The plant suppliers were to take samples and the plant was to be fabricated as per requirements after analysis of the raw materials etc. At the time the letter of Intent was placed the contract value envisaged was Rs. 1,37,58,000. However, after analysis of the samples, the suppliers had taken up with the Corporation. the change in the design of the Crusher. The suppliers were in correspondence with the CCI on this matter from October, 1967 but the settlement on price could only be made in 1968. However, the original contract price reduced in case of the certain items on account of this redesigning and in the case of crusher it was

increased by an amount of Rs. 1.50 lakhs. The ultimate contract price, however, was reduced from Rs. 1,37,58,000 to Rs. 1,37,08,000. This settlement which resulted in overall reduction of the contract price (including an upward revision on account of crusher re-designing) was already arrived at before the execution of the contract. The contract amount was, therefore, revised from the original amount indicated in the letter of Intent. As the change in price on account of change of specifications has already been mentioned in clause 2 of the contract, there was no further necessity of including an escalation on this account in the contract."

The Management further informed the Committee that this amount of Rs. 1.5 lakhs was agreed to by the CCI not on account of price escalation but on account of taking a double toggle jaw crusher and reversible impact type hammer mill instead of single toggle jaw crusher and ordinary hammer mill which was considered necessary to give better efficiency.

5.24. The Committee note that though the State Government granted the mining lease for 404 acres of land in April, 1967 which included 332 acres of private land and the lease agreement was executed in October, 1967, there was a delay of 16 months in the Corporation taking action for acquisition of the private land and only 236 acres were acquired through negotiations upto November, 1972 for Rs. 4.73 lakhs. Negotiations for the balance are still stated to be in progress. The Committee are informed that as the proceedings for acquisition were pending with Government till 1969, the Corporation sought permission for direct negotiation.

5.25. It has also been stated that in the absence of acquisition of the entire land, there had been difficulties regarding disposal of over-burden and heavy blasting operations

5.26. On an application of the Corporation in December, 1971, for an additional area of 198 acres of which 98 acres was private land, a mening lease of 195 acres of which 92 acres was private land, was given by State Government in January, 1973 after one year. It has been stated even now the acquisition proceedings were still in progress and a small piece of land was left to be acquired from the private owners.

5.27. The Committee see no reason why the Corporation should not have felt the sense of urgency and taken up the matetr through the Ministry with the State Government and why it should have waited till November, 1969 to seek the permission. The Committee

recommend that this matter should be settled without further delay and the Committee informed.

5.28. The Committee also note that the increase in the estimates for Mandhar Plant sanctioned in July, 1972 for Rs. 490 lakhs over those included in the Detailed Project Report and sanctioned by Government in June, 1969 for Rs. 451 lakhs was mainly under Establishment expenditure during construction (Rs. 14.35 lakhs), civil works (Rs. 7.47 lakhs), electrical installation (Rs. 4.63 lakhs) and headquarters overheads (Rs. 16.23 lakhs). The actual expenditure on erection cost including establishment expenditure during construction amounted to Rs. 20.64 lakhs against the provision of Rs. 16.50 lakhs in the project report. It was stated that the erection of the plant and machinery was originally proposed to be done departmentally and it was anticipated by the Management that the provision of Rs. 16.50 lakhs made in the approved estimates would be adequate to cover the expenses of the staff employed during construction period as well as staff employed for erection purposes though no break-up of the provision under the two heads was indicated. Subsequently, the Management decided to get the erection work done through the suppliers (M/s K. C. P. Ltd., Madras) of the plant and machinery so as to avoid the problem of surplus labour and also the complaints from suppliers. The contract for erection and technical know-how for erection absorbed Rs. 15.29 lakhs and after meeting the expenditure on the maintenance of establishment during construction, the total actual expenditure on this account exceeded the sanctioned estimate by Rs. 13.14 lakhs thus registering an increase over the provision in the revised estimate by 80 per cent. In the opinion of the Committee, such an excess is too high and indicative of the original estimates not being realistic. The Committee are informed that the excess expenditure on erection and establishment expenditure during construction was contemplated to be met out of the provision of Rs. 18.69 lakhs under contingencies. Though the inadequacy of the provision was brought to the notice of Government before sanction of the DPR, Government had not chosen to revise the provision on the basis of known factors but reduce the provision under contingencies. In the opinion of the Committee meeting the expenditure on establishment during construction out of the provision for contingencies irregular and the erection cost should have been broken up so as to indicate the provision for establishment during construction separately so that control of costs over establishment was possible.

5.29. The Committee recommend that the Government/Corporation should ensure that estimate of the project are realistic and not

so wide off the mark as otherwise the very purpose of having the estimates is likely to be defeated.

5.30. The Committee also note that there was an over-all increase of Rs. 13.39 lakhs in the actual expenditure under civil works over the provision in the DPR after absorbing the savings under water supply and sewage disposal and residential buildings. The excess has been attributed to an extra expenditure of Rs. 25 lakhs on factory buildings, foundations and welfare buildings due to increase in the quantities of work as compared with the provision made in the DPR and peeper foundation as a result of change in the design of the crusher plant. The original design of the crusher plant had to be altered as the quality of limestone was found (1968) to be harder than originally assessed (1966) by the plant suppliers, thereby leading not only to a more powerful crusher and conveyor but also to deeper foundations. As a result, not only was there an extra expenditure of Rs. 8 lakhs under civil was on account of deeper foundation but the plant suppliers had also to be paid an extra amount of Rs. 1.5 lakhs because of the change in the design of the crusher necessiated in the light of analysis of the raw materials etc. The Committee were informed that in terms of letter of intent dated 29th June, 1965 sample of raw material was to be collected by the plant suppliers in association with the undertaking and tested before commencement of manufacture of machinery. There was no mention in the letter of intent for varying the quoted price of Rs. 137.58 lakhs.

The agreement with the suppliers also mentioned that in the light of the test conducted by the supplier, the party agreed for change in the specification of the crusher unit. There was no mention about price escalation on this account. Actually when contract was concluded subsequently, the price was changed and adjustments not only on account of the Crusher Plant (in which extra amount of Rs. 1.5 lakhs was involved) but on account of some other equipments also were made. As a result of these adjustments, the over-all price of Rs. 137.58 lakhs was reduced to Rs. 137.08 lakhs.

5.31. The Chairman and Managing Director of the Corporation informed the Committee that they were not in a position to say under what circumstances the adjustment upwards was agreed to and that this matter was not approved by the Board at the time. The Committee were informed that as a result of adjustments upwards in some cases and downwards in other cases, the ultimate contract price is stated to have been reduced from Rs. 137.58 lakhs to Rs. 137.08 lakhs. The Committee need hardly

stress that letters of intent formed the basis of contracts and there should not be any change in the provisions stipulated in the letter of intent. The Committee are also not happy that such changes should have been made without the approval of the Board although the over-all effect of the changes is a reduction in the total value of the contractual amount. The Committee recommend that Government should closely examine the justification for such changes which have led to an extra contractual obligation. The Committee may be informed of the results.

Head Office overheads

5.32. There was a increase of Rs. 15.23 lakhs under 'Headquarter Overheads' with reference to Detailed Project Report estimates. The increase was due to the fact that provision in Detailed Project Report was made on the assumption that 5 plants would be put up.

5.33. The staff strength of the Headquarters office since the incorporation of the Corporation is given below:—

	As on 31st March,								
	1965	1966	1967	1968	1969	1970	1971	1972	1973
Technical . . .	1	14	26	27	25	23	30	41	47
Non-technical . .	10	52	63	66	72	82	83	97	108
TOTAL . . .	11	66	89	93	97	105	113	138	155

5.34. In this connection the Management stated that during the year beginning 1965, in addition to the two projects under implementation, the Corporation had to prepare feasibility reports/project reports for various projects such as Neemuch, Jagdalpur, Tandur, Bokajan, Boanta, Yerraguntla; Baruwala and Mandhar Expansion. In the case of Bokajan and Baonta, in addition to the Detailed Project Report once worked out, the estimates had to be recast again on the basis of the tenders received for plant and machinery which were much higher than those originally estimated. As such a second estimate had to be prepared and submitted to Government for approval.

5.35. Asked whether in view of only two Projects coming up, the staff strength was fixed on realistic basis, it was stated that the staff strength, was always realistic and to meet the immediate needs.

5.36. Replying to another question whether the increase under 'Head Office Overheads" was mainly caused by larger time taken in the execution of the Project than anticipated in the Detailed Project Report, the Management stated that the increase in the Head

Office Overheads in the case of Mandhar and Kurkunta factories was caused both by the fact that lesser number of projects were implemented at a time than that anticipated and also because the implementation of the Project took a longer time. The fact that the Head Office Overheads was likely to increase considerably due to lesser number of Projects sanctioned by the Government for implementation was also brought to the notice of the Government by the Corporation in August, 1968 and the Government were accordingly requested to increase the provision under Head Office Overheads. This request, however, was not acceded to.

Electrical Installation

5.37. There was an increase of Rs. 2.32 lakhs in the expenditure on 'Electrical installation including street lighting' over the Detailed Project Report estimates. This increase was attributed by the Management to the additional sub-station and transformers required to step down 33 KV line to II KV line. As per Detailed Project Report, the State Electricity Board was to supply power at 33 KV only.

5.38. In this connection, Management stated (March, 1974) as follows:—

> "In Madhya Pradesh Government Tariff, it was indicated that H.T. power can be made available at 33/11 K.V. Based on this, while formulating the project report an estimate was prepared for the supply of power by Madhya Pradesh State Electricity Board at 11 K.V. though in the body of the report it was mentioned at 33 K.V. power supply. Ultimately M.P. Government regretted to supply power at 11 K.V. As a result of this, extra transformer had to be installed by the Corporation for which a provision was not made in the Detailed Project Report.......... Non-provision of estimate in Detailed Project Report for stepping down from 33 K. V. to 11 K.V. is a genuine mistake."

5.39. When asked about the steps taken to ensure that the data included in the Detailed Project Report were correct the Management stated in a written reply as under:—

> "The Mandhar Project Report was prepared in the initial stages of the Corporation. The non-provision of estimates in the D.P.R. for stepping down of power supply from 33 K.V. to 11 K. V. was through a genuine oversight. Care is now being taken to include such items in the report which are now being prepared."

5.40. The Committee note that the Head-quarters overheads which were estimated to be Rs. 5.20 lakhs and approved at that level by Government in 1969 rose to Rs. 20.43 lakhs registering an increase of almost 300 per cent which is stated to be due to less number of ce-

ment projects having been taken up the earlier anticipated and due to the longer time taken in the implementation of the project. They also note that the fact that Headquarters overhead was likely to increase due to less number of projects sanctioned was brought to the notice of Government but the Government were not agreeable to increase the provision under this head. In spite of this the Committee are surprised that Government had not taken any action to reduce the overhead expenses by pruning the establishment to the extent necessary. The Committee find that the staff strength increased from 97 in 1969 to 155 in 1973. It was stated by the Management that the staff strength was always realistic to meet immediate needs. The Committee recommend that Government should examine the justification for such huge expenditure on Headquarters which has caused the increase allocation of overheads to the individual projects and fix the strength on a realistic basis.

5.41. The Committee note that the M.P. Government Tariff indicated that H.T. power can be made available at 33/11 K.V. While formulating the project report, an estimate was prepared for supply of power by Madhya Pradesh State Electricity Board at 11 K.V. and in the body of the report it was mentioned at 33 K.V. power supply.

The M.P. Government having regretted to supply power at 11 K.V., an extra transformer had to be installed by the Corporation for stepping down the supply of power from 33 K.V. to 11 K.V., for which no provision existed in the D.P.R. The Committee would like that this matter may be investigated with a view to pin-point responsibility for this costly lapse. The Committee may be kept informed of the results.

C. Erection and Commissioning

5.42. The table below indicates the data relating to the scheduled dates and actual dates of completion of the civil work:—

Sl. No.	Department	As per contract	Civil foundation to be handedover according to the schedule drawnup: in May 1967	Actual dates of handing over	Delay
1	2	3	4	5	6
1.	Crusher . . .		2/69	15-1-1970	11 months
2.	Crane . . .		10/68	18-7-1969	9 months
3.	Slurry Mill . . .	To be complet-	12/68	31-1-1969	1 month
4.	Slurry Silo . . .	ed within	10/68	1-7-1969	9 months
5.	Slurry Basin . . .	12 months	9/68	3-10-1968	1 month
6.	Coal Mill . . .	of the issue of	1/69	21-8-1969	7 months

1	2	3	4	5	6
7.	Kiln	of work	10/68	3-6-1969	8 months
8.	Cement Mill . . .	order in July	12/68	6-3-1969	3 months
9.	Packing House . . .	1968	2/69	30-11-1969	9 months

Civil Works

5.43. While the order for plant and machinery was placed in June, 1966 and the supply of equipment was to commence with effect from February, 1967, the contract for civil works was awarded to M|s. Wig. Bros. in July, 1967 and the entire work was to be completed within a period of 12 months. The item-wise schedule for completion of civil works was finalised in May, 1967 and envisaged completion of various items between October, 1968 and February, 1969.

There was, however, delay ranging from 1 month to 11 months with reference to this schedule. The contractor attributed the delay to non-receipt of detailed specifications and drawings from the Engineering Consultants who, in turn, ascribed it to their late receipt from the suppliers of the plant machinery. The Corporation, however, maintained that the delay, if any, in the issue of drawings in most cases did not hamper the progress of the construction work. It had further been stated that time of completion was extended from time to time up to 30th April, 1970 keeping in view the magnitude of the work and the circumstances prevailing. No liquidated damages were imposed even though in a number of cases the progress was much below the mark.

5.44. The dispute between the Corporation and the contractor was referred to arbitration in April, 1972. The claim of the contractor filed with the Arbitrator amounted to Rs. 23.29 lakhs (Rs. 15.62 lakhs on account of prolonged period of execution of work and Rs. 7.67 lakhs for additional items of work and other reasons).

5.45. The Arbitrator awarded in August, 1973, an amount of Rs. 2.46 lakhs in favour of the contractor.

5.46. The table below indicates (i) the date relating to the scheduled dates and actual dates of supply of the various items of plant and machinery and (ii) actual dates of completion of erection of the plant machinery:—

(i) *Statement showing the dates of supply of various items of plant and machinery*

Department	Completion dates of delivery as per revised schedule of 22-5-1967	Actual date of delivery
1 Limestone crushing . .	July, 1967 to April, 1968	January, 1969 to march, 1970
2 Slurry Griding Plant .	April, 1967 to December, 1967	Between August, 1967 and February, 1970.
3 Slurry Blending and Storage	August, 1967 to November, 1967	August, 1967 to September 1969
4 Rotary Kiln and Clinker .	March, 1967 to May, 1968 1968	February, 1968 to December, 1969.
5 Cement Grinding Plant .	June to December, 1967	December, 1967 to December, 1969.
6. Packing Plant . .	August to December, 1967	April, 1969 to November 1970
7 Storage Hall & Material Handling.	August to December, 1967	April 1968 to October, 1969
8 Coal Grinding & Transport.	May, 1967 to December, 1967	May, 1968 to September, 1969.
9 Gypsum Crushing .	June, 1967 to October, 1967	July, 1968 to October, 1968

(ii) *Statement indicating programme and actual dates of completion of erection*

Sl. No.	Department.	Actual date of handing over of civil Foundation	Date by which the erection should have been completed	Actual date of completion of erection	Delay
1.	Crusher	15-1-1970	14-5-1970	15-7-1970	2 months
2.	Crane	18-7-1969	19-11-1969	25-12-1969	1 month
3.	Slurry Mill . . .	31-1-1969	30-6-1969	Do.	6 months.
4.	Slurry Silo . . .	1-7-1969	31-10-1969	Do.	2 months.
5.	Slurry Basin . . .	3-10-1968	2-1-1969	Do.	12 months
6.	Coal Mill Bldg. . . .	21-8-1969	20-3-1970	1-2-1970	..
7.	Kiln Department . . .	3-6-1969	13-11-1969	Do.	3 months
8.	Cement Mill . . .	6-3-1969	5-9-1969	16-7-1970	10 months.
9.	Backing Mill . . .	30-11-1969	29-5-1970	18-7-1970	2 months'

(ii) *Plant and Machinery and Erection Thereof*

5.47. As already mentioned above, contract for the supply of plant and machinery was placed in June, 1966 with M/s. K. C. D. Limited of Madras. The same firm was appointed as erection contractor in July, 1968 on a consideration of Rs. 13.72 lakhs.

The original schedule for the supply of plant and machinery by December, 1967 was revised in May, 1967 and envisaged the completion of the supply of all the items of equipment by May, 1968. The firm did not, however, adhere to this schedule and the supply was completed by November, 1970. Similarly there was delay ranging from 1 month to 12 months in the completion of erection with reference to the actual dates of handing over of civil foundations. In terms of both the contracts, the firm was liable to liquidated damages as follows:—

(a) ½ per cent of the value of the machine for each full month for which delivery was delayed subject to the maximum of 5 per cent of the value of the said machine.

(b) 1/2 per cent per month of delay subject to a maximum of 5 per cent of the total value of the contract.

5.48. In the agenda for 45th meeting of the Board held on 18th January, 1972, the question of the levy of liquidated damages for delayed of plant and machinery and its erection by the firm was considered and following observations were made:—

(i) In initial stages M|s. K. C. P. anticipated certain amount of delay in the supply of plant and machinery due to their getting the import licence late and difficulties experienced in procurement of certain indigenous materials. Apart from this, M|s. K. C. P. did not intimate any other ,reasons due to which the supply of plant and machinery was delayed. The total liquidated damages payable by M|s. K. C. P. for delayed supply of plant and machinery as per the contract amounted to Rs. 16000 (approx.)

(ii) As regards erection, though there was delay ranging from 2 to 12 months when taken section-wise, the overall delay with reference to the last date of completion of erection was only two months. In calculating the period of delay, however, the period of delay by the Company in handing over the foundations was to be excluded. As the delay, both on the part of M|s. K. C. P. and the company was 11 months, perhaps no liquidated damages could be levied.

(iii) Taking into account all the facts the delay in delivery of plant and machinery and in erection had delayed the ultimate implementation of the project by 2|3 months. In a project like this, 2|3 months delay was not considered serious lapse. Since there were various factors beyond the control of various agencies, the delay might be condoned.

5.49. No final decision was, however, taken. The Corporation, in the meantime, withheld an amount of Rs. 7.49 lakhs from the payments due to the firm in terms of the contracts for supply and machinery and erection thereof.

In this connection, the Management stated (November, 1973) as follows:—

"A Committee was set up...................to consider the question of defects and delay in the plant and machinery supplied by M|s. K.C.P. The Committee had taken due note of all the aspects arising out of M|s. K.C.P's supply. The Board considered the recommendations of the Committee in its 54th meeting and approved the release of payment to M/s. K. C. P. after adjusting|recovery of certain amount for defects, etc."

5.50. The recovery of Rs. 2,50,448.58 recommended by the Committee did not include any amount relating to delay in supply of plant and machinery and delay in erection. In fact, the Committee condoned the delay, as in a project of this magnitude, delay was not considered abnormal by the Committee.

5.51. When asked whether, in the light of the facts mentioned in the preceding paragraphs, the management had taken steps to ensure completion of the new projects as per schedule, the Management stated in a written reply as under:—

"A Monitoring and Evaluation Cell has been set up at the headquarters of the Corporation to coordinate and monitor all activities connected with the implementation of the new projects. It is expected that the projects will be completed as per Schedule".

5. 52. The Committee note that the contract for civil works was awarded to one M/s. Wig Bros. in July, 1967 and the work was to be completed in a period of 12 months. The item-wise schedule for completion of civil works was finalised in May, 1967 and envisaged completion of various items between October, 1968 and February, 1969. There was, however. delay ranging from one months to eleven months in the completion of civil works by the contractor. It

has been stated that keeping in view the magnitude of the work and the circumstances prevailing the date of completion was extended from time to time till 30th April, 1970. Even though in a number of cases the progress was much below the mark, no liquidated damages were imposed on the contractor. On the contrary, the contractor filed with the Arbitrator a claim amounting to Rs. 23.29 lakhs (Rs. 15.62 lakhs on account of prolonged period of execution of work and Rs. 7.67 lakhs for additional items of work and other reasons) and the Arbitrator awarded an amount of Rs. 2.46 lakhs in favour of the contractor. The Committee are unhappy to find that not only the Corporation failed to make out a case for imposing liquidated damages on the contractor for delays but also it was held liable to pay an additional sum of Rs. 2.46 lakhs to the contractor.

5.53. The Committee further note that the supply of plant and machinery which was first required to be made by December, 1967 and then by May, 1968 was actually completed by November, 1970. Similarly, there was delay ranging from 1 month to 12 months in the completion of erection work. Taking into account all the facts and, as the delay on the part of the contractor and the Corporation was 11 months, the Corporation did not levy any liquidated damages which amounted to Rs. 16000 as per terms of contract. The delay in delivery of plant and machinery and in erection is stated to have delayed the implementation of the project by 2/3 months which in a project of this size was not considered to be a serious lapse. Though the Corporation withheld Rs. 7.49 lakhs from the Payments due to the firm, the question of defects and delays in supply of plant and machinery was considered by the Board which ultimately decided to condone the delay and release the payment after adjustment/recovery of certain amounts to the extent of Rs. 2.5 lakhs. In effect the Corporation has lost the claim for liquidated damages to the extent of Rs. 16,000. The Committee feel that in both the contracts relating to construction of civil works and supply and erection of plant and machinery, because of the delays on the part of the Corporation, it could not sustain its claims against the contractor. The Committee recommend that the Corporation should learn a lesson from this experience and avoid such delays in future.

5.54. The Committee are informed that a Monitoring and Evaluation Cell has now been set up to coordinate and monitor all activities connected with the implementation of the new projects. They hope that atleast now such delays will be avoided and the new projects will be completed as per schedule.

D. Defects in the Plant

5.55. The Plant was Commissioned on 19th July, 1970, the guarantee performance runs for individual units commenced from 21st March, 1970 and continued upto 24th December, 1970. Though the performance efficiency of all the units of the plant, as stipulated in the agreement, had not been established by the plant suppliers, the plant was taken over by the Corporation on 12th September, 1970.

5.56. Asked about the considerations which weighed with the Management in taking over the Plant when the Performance efficiency of all the units of the Plants had not been established by the Plant suppliers, the chairman and Managing Director stated during evidence as follows:—

"........When we entrusted the whole work to the suppliers, they completed at and handed over the plant to the owner. But they completed test performance either before or may be, in some cases, afterwards. In this case, we find from records that the Company had taken over the Plant from M|s. K.C.P. on 12th September, 1970. The test performance in the case of the following units was given subsequently:

1. Crushing Plant
2. Raw Grinding Mill
3. Coal Mill
4. Cement Mill".

5.57. In this connection, the Management stated in a Written reply as under:—

"As per the contractual obligations the plant and machinery suppliers have given the performance guarantees for all the units of the plant and machinery. The date of 12-9-1970 as the date of having taken over the plant is with respect to completion of erection of all the units and the plant was under Cement Corporation of India's control. The suppliers had deputed their commissioning Engineers for the performance guarantees."

5.58. The representative of the evidence as under:—

"The plant will be taken over and the guarantee period is a long period during which we run the plant. It is only during the period the plant runs that we come across these defects which can be pointed out. So, there is no irregularity. Only when we run it, we will come to know the defects."

5.59. After all the units of the plant had been handed over, certain defects began to be noticed by the Management in the various units.

The details of the various defects together with their financial impact, wherever possible, and the remedial steps taken so far, are enumerated below:—

(i) Crushing Plant

5.60. Against the guaranteed output of 200 tonnes (85 per cent minus 10 mm. size) per hour (when fed with-run of mine lime-stone of not more than 750 x 750 mm. size or fed with 1½ cubic yard shovel) the crushing plant had been given only 160 tonnes output per hour. According to the Menagement, the guaranteed capacity 'cannot be achieved because of defective positioning of push feeder and hopper with respect to wagon tippler'. This defect had necessitated the employment of labourers to push the blocked boulders manually. The additional expenditure o incurred on the employment of labourers for the period from September, 1970 (date of actual commissioning of the plant) to March, 1972 amounted to Rs. 21,500 (approx.). M|s. K.C.P. who did the erection, were responsible for this defective positioning. The daily requirement of lime-stone is around 1032 tonnes. It had been found that the Plan was not capable of running continuously and producing the required quantity lime-stone in one shift as originally contemplated. The Plant was, therefore, being run on two shifts, thus necessitating empolyment of extra staff (11 persons costing approx. Rs. 28.512 per year on the basis of actuals for March, 1972).

5.61. In this connection, hte Ministry stated (June, 1974) as follows:—

(a) "The Plant supplier M|s. K.C.P. had fulfilled the guarantee tests with an output of 200 tonnes per hour. But granulometry of lime-stone was little short for which the plant supplier has paid the penalty."

(b) "Less production of crushed lime-stone from the crusher unit than guaranteed performance is not unusual phenomenon in the Industry as it is linked up with the winning of lime-stone and its transport and tipping sequence. Since the system connected with the winning of lime-stone and transport of lime-stone by means of dumpers into N.G. wagons and thereafter by tipping mechanism into the hopper in sequence could not be maintained at

200 tonnes per hour, hence spread over of the Operation of the Crusher in the second shift is necessary."

5.62. The Management stated (August, 1974) that steps are being taken to improve synchronisation in winning, transportation, etc., of lime-stone for avoiding second shift working of the Crusher.

5.63. During evidences the chairman and Managing Director informed the Committee that normally test performance in the crushing Plant was given for 8 hours to 24 hours usually, it was 24 hours.

The guarantee period and the safety of the machinery was first 6 months. In some cases, it was 12 months. Explaining the reasons for not achieving the guaranteed output of 200 tonnes per hour in the Crushing plant, the Chairman and Managing Director stated during evidence as under:—

"As per the records, we find that they have given test normally for the Crushing plant for 8 hours. During that 8 hours, it was fulfilled. Subsequently, we find that we get an output of 160 tonnes instead of 200 tonnes per hour. As far as the Crushing Plant is concerned its Operation should be synchronised with the movement of lime-stone coming from the lime-stone quarry which is about 6 miles away from the Crushing Plant. If the flow of lime-stone is continuous and its feeding into the plant is continuous, then we may be able to get an output of 190 tonnes or even 200 tonnes. The only thing is that the size may be less for which we have penalised M|s. K.C.P. One of the reasons for this short fall is that we bring lime-stone in a train. When a train with 20 wagons comes and is unloaded, there is-gap between this train and the next train. But the Crushing Plant continues to run, and the running hours are taken into account. On the other hand, there is no continuity of lime-stone during that gap, because we do not have so many sidings. This train has to come to a particular point and then it is unloaded."

* * * *

"There is another defect. When the Crushing Plant is giving 200 tonnes output, if you change its operation, it will give a slightly less output."

* * * *

"Suppose for 8 hours, the output is 160 tonnes. If we unload all the wagons without any breath, I think the crushing Plant can give an output of 200 tonnes even today. The main problem is that the continuity of the trains cannot be arranged properly. In between there is a break, say, for about half an hour. But we do not stop the Crushing Plant for half an hour. If we go on stopping it and starting it. So many times in a day, it is not good for the electric motor."

5.64. The witness informed the Committee that the output of the Crusher Plant in 1970-71 was 163 tonnes per hour, in 1971-72, 161 tonns and during 1973-74, 187 tonns.

5.65. The Committee pointed out that the guaranteed Capacity could not be achieved because of defective positioning of Push Feeder and Hopper. The Chairman and Managing Director stated as follows:—

> "First there is hopper. It is a civil engineering BCC Construction where the lime-stone is unloaded. The push feeder from the hopper and the Conveyer feed the Crusher. There is the jaw Crusher and then there is a secondary Crusher. K.C.P. have supplied the Primary and secondary Crushers. As far as the Crushers, are concerned, there is no difficulty. It is only in the design of the hopper which is a civil engineering Construction. There is some defect in the hopper because of which the material does not flow in the ordinary course very smoothly. So, we have to engage a labourer, whenever it gets stuck up. We have to push it by a rod or a pipe."

5.66. On an enquiry ,the witnesses stated that they had not made any changes in the hopper design because it was a concrete hopper and to make any changes in it was very difficult. If it was steel, they could cut it and weld it to increase the slope of the hopper. The witness informed that it were the machinery supplier and the civil engineering Consultants who are responsible for the defective design of the hopper.

5.67. Replying to a question about the recovery of Cost from the machinery supplier for the supply of defective design and the reasons for not getting it changed, the witness stated that as far as the output or capacity was concerned the Corpoartion was able to maintain it but the loss was to the extent of the wages of the labourer.

5.68. When Asked about action taken against the suppliers| erectors who were responsible for defective positioning of push feeder and hopper with respect to wagon tippler in the crushing plant, thereby necessitating employment of manual labour to push the blocked boulders and entailing extra expenditure? The Management stated in written reply that In the initial period of the operation of the plant, there was problem of keeping the sequence in the supply of limestone and therefore, extra people were employed and the problem had since been solved.

5.69. In order to avoid the running of the Crusher Plant in the second shift, it was stated as under:—

"Operation of crusher in one shift at Mandhar is posing problems due to following reasons:

(i) There is a transportation problem of wagons, as the N.G. locomotives are very old which have been purchased from Railways.

(ii) The limestone is being raised partly manually and the pits are located at different locations and partly mechanically.

(iii) Synchronisation of winning, transportation and tipping at the Crusher is time consuming factor, which makes single shift operation for feeding the plant difficult."

5.70. It was stated that the extra expenditure on account of operation of the Crushing Plant in the second shift, could be taken to be Rs. 47,500|- during 1973-74.

5.71. It was further stated that the Crushing Plant on an average was worked for about 4 hrs. per day in an 8 hrs shift. The Staff employed in a shift was therefore not only utilised for operating the Crushing Plant but also for minor repair, preventive maintenance and clearing the jobs in the Crushing Plant. Therefore, by splitting the second shift expenditure in the ratio of 2:1 towards operational expenditure, and to repair and cleaning expenditure, the extra expenditure worked out to Rs. 30,000|- (app.) only.

5.72. The Committee regret to note that though the guarantee performance runs for the individual units commenced from 21st March, 1970 and continued upto 24th December, 1970, and performance efficiency of all the units of the plant as stipulated in the agreement was not established, the plant was taken over by the Corporation on 12th September, 1970. It was stated that the performance test in the case of Crushing Plant, Raw Grinding Mill, Coal Mill and Cement Mill was given subsequently. The Committee are surprised at the statement of the Ministry that "there is no irregularity. Only when we run it we will come to know the defects'. The Committee have given their comments separately in regard to the defects noticed in the plants.

5.73. The Committee note that as against the guaranteed output of 200 tonnes per hour the crushing plant had been giving only 160 tonnes per hour because of the defective positioning of the push feeder and hopper with respect to wagon tippler which necessitated employment of extra labour at a cost of Rs. 15000 per year to push the blocked boulders manually. The plant was not capable of running continuously and producing the required quantity of 1032 tonnes in one shift as originally contemplated with the result that it had to be run in two shifts necessitating employment of extra staff costing about Rs. 30,000 per year. The plant supplier had fulfilled the guarantee test with an output of 200 tonnes per hour, but the granulometry of limestone was little short for which the plant supplier had paid the penalty. The spread over of operation to second shift was necessary because the sequence connected with the winning of the limestone, transport of limestone by means of dumpers into wagons and thereafter by tipping mechanism into the hopper could not be maintained at 200 tonnes per hour. The Committee are informed that so far as crushers are concerned there was no difficulty. It is only in the design of the hopper that there is a defect because of which the material does not flow smoothly. The machinery supplier and civil engineering consultants were responsible for the defective design of the hopper. Though the Corporation was able to maintain the output or capacity, the loss was to the extent of the wages of the labourer. The Committee are also informed that though in the initial stage, there was the problem of keeping the sequence of supply of limestone, the problem was solved by employment of extra labour. However, the main problem of maintaining continuity of trains still remained. The operation in one shift was posing problem due to (a) transportation because the N.G. locomotives purchased from Railway were very old; (b) raising of limestone partly manually and partly mechanically; and (c) synchonisation in winning, transportation and tipping being a time consuming factor. The Committee are also informed that normally test performance in crushing plant was given for 8 hours to 24 hours and it was usually for 24 hours. The Managing Director stated during evidence "as per records we find that they have given test for crushing plant for 8 hours. During that 8 hours, it was fulfilled Subsequently, we find that we get an output of 160 tonnes per hour instead of 200 tonnes per hour. The Committee fail to understand as to why the Corporation had not insisted on a guaranteed performance of integrated working of the plant with all its operations for the usual period of 24 hours according to the agreement. The Committee are distressed to note that no action was taken against the civil engineering contractors and supplier of plant and machinery who are responsible for the defective positioning of feeder and hopper which had resulted in em-

ployment of extra labour with a recurring expenditure of Rs. 15,000 per year. The Committee recommend that this matter should be investigated with a view to fixing responsibility and the Committee informed of the results. The Committee would also like the Corporation to study the problem of maintaining continuity of trains and maintenance of locos with a view to evolving a solution in the interest of better utilisation of the capacity and avoid second shift operation which entailed an expenditure of Rs. 30,000 per year. The Committee would also like the Corporation/Government to study the economics of raising lime-stone partly by manual and partly by mechanical operations in the context of maintaining continuity of supply.

(ii) *Raw Grinding Mill*

5.74. The guaranteed out put of 50 tonnes per hour of the Raw Grinding Mill on dry basis was obtained at the time of guarantee test by working the Mill below 80 per cent of the full load. The Works Manager of the Plant reported to the Head Office of the Corporation that, owing possibly to the wrong specifications and defective materials used by the supplier, the flexible coupling towards Mill end and the Pinion and girth gear of the Mill were Wearing out fast even with 80 per cent of the load. As the agreement only provided for free replacement of any equipment becoming unserviceable on account of any defect in the materials used in its manufacture or defective workmanship within a period of six months from the date of commissioning of the machine, the suppliers refused to own any responsibility for these defects.

5.75. According to the instructions of the suppliers, the Corporation installed in November, 1970 an oil cooler as a result of which, pitting was stated to have stabilised. The oil cooler was supplied by the suppliers free of cost.

(iii) *Coal Mill*

5.76. Though the guaranteed out put of 10 tonnes per hour of the Coal Mill was obtained during the guaranteed performance test, outlet flangs bolts failed and the mill went out of alignment after 1½ years of its working, resulting in small pieces of grinding media and coal powder coming out and contaminating the lubricants. This also damaged the girth gear and pinion.

5.77. The Management stated (May, 1973) that the cost of bolts was Rs. 500 only and that no expenditure was incurred on the girth gear and pinion which were run after cleaning and changing the lubricant. It had further been stated (March, 1974) that the Coal Mill was running satisfactorily.

5.78. When asked whether the Raw Grinding Mill and the Coal Mill were now giving guaranteed output, the representative of the Corporation stated as under:—

"The raw grinding mill and the coal mill are running to our requirements, but not to the guaranteed output which was given by the plant supplier as guaranteed output depends in the replenishment of the many components. The mill consists of many components which wear out in course of operation and they have to be replenished."

5.79. Asked about the period of the guarantee agreement and upto what time was it valid, the witness state:

"Normally the agreement for the performance guarantee is given according to process engineering. Normally for the crusher it is 8 hours, for the Kiln, it is 24 hours, for the raw grinding mill, it is 24 hours etc. Recently we have introduced a guarantee for a sustained production for seven day continuously. At the time of the agreement there was no such element of sustained production. They have fulfilled the guarantee stage after the plant had gone into operation........".

5.80. In connection with guarantee Period of Production, the Management stated in a written reply as under:—

"As per the contract with the machinery suppliers, the guarantee and the penalties are summerised below:—

On completion of erection of each unit of the plant it shall be put to trials runs by the Corporation under direction of suppliers representative. Formal performance test shall be given by the suppliers in presence of Corporations representatives. In these tests if the stipulated performance with a margin of 3 per cent to allow for instrument & measurement errors are arrived in a test of 24 hours for all the machines except the kiln and Kiln control, and in the case of Kiln and Kiln control a continuous run of 48 hrs., the performance guarantee given by the suppliers shall be deemed to be complete for such machines. If the stipulated performance is not reached, the suppliers shall compensate the Corporation by payment of nominal liquidated damages ment of nominal liquidated damages as provided in the agreement, which are briefly indicated below:—

	Liquidated damages payable per tonne shortfall
Crushing	Rs. 3000/-
Raw Grinding	Rs. 5000/-
Kiln	Rs. 3000/-
Coal Mill	Rs. 15000/-
Cement Grinding . . .	Rs. 20000/-
Packing	Rs. 1000/-

5.81. **The Committee note that the guaranteed output of 50 tonnes per hour of the Raw Grinding Mill on dry basis was obtained at the time of guarantee test by working the mill below 80 per cent of the full load and even at this low load the flexible coupling towards Mill end and the pinion and girth gear of the Mill were seen wearing out fast, possibly because of wrong specifications and defective materials used by the suppliers. As the period of six months from the date of commissioning during which free replacement of the equipment could be obtained had passed, the suppliers refused to own any responsibility for these defects. The Mill is not running to the guaranteed output and many of the components have worn out in course of operations and they have to be replaced. The Committee cannot understand why the guarantee test was done by working below 80 per cent of the full load and not with full load. The Committee are not sure whether the guaranteed performance was established after 24 hours of working as stipulated in the agreement. They would like the Government to examine the matter and determine whether the initial lapse of not conducting the guarantee test with full load had not resulted in the wrong specifications and defective material remaining undetected within the guarantee period causing recurring loss to the undertaking, and if so, who was responsible for the lapse.**

5.82. **The Committee also note that though guaranteed output of the coal mill was obtained during the guaranteed performance test, the outlet flange bolts failed and the mill went out of alignment after 1½ years of working resulting in small pieces of grinding media and coal power coming out and contaminating the lubricants and damaging the girth gear pinion. Though these defects have been set-right, the Committee are informed that both the raw grinding mill**

and coal mill are not running to the guaranteed output as guaranteed output depends on the replenishment of many parts. The Committee are also informed that performance guarantee for Raw Mill was for 24 hours and the Corporation has recently introduced a guarantee for a sustained production for 7 days continuously. At the time of agreement, as there was no such element of sustained production, the Committee feel that this factor should have been taken into account and suitable clauses stipulated in the agreement.

5.83. The Committee hope that the Corporation/Government will learn a lesson from the experience and ensure that clauses for guarantee performance in agreements should provide for a sustained production for a continuous period with deterrent penalty for failure. The Committee would like the Government to issue suitable instructions in this regard for the guidance of all the public undertakings.

(iv) *Kiln*

5.84. Although the performance guarantee from 17th to 19th November, 1970 gave an output of 672.5 tonnes of clinker per day as against 600 tonnes envisaged in the agreement, the following defects were noticed in the operation of the Kiln:—

(a) The dust catching arrangement was inadequate and dust refeeding system unsatisfactory. The dust loss was abnormally high. It was 14 to 15 per cent (approx.) as against 6 to 8 per cent (approx.) or even less in the case of other wet process kilns in India. The less on account of extra dust during 1970-71 and 1971-72 was estimated at Rs. 2.24 lakhs and Rs. 2.20 lakhs respectively.

(b) The clinker temperature at the outlet of the cooler was persistently high.

5.85. In the meeting of the Board held in January, 1972, it was reported that in the dust collector of conventional design supplied by M|s. KCP only dust particles up to 40 microns could be arrested. But the physico-chemical characteristics of the slurry made from the lime-stone available at Mandhar without any argillaceous materials and having no binding material in it were prone to breaking due to low strength of neddules, thereby causing excessive dust formation.

5.86. Complete elimination of dust was not considered possible unless electro-static precipitator was installed. As the cost of electro-static precipitator was quite high and its operating results were not encouraging, it was proposed to install a multicyclone to arrest the dust up to 6-7 microne size. To improve the production of the kiln from 600 tonnes to 700 tonnes per day, introduction of a dust insufflation to recirculate the dust, in addition to multicyclone to arrest the dust loss, was also proposed. As regards cooler, certain modification at a cost of Rs. 16.74 lakhs were envisaged.

5.87. The total capital outlay for minimising the dust losses, modification of the cooler, etc. was estimated at Rs. 35 lakhs (including Rs. 1.5 lakhs as engineering fee), which was approved by the Board. The scheme was yet (March, 1974) to be implemented.

5.88. As the chemical characteristics of the lime-stone deposits available in Mandhar area were tested by the Corporation before deciding upon the location of the plant and the same were also tested by M|s K. C. P. Limited before designing the plant, the circumstances under which the above characteristics of the lime-stone could not be taken care of by the Corporation at the time of preparation of the Detailed Project Report and by the suppliers at the time of designing the Plant were not clear.

5.89. As regards the dust loss and the high temperature of the clinker, the Ministry stated (June, 1974) as follows:—

(a) After opening of the quarry at Mandhar radical changes in the lime-stone were observed in respect of physico-chemical characteristics. Because of this, there was excessive fine raw meal dust formation in the chain zone which is difficult to arrest in the conventional type dust collecting device supplied by M|s. K.C.P.

(b) "Variation in the clinker temperature is not an unusual feature and it has not affected either the operation of the plant or the quality of the cement. The reason for occasional high temperature of the clinker at the outlet could due to erratic burning phenomenon for variation in quality of coal and also the fixed speed of the cooler as the eddy current coupling supplied with the main plant went out of order."

5.90. When asked about the percentage of dust-loss in the kiln during 1972-73 and 1973-74 as well as financial loss incurred on this account, as under:

"The dust loss in rotary kiln is difficult to assess. However, the dust loss can be evaluated from the consumption of lime-stone per tonne of cement. This loss apart from loss through chimney can be attributed to those at different transfer points of the crushed lime-stone during the course of hadling. However, the actual consumption of lime-stone per tonne of cement in the year 1973-74 for Mandhar was 1.54 tonnes compared to 1972-73 consumption at 1.57 tonnes. In 1973-74 loss of dust was almost normal. Thus, compared to the consumption of lime-stone in 1973-74, loss on account of dust during 1972-73 may be construed to be 3 per cent more than the normal, the value of which is estimated at Rs. 0.78 lakhs."

5.91. The Chairman and Managing Director admitted, during evidence that for 1½ years, in the initial stage, dust loss was high. If the machinery would have been properly designed, that much loss would not have been there.

However, after the proposed modification, the Production would increase by about 20 per cent.

5.92. When enquired as to how the dust losses had been arrived at by the Corporation, the Management stated in a written reply that the dust losses had been estimated by physical verification of lime-stone and clinker stock and taking into consideration the consumption norm for lime-stone per tonne of clinker. There was an instrument for measuring dust but it did not give realistic measurement results. The dust loss was based on *ad-hoc* estimates based on experience.

5.93. When enquired about the norms of dust losses in the cement industry, the representative of the Corporation stated as under:—

"Dust loss in the Cement industry cannot be determined precisely. It may vary from 2 per cent to 8 per cent—even more and that also varies from process to process whether wet process or dry process and depending upon the efficiency of dust collector......for the wet process which we have, it may vary from 6 per cent to 15 per cent depending upon the efficiency of dust collectors, characteristics of noddules and design of Kiln chain section."

5.94. In a written reply, the Management further stated as under:—

"In Mandhar and Kurkunta CCI are having settling type dust collectors. The dust formation and mode of arresting dust inside the Kiln is also of paramount importance to reduce the lead on dust-collector. At Kurkunta dust formation is low compared to Mandhar. This is due to reason that in Kurkunta argilaceous materials are used which act as binder increasing strength of noddules and thereby depressing the dust formation and whereas at Mandhar no argillaceous materials can be incorporated and here water acts as binder and as soon as water dries up and also due to impact of chain the noddlus are broken giving rise to substantial dust formation. Depending upon physico chemical characteristics of raw meal and design of insertions inside the kiln dust loss in wet process kiln having dust settling chamber may very from 6 to 8 per cent or even more. But this loss also is based on visual inspection only. In Mandhar cement factory loss was higher but later on by modifying the chain section and also by extracting lime-stone from different strata and blending the same, the dust loss has been brought down. Further improvement will be made in arresting dust by incorpating cyclone type dust collectors.

The plant and machinery syppliers are not inclined to give guarantee of dust loss or consumption of raw materials for the production clinker.

In dry process, Klin dust loss is much higher compared to wet process. Therefore, for new dry process plants to be implemented in the Fifth Five Year Plan, electrostatic precipitators have been proposed."

5.95. Enquired about the physico chemical characteristics of limestone obtained at the time of designing the Plant and those obtained after opening the quarry, the Management stated in a written reply as under:—

"While placing order for the plant, CCI had no proper facilities to determine the physico-chemical characteristics of raw materials. The plant supplier have supplied a standard plant at Mandhar with conventional dust arresting system. On actual performance of the raw meal in the kiln, it was established that the raw meal was prone to breaking, giving rise to higher dust formation in the chain sections. The Cement plant suppliers do not give any guarantee about consumption of lime-stone or dust losses. Later on, after evaluation of different strata of lime-stone at the quarry and blending and pre-blending system adopted and also due to modification of chain system, this dust loss has been brought down."

5.96. In regard to the introduction of a dust insufflation to recirculate the dust installion of multicyclone to arrest the dust loss and modification of the coller in order to improve the production of the Kiln, the Chairman and Managing Director stated during evidence as under:—

"For Mandhar, we have two proposals, one for expansion and another for modification. The necessary modification is in respect of use of dust in the process by installing dust insufflation machine. All the machine have come and we have taken up civil engineering and we hope the whole will go into operation by October/November, 1975."

5.97. As for the reasons for delay in execution of this scheme which was approved by the Government in October, 1972 the witness stated:—

"One of the suggestions given by the Consultants was to use heat resistent steel which we are not able to get in India. Import also is very difficult. So we have formed out in Consultation with the consultants an alternative and in the meanwhile we are making arrangements for importing it. That is taking some time."

5.98. In this connection, the representative of the Ministry stated during evidence as follows:—

"I would right in the beginning confess that there is a delay in establishing a kiln there. The fact is that there is a delay in implementing this small scheme which is costing Rs. 32.90 lakhs and we are now expecting that this will be completed in another six months time, by the third quarter of 1975. 'One point which was always bothering us was that this would require shut down of the plant and we kept on staggering. Now, most of the work has been done. Civil work has been started. Machinery has started arriving. During the next six months, it will certainly be implemented."

5.99. When asked whether the eddy current coupling supplied with the main Plant has been put in order and whether it had been established that high temperature of the Kiln was also due to erratic burning phenomenon caused by variation in quality of Coal, the Management stated in a written reply as under:—

"The eddy current coupling supplied with the main plant and machinery has been replaced with an alternative arrangement. The high temperature of clinker has not come down appreciably. It cannot be specifically established that the high temperature of the clinker was due to erratic burning phenomenon caused by the variation in the quality of coal since the phyro processing at incipient point of clinkerisation is a complicated one and many factors are involved including the variation in the quality of Coal."

5.100. The Committee enquired the circumstances under which the chemical characteristics of the lime-stone deposits available in Mandhar were not taken care of before deciding upon the location of the plant. The representative of the undertaking stated during evidence as under:

"According to the release of funds by the Government of India we placed orders in 1966 for two plants—one at Mandhar and another at Kurkunta. These raw materials were tested only for the chemical composition to determine whether lime-stone was cement grade or not. On the basis of that, the order was placed with M/s. K.C.P. and another with Walchandnagar Industry to supply, what is called, almost a standard wet process plant with the standard type of dust arresting system by large in vogue in the country. But after opening up of this quarry we found that the lime-stone available was found to be erratic in nature. There was high percentage inter-calation of the clay, inter-calation of shale containing high percentage of Alumina in the lime-stone. This was not foreseen at the time of preparation of the project report."

5.101. In reply to a question as to why it was not foreseen, the witness stated:

"When we made the drilling we only determined the availability of cement grade lime-stone, other physico-chemical Characteristics were not determined by us."

5.102. Replying to another question whether this practice was followed by all the plants, the witness stated:

"Yes, Sir. Normally, the practice is that on the basis of availability of lime-stone reserves and chemical compositions of the lime-stone, we formulate the project-Report without going into details of its furnace, physical characteristics, noddule formation and strength characteristics and how much quantity of argillaceous material could be added precisely. But when we take a decision to go ahead with the project, we supply the material to the party to get the raw material test evaluated in all respects, to get the required data for the designing and sizing on the various equipments and other auxiliary equipments."

5.103. The Committee pointed out that a representative limestone sample of 300 tonnes was supplied by the Corporation to M/s K.C.P. and there also it was found having resistance to crushing and grinding. They enquired about the reasons for not taking care of these things while giving them the specification for the different components, when it was known to the Corporation that the limestone was of marginal quality and of higher hardness. In reply the representative of the Corporation stated during evidence as follows:—

> "This was not known before the order was placed......When this was communicated, the plant and machinery supplier came forward saying that the crusher which was proposed to be supplied to us had to be re-designed but at that time this dust formation characteristic was not evaluated by them. It came to be known when they used that material and after that we have made some changes ourselves arrest dust loss and dust loss has come down considerably."

5.104. The Chairman and Managing Director, however, admitted that a representative sample of 300 tonnes could have been sent before placing the order for plant and machinery instead of sending it after placing the order.

5.105. The Committee note that although the performance guarantee of Kiln gave an output higher than that envisaged in the agreement, the operation of the kiln revealed that the dust catching arrangement was inadequate, dust feeding system was unsatisfactory, the dust loss was abnormally high and the clinker temperature at the outlet of the cooler was persistently high. It was reported that the physico-chemical characteristics of the slurry made from limestone available at Mandhar without any argillaceous materials and having no binding material in it were prone to breaking due to low strength of nodules, thereby causing excessive dust formation. The Committee see no reason why these physico-chemical characteristics of the limestone deposits at Mandhar which were also tested by M/s K.C.P. Ltd. before designing the plant, could not have been taken care of by the Corporation at the time of preparation of D.P.R. and by the suppliers at the time of designing the plant. The Committee are informed that while placing orders for the plant, CCI had no proper facilities to determine the physico-chemical characteristics of the raw materials and plant suppliers have supplied a standard plant with conventional dust arresting system. The Committee are informed that the raw materials were tested only for chemical composition to determine whether limestone was cement grade or not, and on that basis orders were placed for wet process plant with standard dust arresting system. After

opening of quarry, the limestone available was found to be erratic in nature. The Managing Director admitted that "when we take a decision to go ahead with the Project, we supply the material to the party to get the raw material test evaluated in all respects, to get the required data for the designing and sizing on the various equipments and other auxiliary equipments". The Committee are surprised that in spite of this, this information was not supplied to M/s KCP.

5.106. The Managing Director admitted that a representative sample of 300 tonnes could have been sent before placing the orders for plant and machinery instead of sending it after placing the orders. Due to these lapses on the part of the Corporation, the plant supplier supplied a standard plant for Mandhar with a conventional dust arresting system which proved to be inadequate to cope with the excessive dust formation in the process of breaking of the limestone which turned out to be of higher hardness than expected. The result of all this is that dust losses in the plant were high and in 1972-73 alone, the value of dust loss over and above the normal loss was estimated to be Rs. 0.78 lakh. The Managing Director admitted during evidence that if the machinery could have been properly designed that much loss would not have been there. Even though a sum of Rs. 25,000 representing about 80 per cent of the cost of equipment supplied by M/s K.C.P. for dust recovery system has been recovered from the plant supplier due to the faulty performance of equipment, the Committee cannot but express their unhappiness at the routine and casual manner in which the DPR appears to have been prepared and the orders for plant were placed.

5.107. The Committee recommend that Government should investigate the whole matter with a view to fixing responsibility and draw lessons in the future.

5.108. The Committee note that a scheme for modifications to be made in the dust collecting system and arresting the dust losses; etc. had been approved by Government as early as October, 1972 and this scheme has not been implemented so far. The Ministry have admitted that 'there is delay in implementing this small scheme which is costing over Rs. 32 lakhs and we are now expecting that this will be completed in another six months' time, by the third quarter of 1975'. The Committee recommend that this work should be completed without further delay in the interest of arresting dust losses.

(v) *Cement Mill*

5.109. The guaranteed output of 35 tonnes per hour within the specified limits was achieved during the guarantee performance test but due to the development of severe pitting in the gear box, the Mill was being run at a low load, resulting in lower output varying between 60—70 per cent of the rated capacity. The girth gear and pinion were badly damaged due to defective materials. Besides, the following major break-down occurred due to faulty designs and defective materials:

(a) Crack in the shell at the joint of the first manhole door.
(b) The torsion shaft sheared off from the flange.
(c) The flexible coupling towards the mill end failed due to complete smashing of the teeth.

5.110. As a result of break-down of torsion shaft and coupling in January, 1972, the Mill remained shut for nearly 600 hours (loss of production @35 tonnes per hour being 21000 tonnes). The Corporation obtained the torsion shaft and coupling on loan from M/s. Assam Cement Limited on the condition that these would be replaced within five-six months. Simultaneously, the Corporation arranged for the import of equipment from France at a C.I.F. price of 55,805 francs (Rs. 74,000 approx.). The equipment was in transit.

5.111. The Management stated (March, 1974) that, after the installation of oil cooler in November, 1970, the pittings in the gear box, girth gear and pinion had stablised and the mill was running without trouble.

5.112. When asked about the loss in terms of value and production on account of the faulty design and defective materials in the cement mill, and whether any responsibility had been fixed, the Management stated in a written reply as under:

> "After the Cement Mill went into operation some pittings were observed in the girth gear. As a precautionary measure, the loadings in the Cement Mill were brought down to avoid further pittings. This matter was referred to M/s K.C.P. who in turn referred the same to M/s. CUREON, Francs. On their advice oil cooler was installed in November, 1970. The pitting gradually stabilised and loadings in the mill were increased.
>
> It is difficult to indicate the losses in terms of money as there were some teething troubles also being the first year of production."

5.113. When asked whether any responsibility had been fixed for faulty design and defective material, the Management stated as follows:

"It was not possible to fix responsibility either on machinery supplier or on erection defects as the Cement Mill had functioned effectively for 2 years since commissioning and had produced 4.00 lakhs tonnes of Cement before the breakdown occurred."

5.114. The Committee were informed that the break down of the Torsion Shaft with gear coupling of the Cement Mill was due to fatigue. When asked whether the fatigue in the Torsion Shaft was due to defect in the design or defect in the material, the Management in a written reply stated that it was difficult to quantify fatigue. It was, however, stated that the Mill was now running satisfactory.

5.115. The Committee note that though the guaranteed output of cement Mill was achieved during the guarantee performance test, due to certain defects developing later on, the Mill had to be run at a low load resulting in lower output varying between 60-70 per cent of the rated capacity. Besides, the major break-down of torsion shaft and certain other breakdowns due to faulty designs and defective materials caused stoppage of the Mill for nearly 600 hours in January, 1972 resulting in loss of production of 21,000 tonnes. The breakdowns had occurred after 2 years of the working of the Cement Mill and the Corporation did not find it possible to fix responsibility on machinery suppliers who were also the erection contractors. The defects have since been attended to and the Mill is now stated to be running satisfactorily. It appears that under the present scheme of things it is not normally possible to hold the plant supplier responsible for any defect in the working of the machinery after guarantee period. But if after the guarantee period, any plant breaks down not due to design defect, but due to the material, of which it is made, being of inferior or defective quality how the plant supplier can escape responsibility therefor is a matter which requires to be gone into critically. The Committee would like the Government to examine this matter from legal angle and if necessary, consider whether the responsibility of the plant supplier for using defective material, even if the defective material is detected after the guarantee period, cannot be explicitly incorporated in the agreement for supply of plant and machinery.

(vi) *Packing Plant*

5.116. Though the guaranteed output of 60 tonnes per hour (a bag weighing 50 Kgs. net) of each packing machine was achieved during the guarantee performance test conducted on 5th October, 1970, the following automatic devices of the Plant had not been functioning since installation:—

(a) Level controller of 50 tonnes hopper.

(b) Automatic starting and stopping of rotary feeders in relation to level of cement in the rotary packers.

(c) Automatic release of bags after being packed from the machine to slat conveyor.

(d) Two mobile bag conveyors provided for loading cement bags directly into the wagons on either side of the packing plant and installed in February, 1972 after carrying out modifications free of cost by the suppliers.

5.117. As a result of the non-functioning of the above-referred automatic devices, the Corporation had to get the work done manually. The Management stated (May, 1973) that the mobile bag conveyors were not being operated because the contract labour was not habituated to work with this type of arrangement and were being gradually tried for the job.

5.118. In this connection, the Ministry stated (June, 1974) as follows:

(i) The Automatic devices/equipments referred to at (a), (b) and (d) are functioning with effect from November, 1973, April, 1972 and November, 1973, respectively. As regards item (c), frequent clearing of the equipment would be necessary to keep it functioning, thereby leading to stoppage of packing plant. It is, therefore, a normal feature in cement plants to engage manual labour for releasing packed bags.

(ii) No extra labour was engaged for items (a) and (b), as these required only occasional checking during operation which was being attended to by the staff working in the packing plant.

(iii) As regards item (d), manual labour has to be engaged for lifting the bags from the mobile bag conveyors and proper stacking of the same in wagons/trucks.

5.119. When asked about the reasons for non-functioning of the various automatic devices/equipments of the Packing Mill, and whether it was necessary to procure the automatic equipment, when there was a normal feature in cement plants to engage manual labour for releasing packed bags, the Management in a written reply stated as under:

> "The packing plant established at Mandhar is an imported one. Due to environmental conditions of heavy dust which prevails in the packing Plant, these automatic devices do not work after some time and to our knowledge, these are not working in other units also. To control manually, two persons are employed per shift .... The total cost of packing plant is Rs. 8,36,232/-.

5.120. The Committee note that the Corporation procured a packing plant at a cost of Rs. 8.36 lakhs and though the guaranteed output of 60 tonnes per hour of each packing machine was achieved during the guarantee performance test, certain automatic devices of the Packing Plant had not been functioning since installation with the result that the Corporation had to get the work done manually. The Committee were informed that the Packing Plant was an imported one and due to environmental conditions of heavy dust which prevailed in the Plant, these automatic devices did not work after some time and to the knowledge of the management these were not working in other units also. If these automatic devices do not work satisfactorily in cement plants in general, the Committee fail to understand as to why such automatic equipments be procured at all for Packing Plant particularly when the plants are imported after spending scarce foreign exchange. The Committee would like the Government and the Corporation to examine the desirability of procuring such automatic devices for packing purposes in cement units and decide whether it is at all prudent to go in for such automatic devices when these cannot and do not function smoothly.

5.121. The Committee note that the automatic devices have started functioning from November, 1973. In spite of the mobile bag conveyors functioning now, manual labour has to be engaged for lifting the bags from the mobile bag conveyors and proper stacking of the same in wagons/trucks. The Committee recommend that the Corporation should in the interest of fuller utilisation of the mobile bag conveyor consider elimination of manual labour and avoid the expenditure thereon.

(vii) *Formation of a Committee to go into the question of quality and performance of the plant and machinery*

5.122. It is noticed from the minutes of the Board meeting held on 4th March 1972 that the Ministry of Industrial Development had formed a Committee consisting of Industrial Adviser, DGTD, Chief

Engineer of M/s K.C.P. and Chief Project and Development Officer of the Corporation to visit Mandhar and give its recommendations regarding the quality and performance of machinery supplied by M/s K.C.P. to the Corporation.

5.123. On 24th December, 1971, the Corporation apprised the Ministry of Industrial Development and the D.G.T.D. of the defects in the plant and machinery supplied by M/s. K.C.P. The Corporation also sent its further comments on the observations of M/s K.C.P. on the various points. Subsequently, a meeting was held in the room of the D.G.T.D. and a general discussion took place regarding the background of the dispute between the Corporation and M/s K.C.P. It was decided that a meeting of the Corporation and M/s K.C.P. could be called to settle the differences, wherein the representatives of the D.G.T.D. would also be present.

5.124. Accordingly, a meeting was held on 25th January, 1973 in the Ministry wherein representatives of D.G.T.D., Corporation and M/s K.C.P. were also present.

5.125. The following decisions were taken in the meeting in full and final settlement of all the disputes:—

(a) *Defects in the plant and machinery.*

(i) *Crusher plant and transport*

As the granulometry of the crusher's final product fell short of guaranteed figures by 4 per cent *i.e.*, 8 tonnes in terms of loss in production, after allowing 3 per cent for error of measuring equipment, the Committee decided to levy a penalty of Rs. 24,000 @ Rs. 3,000 per tonne.

(ii) *Slurry grinding plant*

Cement grinding mill

The matter was dropped.

(iii) *Rotary Klin and clinker transport*

As the equipment was not giving the required performance, it was decided that a sum of Rs. 25,000 representing about 80 per cent of the cost of equipment supplied by M/s K.C.P for dust recovery system may be recovered from the outstanding dues.

(iv) *Inadequacy of compressed air*

It was decided that M/s K.C.P. should agree for deduction of Rs. 60,000 towards the cost of one compressor.

(b) *Dues against customs duty etc.*

A sum of Rs. 57,448.58 was decided to be recovered on this account.

(c) *Other claims*

A lump-sum amount of Rs. 1.44 lakhs which included the cost of an additional compressor was decided to be recovered from the dues of M/s. K. C. P. in satisfaction of all other claims of the Company.

As against the above decoveries aggregating Rs. 2,50,448.58, the dues payable to M/s. K. C. P. worked out as follows:—

(i) 5% balance payment against supply contract . . .	Rs. 7,49,150·40
(ii) Balance amount of customs duty	Rs. 1,66,426·78
(iii) Balance amount of sales tax	Rs. 24,342·78
	Rs. 9,39,919·96

The net amount of Rs. 6,89,471 was paid by the Corporation to M/s. K. C. P. on 27th March, 1973.

5.126. When asked about the considerations which weighed with the Ministry in forming the Committee to examine on the spot the quality and performance of the machinery supplied by the plant suppliers, the Ministry in a written reply stated that—in December, 1971, the Managing Director of Cement Corporation of India reported to the Ministry about detection of certain defects which had developed in the cement plant of Mandhar supplied by M/s. K. C. P. Ltd., Madras. After detailed discussion held with the Managing Director of K.C.P. and the Industrial Adviser (Engineering) DGTD it was decided that the Industrial Adviser, the Chief Engineer of K.C.P. and Chief Engineer of C.C.I. should jointly visit the plant in order to identify, the defects so that corrective steps could be taken expeditiously.

5.127. When enquired as to how the Ministry ensured the quality and performance of the machinery in the absence of a report from the said Committee, the Ministry in a note stated as under:—

> "The defects in the cement machinery supplied by M/s K.C.P. Ltd. to the Mandhar Unit were discussed in a meeting held on 6th October, 1972, under the Chairmanship of the then DGTD which was attended by the Industrial Adviser DGTD, officials of CCI and representatives of this Ministry. It was decided that a meeting of representatives of

CCI and M/s K.C.P. Ltd. would be called to settle the differences and that in that meeting the representatives of the Ministry and DGTD would also be present. Accordingly a meeting was held on 25th January, 1973 which was attended by the Deputy D.G., the I.A. (Engineering) DGTD, the concerned D.O., DGTD, Dy. General Manager, K.C.P. Ltd. and C.P.D.O., CCI. The Corporation as well as the K.C.P. presented their cases. Since the relevant parties were present at the meeting and represented their respective view point, it was considered appropriate not to wait for the completion of their work by the Committee earlier proposed."

5.128. When asked whether the Ministry considered a penalty of Rs. 24,000 in respect of crusher plant and Rs. 25,000 in respect of kiln as adequate compensation for the recurring losses entailed by the non-fulfilment of performance guarantee in respect of these units, the Ministry stated in a written reply as under:—

"As regards defect in the crushing plant, it may be stated that the crusher had fulfilled its guarantee to produce 200 tonnes per hour. However, the granulometory of the crushed final product fell short of guarantee figures by about 7 per cent. In the performance guarantee test of 3 per cent was taken for the error for measuring equipment. Hence it was considered that the crushing equipment had failed to give 4 per cent of the guaranteed granulometory tests. Translating it into loss in production, it came to 8 tonnes. As the agreement provided for a penalty of Rs. 3,000 per tonne of loss, the Committee worked out the total loss at Rs. 24,000 which was imposed as penalty on M/s K.C.P. Ltd. No further penalty could be imposed as the contract did not provide for liquidated damages.

In regard to defect in the kiln, M/s K.C.P. pointed out that generation of excessive dust was due to the type of limestone available at Mandhar. The dust settling chamber offered by them and agreed by the CCI could not arrest this dust. The Cement Corporation of India however, stated that the dust recovery system provided by M/s. K.C.P. was not capable of feeding back the entire dust that was being collected. The Committee, after taking note of the position as explained by both the parties decided that a sum of Rs. 25,000 representing approximately 80 per cent of the cost of equipment supplied by M/s. K.C.P. for dust recovery system should be recovered from the K.C.P.

It will be seen that keeping in view the terms of the contract and the circumstances of the case, the penalty of Rs. 24,000 on account of defects in crusher plants and Rs. 25,000 in respect of defects in kiln were quite reasonable."

5.129. The Committee note that all the defects noticed in the plant and machinery supplied by M/s. K.C.P. for Mandhar Unit were discussed at a meeting convened by the Ministry of Industrial Development at which the technical experts of the Government and representatives of the Corporation and the plant supplier were present and after considering pros and cons of all the matters, recoveries aggregating to Rs. 2,50,448.58 in terms of the contract were made from the plant supplier. Even if the amount of penalty realised from plant supplier for the defective machinery may be reasonable in terms of the contract as stated by the Ministry, how far this amount is an adequate compensation for the low production and under-utilisation of the plant is a point which the Committee would like the Government to consider while assessing the overall performance of the plant supplier and derive lessons therefrom.

E. Quarry Operations

(i) *Delay in introduction of mechanical operations*

5.130. The Detailed Project Report envisaged mechanical opera- ...in the quarry and accordingly a provision of Rs. 16.12 lakhs was ...therein for the acquisition of plant and machinery for this pur- ...Actually, however, the Corporation purchased the following so...ents valued at Rs. 18.47 lakhs during the period from Feb- ...and 1969 to August 1969:—

Name of the equipment	Date of receipt.	Amount (Rs. in lakhs)
1. Dumper (3 Nos.)	August, 1969	4·29
2. Shovel	March, 1969	6·25
3. Buldozer	April, 1969	4·50
4. Wagon drills (2 Nos.)	One in June, 1969 and one in July, 1969	1·92
5. Compressors (2 Nos.)	One in February, 1969 and one in May, 1969.	1·51
		18·47

5.131. Although the Kiln and Crusher were commissioned in February, 1970 and July, 1970 respectively, the mechanical operations in the quarry were commenced in December, 1970 only, with the result that;

(a) shovel and wagon drills valued at Rs. 8.17 lakhs could not be put to any use upto December, 1970; and

(b) the Company had to resort to manual raising of the lime-stone with effect from September, 1969 through the agency of contractors.

5.132. The delay in the commencement of mechanical operation was attributed (May, 1972) by the Management to the delay in the acquisition of land because of the dispute arising from multiple ownership.

(ii) *Inadequacy of mechanical operations*

(a) *Shortfall in mechanical operations*

5.133. The mechanical operations which commenced in December, 1970 in a portion of the mine were suspended during May, 1971 to October, 1971 on account of diversion of the equipment to the factory site where they were deployed in rehandling of the accumulated stock of lime-stone. The operations were resumed in November, 1971 and the average monthly extractions during the period from Novembe 1971 to March, 1972 came to 4,000 tonnes of lime-stone as against t factory's requirement of 30,000 tonnes per month.

5.134. In view of delay in commencement of mechanical oper and inadequacy of mechanical operations, the Corporation had raising the lime-stone manually through the agency of contr Out of the total quantity of 9,25,737 tonnes of lime-stone rais ing the period from September, 1969 to March, 1973 at a c Rs. 90.80 lakhs, the quantity raised through the contractors ca 8,38,635 tonnes (including 96,497 tonnes of crushed lime-stone) total cost of Rs. 77.53 lakhs. The balance quantity of 87,102 ton was raised through mechanical operations. The average cost of rais ing the lime-stone boulders through the agency of contractors and departmentally by mechanical operations at quarry ramp worked out to Rs. 8.32 per tonne and Rs. 15.11 per tonne (including 1/3 expenditure on overburden removal and prospecting) respectively.

5.135. The Management stated (November, 1973) that the departmental extraction of lime-stone was low on account of the fact that during the period in question, removal of overburden and development of quarry face was mainly in progress.

5.136. The Cost Auditor in his report for 1972-73 had stated that the existing capacity of raising lime-stone through mechanical operations was 15,000 tonnes per month i.e. 1,80,000 tonnes annually. As against this, the Corporation raised only 86,000 tonnes of lime-stone (including overburden—25,464 tonnes) in 1972-73. Thus, the above contention of the Management was not fully correct.

5.137. The Committee regret to note that though the Corporation procured machinery worth Rs. 18.47 lakhs during February, 1969 and August, 1969 for quarry operations, the mechanical operations in the quarry were commenced in December, 1970. As a result, certain equipment of the value of Rs. 8.17 lakhs could not be put to any use upto December, 1970. Besides the Corporation had to resort to raising of lime-stone w.e.f. September, 1969 through the agency of contractors. Even after December, 1970, the mechanical operation had to be suspended during May, 1971 to October, 1971 as the machinery was diverted to rehandling of accumulated stock of lime-stone. The Committee were informed that out of 9.25 lakh tonnes lakhs of lime-stone raised from September, 1969 to March, 1973, a quantity of 8.38 lakh tonnes was raised through contractors and the balance through departmental machinery. It has been stated that because of low utilisation of the machinery, the cost of raising lime-stone through departmental machinery is almost double the cost of the contractor which has got an effect on the cost of production of cement. The Committee were informed that delay in the commencement of the mechanical operation was due to delay in the acquisition of the land. In the opinion of the Committee, this could have been avoided by proper planning and the machinery put to effective use.

The Committee would like the Government to investigate the reasons for delay in the commencement of the mechanical operations and examine why the cost of raising lime-stone through departmental machinery is almost double the cost of doing this work through a contractor and draw lessons therefrom.

(b) *Capacity of the Equipment*

5.138. As regards the adequacy of the equipment to raise 30,000 tonnes of lime-stone per month, it was reported to the Board in January, 1971 that, as the lime-stone deposit was erratic in its disposition, a number of faces had to be developed. Besides, stone would also require blending in order to conserve the high grade lime-stone. Accordingly the initial expectation on the basis of prospecting work-done that a single face of the quarry could be developed to raise and supply the required quality and quantity of lime-stone, did not hold good. The existing 3 dumpers and one shovel were, therefore, considered inadequate to quarry more than one face and provision for the purchase of one additional shovel and a dumper at a total cost of Rs. 8.25 lakhs was made in the revised estimates.

5.139. The additional equipment was not purchase till May, 1972 when it was intimated by the Management that the following additional equipment would be necessary to raise the entire requirement of 30,000 tonnes per month by mechanical means:—

Shovel	1
Dumpers	2
Wagon Drills	2
Compressor	1

5.140. The Management stated (March, 1974) that, as against the above items, one shovel at a cost of Rs. 8.54 lakhs had already been procured. Orders for two dumpers at a total cost of Rs. 2.10 lakhs had been placed and order for one compressor was being placed.

5.141. The Management further stated (March, 1974) that the lime-stone deposit at Mandhar was just cement grade marginal quality and there were full interculations distributed in a very erratic manner. Therefore, it was difficult to maintain quality of lime-stone boulders to suit the requirement, if cent per cent, mining was done by mechanised means. According to them, mechanised mining can be resorted to partially and the lime-stone so raised blended with that manually raised and well sorted stone in the ratio of 66.33. On this basis, mechanised raising of lime-stone to meet the daily requirement of 1,000 tonnes per day would be 650 tonnes a day.

5.142. In this connection, the Ministry stated (June, 1974) as follows:—

(i) The equipments originally procured were inadequate. Besides, owing to operational reasons and matching of capacities of various equipments, shovel and dumpers purchased weer of the capacity of 1½ cubic yard and 10 tonnes each respectively as against the capacity of 2½ cubic yard for shovel and 16 tonnes for a dumper envisaged in the Detailed Project Report.

(ii) Out of the two compressors acquired for the quarry, one is being used in the factory. The purchase of new compressor is in replacement of the one used in the factory.

As regards (i) above, it had been clarified (August, 1974) by the Management that, at the time of placing the orders for dumpers and shovels, it was technically held that the dumper of 16 tonne capacity would not be able to withstand the impact and shock loading of 2½ cubic yard capacity shovel. Besides, dumper capacity had to be matched with the capacity (10 tonnes) of N.G. Wagons. It would, thus, be apparent that provision in the Detailed Project Report for procurement of a shovel of 2½ cubic yard capacity and dumper of 16 tonne capacity was made without taking into account all the relevant factors.

5.143. The Committee pointed out that the reasons adduced for procuring additional mining equipment were stated to be operational reasons and enquired about the nature of operational reasons. In reply, the Management stated as under:—

> "The equipments originally procured were inadequate. The single shovel when taken for maintenance jobs resulted in idling of dumpers thus affecting the sequence of operation of lime-stone transport by the N.G. Wagons."

5.144. The Committee were informed that out of the two compressors originally procured, one was divided for use in the factory. Out of the additional equipments, the shovel was received by the end of 1973-74 and one of the dumpers and the compressor in 1974-75. The compressor received in 1974-75 was in replacement for the compressor diverted to factory. The two additional wagon drills were not being procured.

5.145. When asked whether utilisation of these quarry equipments was considered adequate in relation to the capacity and the reasons for under-utilisation of the capacity in 1972-73, the Management stated in a written reply as under:—

> "The quality of limestone at Mandhar quarry is marginal. In the initial years of the development of quarry, the top benches of the limestone encountered interstatial clay in the limestone beds, thus lowering the quality of the limestone below that required in the Raw-Meal feed. These factors affected the adequate utilisation of the quarry equipments."

5.146. Data regarding the quantity of limestone boulders raised and the cost of raising thereof during 1973-74 were as follows:—

Operation	Qty. raised (in M.T.)	Total cost (in Rs.)	Cost per tonne (in Rs.)
1. Mechanised mining	97,133	15,63,981	16·10
2. Manual mining	71,081	7,38,245	10·39

5.147. When asked whether the mechanical mining would be economical in view of the fact that mechanised mining was to be resorted to partially, the Management stated as under:—

> "The requirements of limestone per annum for normal production of 2 lakhs metric tonnes of cement is about 3,25,000

M.T. of this, about two third i.e. over 2,00,000 M.T. will be raised by mechanical means as against only 97,000 tonnes raised in this manner in 1973-74. When output by mechanical raising is doubled the cost of raising mechanically will be lower. It is not feasible to raise 3,25,000 M.T. of lime-stone per annum manually only. As such recourse to mechanical mining cannot be avoided."

5.148. The actual incidence of limestone in the cost of production as compared with the norms mentioned in the Detailed Project Report and that included in the Standard Cost is given below:—

	As per DPR	As per standard Cost fixed in 6/71	As per Actual 1973-74
Incidence of limestone in the cost of production .	7·70	13·00	18·68

5.149. Explaining the reasons for the actual cost being more as compared to standard cost fixed, the Management stated as under:—

"The actual cost was more as compared to standards because of lower departmental production. The cost of limestone can be reduced by reduction in expense on use of explasives and by increasing the departmental raising of limestone. Efforts in both directions is being made already."

5.150. The Committee note that the DPR envisaged mechanical operations in the quarry to meet the factory's requirement of 30,000 tonnes of limestone per month. Three dumpers, one shovel and other equipment valued at Rs. 18.47 lakhs were purchased for the purpose. The Cost Auditor in his report for 1972-73 stated that the existing capacity for raising limestone through mechanical operations was 15,000 tonnes per month i.e. 1,80,000 tonnes annually, but, against this, the Corporation raised only 86,000 tonnes of limestone (including over burden—25464 tonnes) in 1972-73. They regret to note the under utilisation of the mechanical equipment deployed for raising limestone.

5.151. The Committee note that the intial expectation on the basis of prospecting work done was that a single face of the quarry could be developed to raise the required quality and quantity of limestone but as the limestone deposit was erratic in disposition, it was found necessary to develop a number of faces. The existing three dumpers and one shovel were, therefore, considered inadequate and additional

equipment (one additional shovel and 2 dumpers) costing Rs. 10.64 lakhs have been/are being procured to raise the entire requirement of 30,000 tonnes of limestone per month. They were informed that limestone at Mandhar being just of marginal quality, it would be difficult to maintain the required quality of limestone if cent per cent mining was done by mechanical means. It was considered necessary to blend the mechanically raised limestone with manually raised lime-stone in the ratio of 66:33. On this basis, mechanised raising of limestone to meet the daily requirement of 1,000 tonnes per day, would be 650 tonnes per day, while the capacity of the additional equipment procured/being procured is to raise 1,000 tonnes per day. The Committee would like the Corporation to review the quantum of additional equipment being procured and make sure that only the minimum number of additional items are procured so that none of them has to be kept idle and the cost of unnecessary items does not increase the capital cost of the project.

5.152. The Committee note that during 1973-74, 97,133 M.T. of lime-stone were raised by mechanical mining and 71,000 M.T. by manual mining. The costs per tonne of raising limestone mechanically and manually were Rs. 16.10 and Rs. 10.39 per M.T. respectively. The effect of this was that the incidence of cost of limestone in the cost of production is Rs. 18.68 in 1973-74 against the rate of Rs. 7.70 assumed in DPR. The Committee were informed that out of 3,25,000 M.T. of limestone required per year for Mandhar Plant, about two-third, i.e. over 2,00,000 M.T. would be raised by mechanical means, and this will bring down the cost of mechanical operations. It was however, stated that it was not feasible to raise the full quantity of 3,25,000 M.T. of lime-stone per annum mechanically only and as such recourse to manual mining could not be avoided. The Committee regret to note that the mechanical equipment deployed for raising lime-stone had not been fully utilised. They would like the Government to go into the reasons for under-utilisation of equipment with a view to fixing responsibility.

The Committee are distressed to note that the cost of raising limestone mechanically is much more than that of mannual raising. They would like the Corporation either to reduce the cost of mechanical operations within a stipulated period or leave the idea of mechanisation and avail of the manual labour for the purpose which is easily available. They would also like the Government/Corporation to take adequate precautions in future while importing such machines in the light of their experience and examine the advisability of importing machines which either cannot be utilised fully or which are likely to prove costlier than the manual labour in actual practice.

5.153. The Committee note that as already stated the Corporation purchased 1 shovel of 1½ c.yd. and dumpers of 10 tonnes each in March, 1969 and August, 1969 respectively against the 2½ c.yd. shovel and 16 tonne dumper provided for in the DPR. It had been clarified by the Management that at the time of placing orders for dumpers and shovels, it was technically held that dumper of 16 tonne capacity would not be able to withstand the impact and shock stock loading of 2½ c. yd. capacity shovel. Besides, the dumper capacity had to be matched with capacity (10 tonnes) of narrow gauge wagons. The Committee do not understand how, in spite of these, the DPR provided for procurement of shovel of 2½ c.yd. and dumper of 16 tonne capacity without taking into account all relevant factors. The Committee had been repeatedly pointing out that the D.P.R. should be prepared taking into account all known factors. The Committee reiterate that the DPR should be prepared realistically taking all known factors into account.

F. Production Performance

5.154. The trial runs of the various plants commenced in December, 1969 and the factory was formally commissioned on 19th July, 1970. During the period of trial runs, a quantity of 0.38 lakh tonnes of clinker was produced.

5.155. The plant has a rated capacity of 2 lakh tonnes per annum. The table below indicated the actual production of cement and the percentage achievement of rated capacity during the last four years.—

(Figures in lakh-tonnes)

Year	Capacity	Target	Actual production	Percentage of actual production to capacity
1970-71 (with effect from 19th July, 1970) .	1·42 (pro rata for 8 1/2 months)	—	1·05	74
1971-72	2·00	—	1·64	82
1972-73	2·00	—	1·80	90
1973-74	2·00	1·68	1·53	76½

5.156. The non-achievement of installed capacity in 1970-71 and 1971-72 had been attributed by the Management to defects in the various sections of the Plant, with the result that the overall actual output of various sections was less than the guarantee givtn by the suppliers of the plant and machinery vide details given below:—

Section of the Plant	Guaranteed output (in tonnes)	Actual output in tonnes (average)			
		1970-71	1971-72	1972-73	1973-74
Kiln (per day) . . .	600	491	576	576	552 (92%)
Crusher (per hour) . . .	200	163	161	154	187 (93·5%)
Raw Grinding Mill (per hour) .	50	44	43	44	45·5 (91%)
Cement Grinding Mill (per hour) . .	35	30	25	27	26 (74·3%)
Packing Mill (per hour) .	60	39	46	51	46 (75·1%)

5.157. Strike for a period of 15 days during 1972-73 was also partially responsible for non-attainment of capacity for 1972-73.

5.158. Non-achievement of installed capacity in 1973-74 was stated to be due to power shortage, abnormal repairs of equipment, etc. The constant bottleneck in despatches due to Railway Strike and inadequate supply of wagons also affected the production.

The Committee pointed out that according to the Annual Report of the undertaking for. 1973-74 the target of production for Mandhar Plant in 1973-74 was 1.68 lakh tonnes as against 1.80 lakh tonnes in 1971-72 and 1972-73. They enquired about the reasons for fixing the target of production of cement in 1973-74 at a level much below the installed capacity of 2 lakh tonnes. For Management stated in a written reply as under:—

> "The installed capacity of Mandhar Cement Project is 2.0 lakh tonnes per annum. The task force on Cement Industry set up by Government of India to evaluate the demand and supply of Cement has assessed the attainable capacity at a figure of 85 per cent utilisation of capacity. The attainable capacity of Mandhar Plant therefore works out to 1,70,000 tonnes per annum. Due to expected short supply of wagons for the movement of cement the target was fixed at 1,68,000 tonnes."

5.159. It was stated that inadequate supply of wagons was being experienced from time to time, e.g., April, June, July, September to December, 1973 and January to March, 1974. The matter was being taken up at all levels of Government.

5.160. Asked as to when the installed capacity of 2 lakh tonnes was expected to be achieved, and whether it was possible to achieve more than the rated capacity after the scheme to increase the capacity of the Kiln to 700 tonnes a day was implemented, especially as other sections had sufficient in-built capacity to achieve a rate of production of cement higher than that of 2 lakh tonnes, the Management stated in a written reply that the Mandhar Cement Plant achieved a production of 1.80 lakh tonnes of Cement during 1972-73. Improvement in production was expected after modification work was completed.

5.161. In connection with the capacity utilisation in the Mandhar Plant, the representative of the Ministry stated during evidence as under: —

> "In respect of Cement Corporation Plant at Mandhar, even though the cost of the scheme has gone up, our capacity utilisation is not very high. Even then our average cost compares favourably with the average cost which has been assumed by the Tariff Commission for the Cement Corporation. I would not say there is no scope for improvement. We have to increase the capacity utilisation. Why should we be content only with 85 per cent capacity utilisation? We should go up to 90 per cent or 95 per cent. But there are certain factors which are beyond the control of the industry and certain factors which come to play at various points. There was difficulty in obtaining from the Railways adequate wagons and it constituted one of the major bottle-necks. For three months there was a strike and all that. We got over this difficulty. Then coal position deteriorated and for about four months the Cement Industry could not get more than 70 per cent of its requirement. Then we got over that difficulty. But in November-December we reached 80 per cent or 85 per cent of our capacity. Suddenly in the South, we found power cut which has been there for the last two months or so. Otherwise, we have achieved more than 90 per cent capacity.
>
> * * * *
>
> I would submit that if you see the statistics, you will notice that our performance is not bad. I am not taking a

complacent view; there is scope for improvement. In the very first year, when the cement plant goes into production, the average utilisation is 60 per cent, because in the first year there is some teething trouble and all that. Then in the second year, our capacity utilisation increases. Now, right in the first year, we achieved 74 per cent, in the second year 82 per cent and in the third year 90 per cent. It was only in 1973-74 when certain shut down took place, because certain equipment had to be repaired, we achieved 76.5 per cent. Even then if you compare with the industry, as a whole, you will find that the performance is quite satisfactory. But there are certain points which have been raised regarding the machinery which was supplied. It was later found to be defective and a high-level Committee was appointed. It went into the details of this problem and isolated and identified the difficulties and we tackled all these difficulties and imposed some penalty and also rectified some of these defects. A sum of Rs. 2.50 lakhs was also deducted from the final bills of the supplier."

5.162. Replying to a question about the extent of loss incurred on account of short fall in production, the witness stated:—

"There are several factors which affect the production. If there is power cut, the production will be affected. If wagons are not available or sufficient coal is not available, production will be affected. Sometimes there is strike. That is also responsible for less production. So, it will be very difficult to precisely identify this."

5.163. The Ministry informed the Committee in a note that the average capacity utilisation for the country as a whole and for the Mandhar factory for the last 4 years was as follows:—

Year	Average for the country as a whole	Year	Mandhar Factory
1970	80%	1970-71 from July, 70 to (first year)	74%
1971	77%	1971-72	82%
1972	80%	1972-73	90%
1973	74%	1973-74	76½%

5.164. It will be seen from the above that the Mandhar Factory had achieved more than the average percentage of utilisation of capacity achieved by the Industry as a whole.

5.165. The Action Committee on Public Enterprises recommended that it was absolutely essential that net work be furnished for the various activities of maximising utilisation of the existing plant for the expansion from 2 lakh to 4 lakh tonnes per annum and for further expansion to one million tonnes.

In reply to the above recommendation of the Action Committee, the Undertaking stated as follows:

> "Maximising utilisation of the existing plant capacity is hindered due to constraints on supply of coal of right type, frequent power interruptions, and shortage of wagons. The Linkage Committee has been apprised of the position and follow up action is being taken.
>
> Regarding further expansion from 2 to 4 lakh tonnes orders have been placed for Slag Cement Plant. Further expansion upto one million tonnes is deferred in view of the present financial position.

5.166. When asked about the progress made by the Linkage Committee in these matters, the Management stated in a written reply that power interruptions were still in existence in Mandhar and the factory had to work with it. The question of shortage of wagons was being taken up with the concerned authorities from time to time. It was further stated that the quality of coal supplied had been taken up with the Linkage Committee with no progress so far.

5.167. In reply to another recommendation of the Action Committee, the Management stated that a Debottlenecking cell had been established to help remove various weak links in the equipment.

5.168. When asked about the achievement made by this cell so far the Management stated in reply that the Debottlenecking cell was established in November, 1973. Identification of weak links and the suggestions for improved performance of the Plant were being made periodically.

Performance of the individual sections of the Plant

5.169. An analysis of the performance of the various sections of the Plant with reference to total available time, actual operating time and the time lost due to various factors is indicated as per Appendix III.

5.170. From the appreciation of the above data given in the Appendix, the following facts emerge:—

(a) The stoppages were mainly contributed by mechanical and electrical defects, power cut and other miscellaneous constraints.

(b) The various sections of the Plant actually worked between 300 days (5,840 hrs.) and 343 days (7,496 hrs.) in 1971-72 and 1972-73. On this basis, it can be assumed that the various sections of the Plant could operate for 330 days in a year after providing for 35 days for normal maintenance. With reference to 330 days of operation, the guaranteed output of the various sections of the Plant and that actually required for producing 2 lakh tonnes of cement would work out as follows:—

	Capacity for 330 days on the basis of guarantee given (in tonnes)	Quantity required for production of 2 lakh tonnes of cement (in tonnes)
Crusher (for limestone on the basis of one shift operation)	5,28,000	3,20,000
Raw Mill (for slurry on the basis of 3 shifts operation)	3,96,000	3,20,000
Kiln (for clinker on the basis of 3 shifts operation)	1,98,000	1,90,000
Cement Mill (for turning clinker & other ingredients into cement on the basis of 3 shifts operation)	2,77,200	2,00,000
Packing Mill (on the basis of 3 shifts operation)	4,75,200	2,00,000

It is apparent from above that, except for kiln, all other sections have sufficient in-built capacity to achieve a rate of production of cement higher than that 2 lakh tonnes. The cushion for in-built capacity was the highest in the case of crusher and packing mill and this explains these reasons for not running these sections for considerable periods during 1971-72 and 1972-73.

(c) As against 7,920 hours operation based on 330 working days, the kiln worked for 7,496 hours in 1971-72 and 6,468 hours in 1972-73 and produced 1,76,466 tonnes of clinker in 1971-72 and 1,53,393 tonnes of clinker in 1972-73. In spite of the lower production of the clinker in 1972-73, the production of cement in 1972-73 was higher than that of 1971-72. This was owing to the fact that clinker from the production of 1971-72 was utilised for the production of cement in 1972-73.

5.171. When asked about the steps taken to set right mechanical and electrical defects which mainly contributed the stoppages, the Management stated that: Systematic preventive maintenance was in vogue. Further improvement of the system was under consideration. There was some improvement in the crusher and the Raw-Mill departments in 1973-74 and electrical defects during 1973-74 in these departments.

5.172. The Committee asked about the action taken or proposed to be taken to ensure the availability of requisite quantities of coal, power and railway wagons to the cement factories of the Corporation to facilitate un-interrupted production of cement. The representative of the Ministry stated during evidence as follows:—

"There is a special cell to monitar the movement of wagons. Formerly, there was no linkage of collieries with cement industry. Last year, we appointed a Coal Linkage Committee for cement plants. It linked cement plants with all the collieries. Cabinet Secretary also holds regular meetings. Regarding power, it is at the Minister's level that we try to sort out this matter. For example, we have persuaded Andhra Pradesh and Kerala to spare some power for plants in Tamil Nadu. But we have not been able to tackle this problem effectively. The coal supply has improved tremendously and so else the wagon supply."

5.173. The Committee note that as against the installed capacity of 2 lakh tonnes, the traget of production for Mandhar Plant in 1973-74 was 1.68 lakh tonnes and the actual production was 1.53 lakh tonnes. The Committee were informed that the Task Force on cement industry had assessed the attainable capacity at a figure of 85 per cent utilisation of capacity which worked out to 1.70 lakh tonnes and due to expected short supply of wagons for the movement of cement, the target was fixed at 1.68 lakh tonnes in 1973-74. The Committee see no reason why the target for 1973-74 should be fixed at 1.68 lakh tonnes less than the attainable capacity. When the plant attained 90 per cent utilisation in 1972-73, the Corporation, considering the shortage of wagon supply, reduced it further to 1.68 lakh tonnes.

5.174. The Committee note that the actual working hours of the different plants of the project have always been less than the available working hours during the period 1970-71 to 1973-74. The total number of stoppages in the working of crusher increased from 1255 hours in 1970-71 to 3796 hrs. in 1973-74. Similarly, in the case of Packing Plant, the total number of hours stopped increased from 2814 hours in 1970-71 to 5370 in 1973-74. The stoppages were mainly caused by mechanical and electrical defects, power cuts and other "miscellaneous constraints". To obviate the stoppages on account of mechanical and electrical defects, systematic preventive maintenance is stated to be in vogue but from the large number of hours lost on this account, the Committee recommend that there should be regular and periodical preventive maintenance to all the points so that stoppages due to mechanical troubles could be reduced, if not eliminated.

5.175. The Committee also note that the Mandhar Plant has a rated capacity of 2 lakh tonnes per year and its capacity utilisation has been 74 per cent in 1970-71, 82 per cent in 1971-72, 90 per cent in 1972-73 and 76½ per cent in 1973-74. The set-back in the utilisation of capacity in 1973-74 is stated to be due to power shortage, abnormal repairs of equipment, railway strike and inadequate supply of wagons. The Corporation stated that the power interruptions were still there and the question of wagon supply was being pursued with authorities concerned from time to time and there had been no improvement in the quality of coal supplied even though the matter had been taken up with Linkage Committee. As against this, the representative of the Ministry stated that the coal supply had improved tremendously and so also the wagon supply. The Committee would like Government to study the difficulties of the Corporation in depth and do all that is in their power to resolve them to enable the plant authoritis to increase production.

5.176. The Committee also note that the utilisation of capacity in Mandhar Plant during the years 1971-72, 1972-73 and 1973-74 was comparatively better than the average percentage of utilisation of capacity achieved by the cement industry as a whole. It achieved the maximum utilisation of capacity (i.e. 90 per cent) in 1972-73 as compared to the maximum of 80 per cent achieved by the industry in 1972. But what is disappointing is that after achieving 90 per cent utilisation of capacity in 1972-73, it slumped to 76½ per cent in the following year (1973-74). The Committee find that the various sections of the plants actually worked between 300 days (5840 hours) and 343 days (7946 hours) in 1971-72 and 1972-73. The Committee find that, except for Kiln, all other sections of the Mandhar Plant have sufficient built-in capacity to achieve a rate of production of cement higher than that of 2 lakh tonnes. Even in the case of

Kiln, the capacity is more than what is required to produce 2 lakh tonnes of cement in a year. The Committee feel that the Mandhar Plant is capable of producing more than 2 lakh tonnes of cement per annum and utilisation of even 90 per cent of the capacity should not lead to any sense of complacency in any quarter. The Committee urge that the Corporation should determine the attainable capacity of the Mandhar Plant as a whole taking into account the available in-built capacity and make all out effort to operate each section of the Mandhar Plant to the maximum level and compare its performance with reference to the attainable capacity and not with references to the capacity of 2 lakh tonnes as originally envisaged.

G. **Economic viability of the Project**

5.177. The Detailed Project Report prepared in January, 1967, had envisaged a return of 8.3 per cent on the capital investment of Rs. 465.48 lakhs after making provision for depreciation interest on working capital|loans and development rebate reserve during each of the first 2 years of commercial production. As the conditions had changed very much after the Detailed Project Report was prepared, the Board of Directors decided on 15th March, 1971, that:

(a) details of standard cost may be worked out after taking into account the existing conditions; and

(b) revised profitability projections and break-even point should also be worked out.

5.178. Accordingly, the Corporation prepared the revised standard cost and profitability projections which were put up to the Board in June, 1971. According to the revised projections, the standard cost per tonne of cement was estimated at Rs. 83.15 (exclusive of packing cost and interest) as against Rs. 66.40 per tonne envisaged in the Detailed Project Report. It was anticipated that the Plant would be incurring losses unless production and despatch of cement was maintained at 80 per cent of the installed capacity *i.e.* 1.60 lakh tonnes. It was further mentioned in the revised projections that even with the attainment of production and despatch at 90 per cent of the installed capaciy, the return on equity would be only 3 per cent before making any provision for tax.

5.179. While nothing the revised profitability projection, the Board observed as follows:—

"..............the present profitability of the Mandhar Cement Plant was not encouraging........specific reasons for it specially with reference to the level of inventory maintained in the past be examined and concrete steps be taken to improve the working of the Plant by fixing the level of the inventory the ABC items etc. and possible reduction in the cost of lime-stone and by adoption of any other suitable measures. A report in this respect should be submitted to the Board as early as possible indicating the revised profitability of the Plant."

5.180. The plant had achieved 82 per cent of the installed capacity in 1971-72 90 per cent in 1972-73 and 76.5 per cent in 1973-74. While it earned a net profit of Rs. 2.56 lakhs in 1971-72, there was a loss of Rs. 0.64 lakhs in 1972-73 and Rs. 25.86 lakhs in 1973-74.

5.181. The Management stated (November, 1973) that "due to the continued control on cement price and continuous increase in the cost of production, the profitability in the cement industry as a whole had been very adversely affected."

5.182. The Ministry stated (June, 1974) as follows:

(a) With a view to bring down the cost of production, action has been taken to procure additional quarry equipment for maximising mechanical mining and to lay down standards for consumption of stores and spares.

(b) While the above may touch only a fringe of the problem relating to economic viability of the Plant, the necessity for fixing a realistic retention price needs no emphasis.

5.183. The Committee asked about the circumstances for not submitting the report desired by the Board in June, 1971 in regard to the concrete steps to be taken to improve the profitability of the Mandhar Project.

The Management stated in a note as under:—

"The quarterly Financial Report is submitted to the Board each quarter regularly. Through this report, profitability of Mandhar Cement Plant was discussed in the Board meetings from time to time. The Board was informed during discussion on Quarterly Financial Report of the reasons for losses. The retention price allowed was inadequate. The putting up of revised profitability as such to the Board was not considered meaningful till some increase in the retention price is allowed by the Government. The Government appointed the Tariff Commission in April, 1972 for examination of the price question. The Government announced interim increase of Rs. 10 in the retention price w.e.f. 15-9-1973. Revised standard cost and profitability in respect of Mandhar and Kurkunta cement plants were submitted to the Board in 3/74. From that time onward, there have been frequent increases in the prices of inputs and wages. There have been change in the retention price of cement also.

Action is being taken to place before the Board fresh standard cost and profitability position with reference to the current prices and wages."

5.184. It was stated by the Ministry in June, 1974 that with a view to bring down the cost of production, action had been taken to procure additional quary equipment for maximising mechanical mining and lay down standards for consumption of stores and spares. The Committee asked whether it would still be advisable to go in for procurement of additional quarry equipment of additional constraints on mechanical mining, the Management in written reply stated as under:—

"Yes, it is desirable to procure additional quarry equipments so as to raise 66 per cent of the limestone departmentally at the rate of 16,000 tonnes per month and the rest 34 per cent of the limestone at the rate of 8,000 tonnes per month manually. In addition, it is envisaged that about 8,000 tonnes of overburden will have to be removed by machines.

It is, therefore, desirable to procure additional quarry equipments."

5.185. According to the Ministry, the necessity for fixing a realistic retention price was inoperative to improve the economic viability of the Plant. When asked whether the Ministry had come to this conclusion after ensuring that there was no scope for reduction in the cost of production, the representative of the Ministry stated during evidence as under:—

"The comments of the cement Corporation were that to improve the economic viability, a realistic price would have to be fixed. We had sent our comments in June, 1974. Thereafter, the Government have revised the retention price on 2-8-1974 and 15-9-74. After the comments, effective action has been taken by Government."

5.186. In reply to another question whether the Ministry thought of any method by which the cost of production could be reduced, instead of increasing the price of cement, the witness stated as under:—

"The price is not determined on the basis of cost of production of one plant only. This has been determined after considering the recommendations of the Tariff Commission. They had done detailed cost examination of 23 plants out of 50. It is not as if we take one plant and take its cost of production. The recommendations of the Tariff Commission were considered and decision arrived at. There are some plants which are above the average cost estimated by Tariff Commission. There would be a positive impact on them to reduce their cost of production, otherwise they would be completely out. This costing is not of the most inefficient units only."

5.187. It is noticed from the quarterly Financial Report for the quarter ending September, 1974 that standard cost of naked cement had been fixed by the Corporation as Rs. 108.05 per tonne and the actual cost for the quarter ending September, 1974 stood at Rs. 130.51 per tonne. A Comparative study of the individual components of actual cost with the standard cost indicated that the increase was mainly under lime-stone, coal, stores and spares, salaries and wages etc., power and water and selling and distribution expenses.

5.188. When asked whether the Management had analysed the increase in actual cost owing to rate, usage and volume variance, the Management stated in a note as under:—

"The updated standard costs were fixed in March, 1974 on the basis of 90 per cent capacity utilisation and the price levels prevailing in January, 1974. The increase in cost of production at Mandhar in the September, 1974 quarter as compared to standard cost was due to all the three factors, volume variance, usage variance and rate variance. The analysis of variance is as follows:—

(i) VOLUME VARIANCE:

	Production in M. T.		Variance per tonne
	Standard	Actuals	Rs.
Cement	45,000	37,980	
(a) Salaries & Wages . .			3·43
(b) Depreciation			0·55

	Production in M. T Standard	Actuals	Variance per tonne Rs.	
(c) Selling & Distribution & Head Office Overheads			1·07	
(d) Stores & Spares			1·84	
(e) Interest			0·47	
(f) Contingency & Miscellaneous Expenses			0·20	8·56
(ii) *Usage Variance*				
Limestone	1·52	1·54	0·23	
Gypsum	0·060	0·065	0·47	
Coal	0·28	0·33	3·60	
Power	125 KWH	126 KWH	0·15	4·45
			(Rupees in lakhs)	
(iii) *Rate Variance*				
Limestone	9·00	11·32	3·53	
Power	0·12	0·15 (average)	3·80	
Coal	6·00	72·00	3·36	
Gypsum	90·00	93·76	0·22	
Stores & Spares			0·74	
Salaries & Wages			3·80	15·45
	Total (i+ii+iii)			Rs. 28·46"

5.189. **The Committee note that the DPR prepared in January, 1967 envisaged a return of 8.3 per cent on the capital investment of Rs. 465.48 lakhs after making provision for depreciation, interest on working capital|loans and development rebate. According to the revised profitability projections worked out in June, 1971, it was anticipated that the plant would be incurring losses unless production and despatch of cement was at 80 per cent of the installed capacity and even with the attainment of 90 per cent capacity utilisation the return on equity would be only 3 per cent before making any provision for tax. The plant earned a net profit of Rs. 2.56 lakhs in 1971-72 when capacity utilisation was 82 per cent and there were losses of Rs. 0.64 lakh in 1972-73 and Rs. 25.86 lakhs in 1973-74 when capacity utilisation was 90 per cent and 76.5 per cent respectively. Due to continued control on Cement price and continuous increase in the cost of production, the profitability in the cement industry as a whole is stated to have been adversely affected. With a view to bring down the cost of production, action is stated to have been taken to procure additional quarry equipment for maximising mechanical mining and to lay down standards for consump-**

tion of stores and spares but more than this the fixing of realistic retention price is considered imperative for the economic viability of the plant. The Committee note that the Government revised the retention price once in 1973 and twice in 1974. They feel that it will be wrong for the Corporation to depend entirely on the increase in retention price to achieve economic viability. So long as the Corporation does not maximise production of each section of the plant, make the mechanical mining economical, keep stores, spares, and staff strength under strict control and take other measures to cut cost of production all around, small increases in retention prices, which might ultimately be neutralised by rise in costs of wages and inputs are not going to contribute much towards the achievement of economic viability. They would like the Corporation to work out the efficiency ratio at which each section of the plant should be operated to achieve the objective of 8.3 per cent return on capital investment as envisaged in the DPR, identify the problems that stand in the way of achieving the desired efficiency ratio and then concentrate all efforts on solving these problems.

5.190. The Committee would also like the Corporation to work out fresh profitability projections with reference to the current prices and wages and assess the performance to see how far the efforts made have improved the profitability with reference to such profitability indices.

VI

MANDHAR EXPANSION

A. Take over of Blast Furnace Cement Project of Hindustan Steel Ltd.

6.1. Production of 'Portland Blast Furnace Slag Cement' is one of the best means for profitable utilisation of blast furnace slag. 'Portland Blast Furnace Slag Cement' is obtained by mixing Portland Cement clinker and granulated blast furnace slag in suitable proportions. The resultant product is a cement which has physical properties similar to those of ordinary portland cement. In addition, it has heat of hydration and is relatively better resistant to soils and water containing excessive amounts of sulphate of alkali matter, alumina and iron as well as to acidic waters.

6.2. In the meeting of the Board of Directors held on 31st July, 1965, it was mentioned that Hindustan Steel Limited had a proposal for the setting up of a cement plant of its own for utilising the slag available at the Bhilai Steel Plant. As a view was expressed that there would be considerable advantage in entrusting the Cement Corporation of India with the responsibility of producing all types of cement in the public sector, the Board decided in principle that the blast furnace cement project of the Hindustan Steel Limited be transferred to the Cement Corporation of India. It was also decided that the details of the Project, the economics as well as the terms of transfer etc. should be ascertained and submitted to Board for taking a final decision in the matter.

6.3. No action appears to have been taken on the above proposal till January, 1969 when the Corporation enquired from the Hindustan Steel Limited about the availability of granulated slag to be used at the Mandhar Plant of the Corporation which was designed to manufacture ordinary portland cement and was expected to be commissioned by the end of 1969.

6.4. In May, 1969, the Hindustan Steel Limited informed the Ministry that it would be in a position to meet the requirement of granulated slag of the Cement Corporation of India to the extent of 1.80 lakh to 2 lakh tonnes per annuam at the price which was being paid by M/s. A.C.C. for slag supplied to them.

6.5. Subsequently in August, 1969, a price of Rs. 18 per tonne of granulated slag with a moisture content of 5 per cent, subject to escalation of 20 per cent on the variation from time to time in the ex-works price of naked portland blast furnace slag cement was intimated by the Hindustan Steel Limited to the Corporation.

6.6. In November, 1970, the Corporation prepared the Project Report for expansion of Mandhar Plant on the basis of granulated slag at a total estimated capital cost of Rs. 218 lakhs. The Project Report, after approval by the Board, was sent to the Ministry on 28th February, 1971. Approval of the Ministry was communicated to the Corporation in March, 1972.

6.7. As regards the proposal mooted in 1965 relating to the take over of the Blast Furnace Cement Project of the Hindustan Steel Limited by the Corporation, the Management stated (May, 1974) as follows:—

> "M/s. Hindustan Steel Limited wanted the Cement Corpora- of India to take up the project along with the surplus labour working in their Nandini Mines which was not acceptable to the Corporation."

6.8. The Committee enquired as to when the Hindustan Steel Ltd. informed the Corporation that their project of manufacturing cement with Bhilai slag could be transferred to the Corporation alongwith the surplus labour working in their Nandini Mines and when the Hindustan Steel Ltd. agreed to drop the above condition. The Management stated in a written reply as under:—

> "At this stage it has not been possible to locate the sequence of events."

6.9. On the above proposal of the Hindustan Steel Ltd., no action had been taken by the Corporation till January, 1969, and thus four years had been lost. After August, 1969, a further period of 2½ years was taken to frame the Project Report and obtain its approval from the Government.

6.10. The Committee asked whether the time taken by the Corporation in fulfilling the preliminaries was considered as normal. The Management stated in reply that it was considered necessary to evaluate the mineralogical composition of the clinker at Mandhar to determine the maximum quantity of granulated slag of Bhilai Steel Plant that could be exploited to manufacture slag cement.

6.11. The Committee note that HSL had a proposal of setting up cement plant of its own for using the slag available at the Bhilai Steel Plant. Although it was decided as early as July, 1965 that this work could be advantageously taken up by the Cement Corporation of India, no action was taken on the proposal till January, 1969. The Committee note that in May, 1969 the HSL informed the Ministry that it would be in a position to meet the requirement of the granulated slag of the Cement Corporation of India to the extent of 1.8 to 2 lakh tonnes per annum at the price which was being paid by M/s. A.C.C. for slag supplied to them and accordingly they intimated the price in August, 1969 to the Corporation. Even then it was only in November, 1970 that the Corporation prepared the project report for expansion of Mandhar Project on the basis of granulated slag and after approval by the Board, it was sent to the Ministry in February, 1971. The approval of the Ministry was accorded in March, 1972. The Committee regret to observe that the Corporation lost more than four years of valuable time in intiating action to prepare the project report. There was also a delay of over one year on the part of the Ministry in according the approval to the project estimates. The Committee are informed that the time taken by the Corporation in fulfilling the preliminaries in connection with this project was necessary to evaluate the mineralogical composition of the clinker at Mandhar to determine the maximum quantity of slag that could be exploited to manufacture cement. The Committee are not at all convinced with this explanation. They are not happy at the leisurely way in which the entire proposal was processed both by the Corporation and by the Ministry. The Committee recommend that in view of the terms and conditions stipulated by HSL and the escalation in prices during the period, Government should review the proposal and its effect on the cost of production and economics of the project and bring the details to the notice of the Parliament.

B. Project estimates

6.12. According to the Detailed Project Report submitted in February, 1971, the Project was estimated to cost Rs. 218 lakhs and envisaged a return (after tax) of 10.03 per cent to 17.27 per cent of the equity during the first 15 years of working.

6.13. The Table below indicates the estimates of capital cost as mentioned in the Detailed Project Report, as sanctioned by the

Government as revised in September, 1972 and sanctioned by Government in May, 1973 together with the actual expenditure incurred there against:—

(Figures in lakhs of rupees)

Main items	As per DPR (February 1971)	As sanctioned by Govt. (March, 1972)	As revised (September, 1972) and approved by Government in may, 1973.	Actual expenditure up to December, 1974.
Plant & Machinery	151·01	151·00	325·00	19·13
Civil Works	60·40	60·00	75·00	16·18
Interest during construction	3·59		7·00	
Head office overheads	3·00		5·00	2·51
	218·00	211·00	412·00	37·82

6.14. Explaining the reasons for delay by Government in the sanction of the revised estimates submitted by the Corporation in September, 1972, the Ministry stated in a note as under:—

"The project report for expansion of Mandhar Plant was approved by Government on 30th March, 1972 sanctioning an expenditure not exceeding Rs. 211 lakhs on this project. In september, 1972 the Corporation intimated that on the basis of actual tenders for plant and machinery received for the expansion, the cost of expansion would actually work out to Rs. 412 lakhs against Rs. 211 lakhs sanctioned earlier. It was stated that the increase in cost was due to increase in the cost of plant and machinery. The study group of the Task Force on Cement Industry which met on 28th September, 1972 under the Chairmanship of the Industrial Adviser, DGTD to examine the general question of increase in the price of cement machinery felt that price increase to the extent of 70 per cent from 1969—72 were reasonable. In the light of the above, the Ministry of Finance was requested to agree to the revision of cost estimates, proposed by the CCI for Mandhar expansion. This was agreed to by the Ministry of Finance and later by the Public Investment Board at its meeting held on the 5th January, 1973. As the revised cost estimate exceeded 25 per cent of the original cost estimates the matter had to be placed before the Cabinet Committee on Economic Coordination. The CCEC approved it at its meeting held on 25th April, 1973 and thereafter formal sanction was issued on 11th May, 1973. As explained above, the revised cost estimate to be examined more or less *de novo* and full procedure had to be gone through. Thus, formal sanction could not be issued before May, 1973 even though the revised estimate proposals were received in September, 1972."

6.15. The estimates of Rs. 218 lakhs drawn up in February, 1971 increased to Rs. 412.00 lakhs in September, 1972 and was mainly due, to increase in the cost of plant and machinery and civil works. The tenders for the plant and machinery were invited by the Corporation in January, 1972 in anticipation of Government's approval of the Project. Out of the 6 manufacturers borne on the register of D.G.T.D. only 2 firms submitted the quotation in May, 1972. The offer of M/s. A.C.C. was for Rs. 238 lakhs with bought out items and that of M/s. I.S.G.E.C. Limited for Rs. 197 lakhs. Both the offers were valid up to 31st July, 1972. As the Corporation could not finalise examination of the tenders within the validity period, the firms were requested to extend the date of validity to 30th September, 1972. M/s. A.C.C. informed the Corporation in August, 1972 that it was not possible for them to extend the validity on account of substantial price increase. They, however, submitted a revised offer of Rs. 264 lakhs which was open up to 30th September, 1972. On 2nd October, 1972, they again revised their offer to Rs. 267 lakhs valid up to 1st December, 1972. From the papers made available, it was not clear whether any response was received from M/s. I.S.G.E.C. Limited.

6.16. The offer of M/s. A.C.C. was not however, accepted and fresh tenders were invited on 31st October, 1972 to be submitted by 1st February, 1973, subsequently extended to 16th April, 1973.

6.17. It will be seen from above that the Corporation would have to incur a substantially higher capital outlay on the acquisition of plant and machinery on account of delay in the finalisation of the contract for the supply of plant and equipment.

6.18. As regards finalisation of the tenders invited in October, 1972, the Management stated (November, 1973) as follows:—

"Fresh tenders called for were received in April, 1973 and clarifications/missing information was received in August/September 1973 and first round of negotiation with tenders were held in October, 1973. The orders for plant and machinery will be finalised on receipt of certain clarifications asked for from the tenderers during negotiations."

6.19. When asked about the present position regarding placing of the orders for the plant and machinery for which fresh tenders were invited in October, 1972 and how the earlier quotations of M/s. A.C.C. compared with the value of orders now being placed, the Management stated in a note as under:—

"The order for packing plant was placed in November, 1973 and for slag dryer and cement mill in March, 1974. As regards the comparison of the value of the orders since placed with that of the May, 1972 quotation of M/s. A.C.C. it may be stated that the prices quoted in the tender of May, 1972 were inclusive of bought out items while the orders placed are exclusive of bought out items. Further, the capacities of the two slag cement grinding mills offered in May, 1972 quotations were of 19 tonnes per hour whereas the order placed is for a single mill of 50 tonnes per hour. As the Corporation could not make any commitments pending approval of the revised project cost estimates submitted to Government in September, 1972, the item-wise detailed break-up of prices quoted in May, 1972 were not obtained. In the circumstances comparison of the value of orders since placed with that of the quotation received in May, 1972 is not possible."

6.20. It was stated by the Ministry in June, 1974 that orders for plant and machinery for Mandhar Expansion could not be finalised as sanction of Government for the revised project cost estimates submitted by the Corporation in September, 1972 had not been received.

6.21. Asked about the reasons for not taking up the matter with the Government for according their approval for the purchase of plant and machinery rather than waiting till submission of revised project estimates in September, 1972 and their approval by Government in view of the fact that offer of M/s. A.C.C. for Rs. 238 lakhs was valid upto July, 1972, only, the Management in a written reply stated as under:—

"Against first tender enquiry only two firms i.e. A.C.C. and M/s. ISGEC had quoted. M/s. ISGEC have so far not supplied any cement plant in India. Further, the price difference was Rs. 70 lakhs. M/s. A.C.C. tender was unfavourable as there was an element of escalation without stipulating any period for which it will be paid. It was also observed that prices of plant and machinery had nearly doubted over the estimates making it necessary to approach the Government for approval or revised estimates. Taking all these into account and to have better competition it was decided to retender. In the order issued to M/s. ACC escalation as for RBI formula has been agreed to with a ceiling of 24 months from the Letter of Intent date."

6.22. The Committee note that in response to the tenders for plant and machinery invited in January, 1972 in anticipation of Government sanction to project estimates, quotations were received in May, 1972 from only two out of the six firms on the approved list. The offer of M/s. ACC was for Rs. 238 lakhs with bought-out items and that of M/s. I.S.G.E.C. Ltd. for Rs. 197 lakhs; both the offers being valid upto 31st July, 1972. As the Corporation could not finalise examination of tenders by this date, the firms were asked to extend the period of validity upto 30th September, 1972. In view of the substantial increase in price, the ACC did not agree to extend the validity of the earlier tender but sent a revised offer in August, 1972 (Rs. 264 lakhs) which was valid upto 30th September, 1972. This offer was again revised to Rs. 267 lakhs on the 2nd October, 1972. Since the I.S.G.E.C. Ltd. had not supplied any cement plant in India therefore it was not considered and the tender of M/s. ACC was also not accepted. Fresh tenders were invited in October, 1972 to be submitted by February, 1973 and subsequently extended to April, 1973. The Committee were informed that the Corporation could not finalise the tender as they were awaiting the sanction of the revised estimates sent to Government in September, 1972 as the cost of plant and machinery had doubled. The Committee regret to observe that in view of the delay in the finalisation of the tenders by the Corporation the cost of plant and machinery had escalated resulting in increased capital investment on plant and machinery by the Corporation.

6.23. The Committee are informed that the fresh tenders invited in October, 1972 were finalised and orders for packing plant were placed in November, 1973 and for the slag drawer and cement mill in March, 1974. It was stated that the prices quoted in the tender of ACC in May, 1972 were inclusive of bought-out items while the orders placed were exclusive of bought-out items. Further, the capacities of the 2 slag cement grinding mills offered in May, 1972 were of 19 tonnes per hour whereas the order placed was for a single mill of 50 tonnes per hour.

6.24. The Committee fail to understand why the requirements were not correctly assessed earlier in 1972 and the tenders invited

at that time for the exact specifications and requirements. The Committee are also informed that even the item-wise break-up of rates given in May, 1972 were not available. The Committee are not sure how in the absence of the break-up the reasonableness of the rates was assessed. The Committee would like that the entire matter should be thoroughly examined by Government and the Committee informed of the results.

6.25. Out of 6 tenders received for construction of civil engineering foundations/structures and ancillary buildings, the Consultants recommended (October, 1972) the acceptance of the lowest offer of M/s. Gannon Dunkerley and Company Limited for Rs. 38.21 lakhs. The Corporation could not, however, accept this tender within the date of validity *i.e.* 31st December, 1972, as sanction of Government to the revised estmates submitted in September, 1972 had not been received by that time. Meanwhile, the Corporation requested the 1st (M/s. Gannon Dunkerley) and the 2nd lowest tenderer (M/s. Bridge and Roof) to extend the date of validity up to 31st January, 1973 and discussions were also held with both of these firms on 27th and 29th January, 1973. As a result of negotiations the offer of the 1st lowest firm was reduced to Rs. 37.25 lakhs and that of the 2nd lowest to Rs. 37.36 lakhs. Both the firms also agreed to extend the date of validity to 31st March, 1973. No decision was however taken by the Corporation within this date.

6.26. As the amount of the lowest tender was within the ceiling of Rs. 60 lakhs sanctioned by Government in March 1972 for the civil works, it is not clear as to why the Corporation waited for the sanction of Government to the revised estimates submitted in September, 1972.

6.27. The Management informed the Committee that the contract for Plant Civil works had been awarded to M/s. Gannon Dunkerley & Co. at 2.5 per cent below their original quotations *i.e.* for an amount of Rs. 37.25 lakhs in October, 1974.

6.28. When asked why the Management waited for the approval of the revised project estimates submitted to Government in September, 1972, especially when the tender was within the ceiling of Rs. 60 lakhs sanctioned by Government in March, 1972, the Management stated in a note as under:—

> "Though the tender of M/s. Gannon Dunkerley & Co. for civil workers was within the provisions made in the original D.P.R. yet it was not accepted as the DPR was being revised in view of overall increased cost of the Project.

However it may be mentioned that early acceptance of tender would not have resulted in any advantage as the execution drawings can be supplied only when the civil engineering designs based on machinery suppliers lay out drawings and load data have been prepared. These details were not available at that time due to non-finalisation of machinery supply order."

6.29. Tenders for residential, welfare and other buildings at an estimated cost of Rs. 9 lakhs were also invited by the Corporation in July, 1972. The following two firms quoted for the work:—

Name of the contractor	Quotation without tender item No. 47(b) (being alternate item of 48)	Quotation without tender item No. 48
	(Rupees in lakhs)	
(i) M/s Gangoo Mal	13·29	13·27
(ii) M/s. Ganesh Lal K. Jadwani	11·64	11·56

6.30. The lowest tenderer was called for negotiations on 8th January, 1973. He was also requested to extend the date of validity to 31st January, 1973. No response was, however, received from him up to February 1973.

6.31. The Management stated (November 1973) that, as the tenders received were very high, action was taken to make fresh arrangements for awarding this work.

6.32. The Management stated in a written reply that fresh arrangements for awarding the work of residential and welfare buildings had not been made as the same was not considered necessary for the time being in view of construction of 48 quarters by Housing Board M.P. against the scheme for Subsidised Industrial Housing. Besides, presently there was a ban by the Government for the construction of residential and other non-functional buildings. This work had, therefore, been kept in abeyance.

6.33. As a result of upward revision of the estimates of capital cost to Rs. 412 lakhs, the Corporation envisaged a net return (after tax) of 7.8 per cent on the equity for a period of 15 years as against 14 per cent envisaged in the Detailed Project Report.

6.34. The Management informed the Committee that as per expectations at the time of submission of the revised project cost estimates, the plant was likely to be commissioned by December, 1976 which the Management was hopeful of achieving as per present indications.

6.35. When asked as to what will be the overall increase in the capital outlay on account of delay in the execution of the project, the Management stated as follows:—

> "Even though there may not be any delay in the execution of the project but overall increase in the capital outlay due to increase in prices cannot at present be estimated in view of the inflationary tendency prevailing in the country."

6.36. The Committee note that though the Corporation invited tenders for civil works and the amount of tender was well within the provision in the project estimates, the Corporation did not accept the tender on the ground that the DPR was being revised in view of the overall increased cost of the project. Moreover, it was stated that early acceptance of the tender would not have resulted in any advantage, as the execution drawings could be supplied only when the civil engineering designs based on machinery suppliers layout drawings and load data were prepared and the details thereof were not available due to non-finalisation of supply order for plant and machinery.

6.37. The Committee regret to note that the delay in finalisation of the order for plant and machinery inter alia led to the non-acceptance of the tender for civil works even though the tender was well within the sanctioned estimates. The Committee hope that such situations would be avoided in future so that the Corporation is not burdened with extra-expenditure which usually results from such delay.

6.38. The Committee regret to note that the Corporation invited tenders for residential welfare and other buildings in July, 1972 and even after negotiations were conducted, the lowest tenderer was requested to extend the date of validity. No response was, however, received from the tenderer till February, 1973. The Committee were informed that as the tenders were high, action was being taken to make fresh arrangements. Subsequently, the provision of residential welfare and other buildings was not considered necessary in view of construction of quarters under the scheme for subsidised Industrial Housing by Madhya Pradesh Housing Board. Besides, there was a ban by the Government for the construction of residential and other non-financial buildings.

6.39. The Committee feel that the Corporation should have first taken a decision in regard to provision of buildings under the Madhya Pradesh Housing Board Scheme or otherwise before the invitation of tenders.

6.40. The Committee also find that on the plea of want of sanction to revised project estimate as a whole, the cases where even the original project provision was not exceeded, had not been considered. The Committee feel that Corporation should be clear about its requirements before they act, so that the labour may not become infructuous. The Committee also find that because of the delays in construction for one reason or other, there had been an upward revision of the capital cost of the project which has ultimately brought down the estimated return on capital from 14 per cent to 7.8 per cent. The Committee recommend that planned, concerted and coordinated measures should be taken to ensure that such delays are avoided.

6.41. The Committee also feel that as such situations are not uncommon in other public undertakings, Government should consider issuing suitable guidelines to all public undertakings to avoid such delays as they have the effect of pushing up the capital cost and affecting the profitability of the project.

C. Appointment of consultants for Mandhar Expansion and Paonta Projects

6.42. On 17th August, 1972, the Board decided that the possibility of engaging a consultant and arranging for direct purchase of all bought out items and also purchasing of different items/components of machinery from different sources for Paonta and Mandhar Expansion Schemes together with the estimated savings on such an arrangement *vis-a-vis* the draw-backs should be analysed by the Management and detailed note submitted for the consideration of the Board in the next meeting. A note was accordingly prepared by the Managing Director and circulated to the Directors. The recommendations in brief made in the note were as follows:—

(a) Package deals and turn-key jobs are not in vogue abroad. In view of the complex problems and local conditions prevailing in this country, hitherto, cement plants have been set up under package deal and on turn-key basis, But a start has been made in the direction of setting up cement plants by engaging consultants. Private parties were also engaging consultants. The savings that would accrue by engaging consultants are difficult to estimate precisely but on the basis of the Company's experience of two existing plants substantial savings were expected.

(b) Consultancy job for both Paonta and Mandhar Expansion should be combined and entrusted to the consultant M/s. Holtec Private Limited, who had already quoted for the work on the asking of the Company. They would do engineering design in the Project, such as, system designing, drawing out specifications for auxiliaries, tendering for the same, checking of drawings prepared by civil consultants, general arrangement for water, air piping, ducting, power distribution system, etc. They would also inspect the various plants and machines, draw specifications for bought out items etc. The consultants, being in collaboration with a reputed firm, M/s. Mike Holder Bank, Canada, were expected to give latest know-how. This expertise was expected to go a long way in sizing the various equipments, auxiliaries, departmental layouts and material handling etc.

(c) They may be paid @3.5 per cent. of the estimates of cost (excluding certain items) for both Paonta and Mandhar Expansion, subject to a ceiling of Rs. 27.50 lakhs (Rs. 18.05 lakhs for Paonta and Rs. 9.45 lakhs for Mandhar Expansion). For any extra works entrusted to them, fresh negotiations would be done to fix the rate which should not exceed 3.5 per cent of the cost of work to be done.

(d) Performance guarantee on the Plant as a whole for a sustained period of 7 days will be the responsibility of the consultants.

(e) Total penalty of 15 per cent is to be levied as follows:

A penalty of 7-1/2 per cent. on the total amount payable to the consultants would be levied if there was any delay in the commissioning of the project after installation of all machines, and a penalty of 7-1/2 would be levied if performance guarantee of the Plant, as a whole, failed.

6.43. It is noticed that the question of appointing consultants for Paonta Project was also discussed in a meeting held on 16th April, 1973 with the Special Secretary of the Ministry of Industrial Development. It was then pointed out that the appointment of consultants was entirely a matter within the discretion of the Board of Directors of the Corporation. It was, however, felt that the engagement of a consultant was in the interest of the Corporation and that the expenditure on the service of a consultant would be more than made up by additional expenditure that might have to be incurred otherwise in rectifying the defects coming to notice later on. It was also felt that, in the ontext of the Corporation's large programme of setting up additional capacity in the Fifth Plan and the likely pre-occupation of existing consultants with various plants coming up in the private sector, "it would be worthwhile for the Cement Corporation to consider seriously the development of a consultancy organisation of their own."

6.44. While approving the proposal to engage consultants for Paonta an dMandhar Expansion, the Board decided on 1st May, 1973 that "legal opinion should be taken and a formal contract with M/s. Holtec will be entered into under other normal terms and conditions applicable to such a contract, after obtaining the approval of the Government as this is a new item involved in the projects."

6.45. The Management stated (November, 1973) that, keeping in view the existing expertise of the Company and the increasing work load because of new projects coming up, M/s. Holtec had since been appointed as consultants on a fee of Rs. 25 lakhs (Rs. 16.4 lakhs for Paonta and Rs. 8.6 lakhs for Mandhar Expansion) and that legal opinion would be obtained before signing the contract.

6.46. One of the directives laid down for the Corporation in the Government's letter dated 4th May, 1965, was "all ancillary and supporting activity connected with the growth of cement industry and the development of expertise." The Corporation was also extend technical assistance to State Governments proposing to establish new cement plants and was required to build up its own strength of technical personnel. The Corporation's proposal to appoint consultants for Paonta and Mandhar Expansion Projects would thus appear to run counter to the above objective laid down for the Corporation 8 years ago. It is worth pointing out that the Special Secretary in the above said meeting of 16th April, 1973 had expressed the view that it was desirable for the Cement Corporation to have a consultancy organisation of their own. In this connection, Management stated (November, 1973) as follows:

> "If the Corporation had developed its expertise on the basis of the capcity indicated by Government in the initial stages (5 million tonnes by 1970-71, which was later revised to 1.2 million tonnes) the overheads on the limited number of projects approved during the period 1965—71 would have been quite exhorbitant.

In the context of above and due to rush of work because of approval of new projects,........., inadequate staff position and the proposals for implementation of 6 more new projects of higher capacity during the 5th Five Year Plan period, the appointment of a consultant was necessary."

6.47. The Project Reports of Mandhar Expansion and Paonta did not provide for any consultancy services. Extra expenditure would, therefore, require to be specially approved by Government. The Management stated (November, 1973) that expenditure on consultants was expected to be met out of the savings accruing due to deletion of bought out items as well as other savings arising from the early implementation of the Projects.

6.48. As the expenditure on consultants was not a component of the project estimates sanctioned by Government, it would, as stated above, require the recasting of the approved estimates and approval of Government.

6.49. It was oserved that no firm of consultants other than M/s. Holtec was considered for this assignment.

The Management stated (March, 1974) as follows:—

"M/s. Holtec Engineers in collaboration with M/s. Holder Bank of Canada are leading consultants in the field of Cement plant engineering. Ministry of Industrial Development has also engaged them as consultants on *ad hoc* basis."

6.50. The Management informed the Committee that the formal contract with M/s. Holtec was still be executed.

6.51. When asked about the reasons for appointing M/s. Holtec Private Ltd. as consultants and for not inviting offers from other reputed firms of consultants, the management stated that it was known to CCI that M/s. Holtec who were in collaoration with a reputed concern namely M/s. Holder Bank Canada consultants for the cement industry, had done consultancy for private parties. No other firm was known to CCI in the field and therefore no offers were invited in this case.

6.52. In this connection, the representative of the Ministry stated during evidence as follows:

"There are others also. ACC are also there, but they are also manufacturing cement manufacturing equipment. But this firm would be an independent consulting firm. They have no interest in the manufacture of cement equipment. When a firm has interest in manufacturing equipment also, there will be problems in selecting them as consultants.... there would be a positive advantage in selecting a firm which does not have direct interest in the supply of equipment."

6.53. In reply to another question as to how the reasonableness and the fee payable to M/s. Holtec was edtermined in the absence of quotations/offers from other consultancy firms, it was stated as under:

"It was known to CCI that M/s. ACC, who had quoted for our Mandhar Expansion Project, had included about Rs. 12 lakhs for designing and Engineering fee against the total plant price of Rs. 262 lakhs, which works out to approximately 4.6 per cent. In view of the above the fees asked by M/s. Holtec of 3.5 per cent of the total value of the estimated price was considered reasonable."

6.54. According to the agreement, the following functions were to be discharged by M/s. Holtec for two projects Rajban (Paonta) and Mandhar Expansion:—

"Sizing of various equipments, auxiliaries, preparation of departmental layout and material handling, engineering design in the project such as system designing, drawing out specifications for auxiliaries, tendering for the same, dimensional checking of drawings prepared by Civil Consultants, general arrangement for water, air piping, ductings power distribution for the plant. Apart from this they have to inspect various plants & machinery at supplier's works and at site & draw out specifications of the bought out items & will provide experienced engineers for the supervision for the erection of the plant & machinery and to supervise plant commissioning trials and attend trouble shooting."

6.55. The Management informed the Committee that orders for the main plant & machinery and equipment for Rajban Project were finalised before appointment of M/s. Holtec as consultants. The fee agreed was for the scope of the work as indicated above. The orders for main equipment and machinery for Mandhar Expansion were placed after appointment of M/s. Holtec as consultants.

6.56. One of the considerations for the appointment of consultants was that performance guarantee on the plant as a whole would be the responsibility of consultants and a penalty of 7-1/2 per cent on the total amount payable to the consultants would be levied if there was delay in the commissioning of the project after installation of machines and a penalty of 7-1/2 per cent would be levied if performance was not fulfilled.

6.57. When asked whether the above condition had been incorporated in the contract executed with the consultants and whether such a stipulation in the contract with M/s. Holtec Plant Suppliers would be really workable|enforceable.

6.58. The Management stated in a written reply that it would be incorporated. It was added that total penalty to be levied was 15 per cent—7-1|2 on satisfactory commissioning of the project without any delay and 7-1|2 after satisfactory performance of the whole plant for a sustained period of seven days.

As the consultants would be involved in decision making for various items, though satisfactory commissioning performance guarantees etc. would be given by the plant suppliers, these penalties had been stipulated, which would be workable/enforceable.

6.59. When asked about the steps taken to develop consultancy organisation of their own, the Management stated in a written reply as under:—

> "CCI has developed its own consultancy organisation. We are already consulans for Royal Government of Bhutan Undertaking for their cement project."

6.60. In reply to another question as to whether the development of their own consultancy organisation would lead to higher incidence of overheads than that payable to consultants, the Management stated as under:—

> "As indicated earlier, CCI have been developing their own—consultancy services. But in order to cope up with the crash programmes of development of cement industry of CCI, it has been thought fit to take advantage of the consultancy services already available in the country, as it is difficult to recruit good experts within a short time available and also in order to keep overheads low."

6.61. In regard to the appointment of consultants, the Ministry stated in a note as under:—

> "The decision of the Corporation to engage consultants for the Paonta and Mandhar projects, was based on their experience of Kurkunta and Mandhar Projects, for which turnkey orders had been placed on machinery suppliers. The

quality of erection had left much to be desired. It was felt that properly qualified consultants should keep a continuous watch to ensure proper erection. At the same time the Corporation aimed at economies in cost, by deciding not to place turn key orders on plant suppliers but to obtain certain items directly, thereby eliminating the profits of the plant suppliers.

It may be relevant to mention that the Planning Commission has been advocating such approach. While concurring in our draft note for CCEC for Mandhar expansion the Commission observed that the Planning Commission concurred in the proposal subject to the condition that the cement Corporation of India should employ competent and well experienced firm of consultants (as opposed from equipment suppliers) to design and construct the plant."

6.62. Again, when consulted in regard to the proposal of the CCI to engage Holtec as consultants the Commission advised as follows:—

"As cement is of critical importance in the context of economic development, there is an urgent need to create adequate capacity to meet the anticipated demand during the Fifth Plan period. In the background of the experience of the implementation of Kurkunta Project by the CCI Planning Commission's main anxiety has been that CCI should be suitably strengthened and supported by competent consultants in order that the projects to be set up by the Corporation are well designed and are completed in an efficient manner. Taking the above factors into account, the Ministry of Industrial Development may kindly take a view on the competence of the consultants, as well as the terms of the contract as recommended by the CCI for the Mandhar Expansion Project."

6.63. The Committee pointed out that the Project Reports of Mandhar Expansion and Paonta did not provide for any consultancy services. Extra expenditure was therefore required to be approved by Government. They enquired the reasons for not taking specific approval of Government for the expenditure of Rs. 25 lakhs to be incurred on consultancy services. The Management in a written reply stated that the consultancy work was awarded after consultation with the Government.

6.64. In this connection, the representative of the Ministry stated during evidence as follows:—

"Planning Commission had considered this matter and they were of the opinion that it is absolutely essential that you must appoint Consultant in order to rectify these matters to match the plant capacities. They have been repeatedly saying so. The Corporation said that within the savings from the project estimates they will meet this expenditure. They will not ask for additional expenditure. It was felt that within the ceiling they can incur this expenditure of 25 lakhs. Therefore, specific Government approval was not given. It was stated that within the savings they will be able to accommodate the expenditure and they can go ahead and revised approval was not given because it was not considered necessary. They had written to us that they will be giving effect to the proposal from within their savings."

6.65. During evidence, the Secretary of the Ministry, however, admitted that it was quite valid that the Corporation should have sought Government's sanction. He further stated:—

"In the context of what the Planning Commission had said in general terms and they have been saying repeatedly that in order to set these things right and in order that these projects are implemented properly, quickly and efficiently and that you get the best output from these projects, the Cement Corporation went ahead. Strictly technically they should have sought the approval of the Government and strictly technically the sanction should have been accorded prior to their incurring this expenditure. Sometimes, there are delays in correspondence. In this regard we have to seek the affirmation of a large number of authorities."

* * * * *

I would request you to consider this in the context of the total outlay involved in the project and in the context of the urgency of getting things done. As it is, you would concede that there are occasions when because of your procedure, there are long delays in according sanction and if something is done in the larger interest if that is above board, I would like to suggest for your consideration, that one should take a reasonable view that this was done in the best interest of the country."

6.66. The Committee note that the Corporation has appointed M/s. Holtec Private Limited (who are in collaboration with M/s. Mike Holder Bank of Canada) as consultants for its Paonta and Mandhar Expansion projects on a fee of Rs. 25 lakhs (Rs. 16.4

lakhs for Paonta and Rs. 8.6 lakhs for Mandhar Expansion). The consultants will, among other things, ensure that there is no delay in the commissioning of the project after installation of all machines and the performance guarantee of the plant as a whole would also be their responsibility. The Committee are informed that no firm of consultants other than M/s. Holtec was considered for this appointment as no other firm was known to the Corporation in this field and therefore no offers were invited for the purpose. Although according to Ministry, A.C.C. was there in the field, they are also producing cement manufacturing equipment, and as such there would be problem in selecting them. Apart from the fact that M/s. Holtec had done consultancy work for private parties, one other consideration in their favour was stated to be that their was an independent consultancy firm and they had no direct interest in the manufacture of cement equipment. The Committee were informed that M/s. Holtec's offer was considered reasonable with reference to an earlier quotation of M/s. A.C.C. for the Mandhar Expansion Project. The Committee do not appreciate the procedure followed by the Corporation in selecting the consultancy firm. They do not think it is prudent to select consultants on the basis of personal knowledge of the Management or of some individual officers and without inviting open offers. This procedure also does not enable the Corporation either to select the most competent of the parties available in the field or to assess whether fee demanded by the favoured firm is reasonable or not. The Committee feel that the Corporation should have made an independent assessment of the reasonableness of the cost with reference to its own estimates and not depended only on the offer of another firm. The Committee would like the Government to issue suitable guidelines to all the undertakings in this regard.

6.67. The Committee regret to note that though the Board of Management decided on 1st May, 1973 that legal opinion should be taken and a formal contract with M/s. Hotlec entered into under other normal terms and conditions applicable to such contracts, so far a formal contract has not been entered into with them. The Committee find that one of the terms of appointment of M/s. Holtec was that they would inspect various plants and machines, draw specifications for bought out items etc. The Committee feel that since orders for plant and machinery for the Paonta Project had already been placed in November, 1973 directly by the Corporation, even before the appointment of the Consultants, a suitable reduction in fee should have been secured from M/s. Holtec in this regard. Moreover, since M/s. Holtec would be responsible for the performance guarantee of the plant as a whole and a penalty would be levied in the event of delay in the commissioning of the project after installation of machinery, the Committee are doubtful whether the Corporation would be able to enforce such a condition when the supplies of machinery are dependent on another firm who are responsible for performance guarantee also. The Committee recommend that these aspects should be kept in view before a formal contract is concluded with M/s. Holtec. The Committee also find that the firms include payment of penalty by the consultants if there is delay in the commissioning of the project after installation of machines and/or if performance of the whole plant for a sustained period of 7 days is not fulfilled. As this is a vital provision having financial implications and it verges on imprudence not to incorporate them in a legal document, the Committee would like the Corporation not to lose any more time to execute a formal contract with the consultants in which their responsibilities and liabilities should be clearly mentioned.

6.68. The Committee also note that one of the directives issued by the Government was that the Corporation should develop its expertise and build up its own strength of technical persons for the growth of cement industry in the country. In the meeting held on the 16th April, 1973 with the Special Secretary of the Ministry of Industrial Development, while the engagement of a consultant was considered to be in the interest of the Corporation, it was also felt that in the context of the Corporation's large programme of setting up additional capacity in the Fifth Plan and the likely pre-occupation of the existing consultants with various plants coming up in the private sector, "It would be worthwhile for the Cement Corporation to consider seriously the development of a consultancy organisation of their own". The Committee note that according to the Corporation the overheads would be exhorbitant, if it had developed its expertise on the basis of the capacity indicated by Government in the initial stages on the limited number of projects approved by them during the period 1965—71. In the opinion of the Committee, this aspect should have been brought to the notice of Government to consider whether any change in this directive is necessary. However, the Committee find that CCI has now been developing its own consultancy services and is already acting as consultant for Royal Government of Bhutan Undertaking for their cement project and the private consultant for its own Paonta and Mandhar Expansion Projects were appointed by the Corporation in order to cope with the crash programme of development of cement industry as it was considered difficult to recruit good experts within a short time available and also to keep the overheads low. Even though in view of the critical importance of cement in the present context of economic development, the Planning Commission has also approved the idea of employment of competent and well experienced firm of consultants to design and construct the cement plants, the Committee feel that the need for private consultants would not have arisen if the Corporation had made a small beginning in the early years of its existence for the development of its own expertise. The Committee would, however, like Government to examine the question of the Corporation developing a consultancy organisation of its own after taking into account, the existence of other consultancy organisations like NIDC, Engineers India Ltd., etc.

6.69. The Committee find that the Project Estimates of Mandhar Expansion and Paonta did not provide for any consultancy services and extra expenditure of Rs. 25 lakhs on the private consultants required approval of Government. They were informed that the consultancy work was awarded after consultation with Government and the Planning Commission and as the expenditure on this work would be met from within the savings from these two projects, specific Government approval was not considered necessary. During evidence, the Secretary of the Ministry admitted that "it was quite valid that the Corporation should have sought Government's sanction. Strictly technically the sanction should have been accorded prior to incurring the expenditure."

The Committee need hardly stress that as this item was not already covered by the estimates originally sanctioned and was in material deviation of the same, the specific approval of Government should have been obtained before the expenditure was incurred. The Committee therefore recommend that at least new Government should consider and accord the necessary sanction.

VII

KURKUNTA PLANT

7.1. Soon after the Cement Corporation of India started functioning in 1965, the Government of Mysore (renamed Karnataka with effect from 1-11-1973) suggested a few locations for investigation of lime-stone deposits. Out of these, Sedam (Kurukunta) was selected for the setting up of a cement plant. The State Government granted the mining lease for an area of 295.26 acres in November, 1965 at this place. The investigations carried out by the Corporation indicated proved reserves of the order of 109 million tonnes. Making an allowance of 10 per cent. for cavities, the exploitable reserves were estimated at 98.5 million tonnes and considered more than adequate to support a cement plant of one million tonnes a year capacity for 50 years. On the basis of the Feasibility Report submitted by the Corporation, Government of India approved in June, 1966 the location of a cement plant at Kurkunta.

A. Project Estimates

7.2. The Detailed Project Report for the plant at Sedam (Kurkunta) was submitted by the Corporation to the Government of India in January, 1967. It was not, however, put up to the Board before submission to the Government.

7.3. The Detailed Project Report envisaged a capital investment of Rs. 469.49 lakhs and a net return of 8.20 per cent. on the equity in the 6th year of the working of the Plant at a retention price of Rs. 96 per tonne.

7.4. The Project Report was formally approved by Government in June, 1969 for a sum of Rs. 442.79 lakhs only. As the actual outlay exceeded the amount approved by Government and the Project was in the last stages of construction, a revised project estimate for Rs. 514.77 lakhs was approved by the Board in January, 1971 and sent to the Government in February, 1971. Meanwhile, the actual outlay had exceeded the revised project estimate of Rs. 514.77 lakhs on account of increase in the scope of work and unforeseen delay in commissioning, thereby necessitating the revision of the estimates framed in February, 1971.

7.5. The table below compares the estimates of capital cost as included in the Detailed Project Report, as sanctioned by Government in June, 1969, as included in the first revised estimates (February, 1971) and the actual expenditure incurred there against up to 31st March, 1973:—

(Rs. in lakhs)

Sl. No.	Particulars	Estimates as included in the D. P. R.	Estimates as sanctioned by the Govt. in June, 1969	Revised estimates submitted to the Govt. in Feb. 1971	Actual expenditure as on 31st March, 1973
1.	Plant & Machinery	233·97	233·97	233·20	224·84
2.	Contingencies	18·57	5·07	4·50	..
3.	Erection cost	16·50	16·50	16·50	15·40
4.	Establishment expenditure during construction period	..	..	22·86	39·18
5.	Civil Works	160·50	158·30	177·68	198·16
6.	Electrical installation including street lighting	7·50	7·50	9·50	6·40
7.	Proving of lime-stone	2·75	2·75	3·19	3·19
8.	Headquarter overheads . . .	5·20	5·20	24·19	33·54
9.	Interest on loans during construction	24·50	13·50	13·15	46·74
		469·49	442·79	514·77	567·45

7.6. The actual expenditure up to March, 1973 had increased the February, 1971 estimates up to March, 1973. It was, however, only in May, 1974 that estimates of February, 1971 were further revised to Rs. 617.08 lakhs and got approved from the Board. The final revised estimates were yet (June, 1974) to be submitted to Government for approval. Meanwhile, expenditure continued to be incurred which was in excess of 10 per cent of the sanctioned cost in respect of following components:—

(i) Civil works.

(ii) Proving of limestone.

(iii) Headquarters overheads.

(iv) Interest on loans during construction.

7.7. As expenditure in excess of sanctioned amount by 10 per cent of a particular component requires the specific approval of Government, incurring of expenditure in the above referred cases was irregular.

7.8. As regards the time taken in revising the estimates of February, 1971, the Ministry stated (June, 1974) as follows:—

> "....after the plant was commissioned various defects and deficiencies in the performance of the plant started coming to light from time to time. Pending decision on the various items of works that were to be taken up including those suggested by the Action Committee for removing the defects and deficiencies in the operation of the plant, the submission of a revised project cost estimate would again have been only an interim one. It was, therefore considered to prepare the revised estimates only after decisions were taken on various matters."

7.9. When asked about the reasons for not placing the Detailed Project Report before the Board before its submission to Government, the Management stated as follows:—

> "It has not been possible to locate as to how the lapse occurred. However, it may be mentioned that in the implementation stage of the project, major problems were being taken to the Board as and when guidance was necessary."

7.10. The second revised estimate of Rs. 617.08 lakhs was submitted by the Corporation in June, 1974 to Government for approval. When asked about the present position regarding approval of this estimate by Government, the Management stated the revised project cost estimates of Rs. 617.08 lakhs were still under consideration of the Goevrnment as certain additional information called from the Corporation was received only in December, 1974.

7.11. In this connection, the Ministry explained the position as under:—

> "The revised estimates received in June, 1974, were examined in the Ministry and it was found that profitability statement had not been furnished on the basis of prevailing ex-works retention price of cement. On the 27th September, 1974, the Corporation was requested to send such statements. This was followed by reminders on 9th October, 1974, 4th November, 1974, 20th November. 1974 and 3rd December, 1974. On the 7th December, 1974, the requisite statement has been received. A note has now been prepared for submission to the Public Investment Board. The note has been referred to the Ministry of Finance for concurrence."

7.12. Pending framing of revised estimates in June, 1974, the Corporation continued to incur expenditure on the various components of project estimates which was in excess of 10 per cent of the cost sanctioned by Government in June, 1969. Asked about the reasons for not obtaining the specific approval of Government in such cases, the Management stated as follows:—

"When the Corporation submitted its revised estimates for Rs. 514.77 lakhs for the Kurkunta factory to the Government it was expected that the plant is to be commissioned before June, 1971. However, in view of the delay in completion of the Project the plant could not be commissioned by that time. The Government of India had indicated that the Government proposed to issue sanction for the revised Project costs estimates for Rs. 510.27 lakhs and had sought the concurrence of the Corporation for the same. Since the completion and commissioning of the Project had been delayed and the completion of the costs of the project was expected to go up, the Government was informed in March, 1972 that further revised project estimates will be sent later. Even though the project was treated as having gone into commercial production from October, 1972. There were certain defects still to be rectified. In addition, the Action Committee had also visited the Kurkunta factory and suggested certain modifications. The preparation of a revised project costs estimates without taking into consideration these modifications etc. would only have been an interim one, it was decided to prepare the revised estimates only after decisions were taken on these matters."

7.13. The Committee asked whether the fact relating to incurring of expenditure by the Corporation in excess of the limit of 10 per cent of the sanctioned cost of a component had not come to the notice of the Ministry on the basis of Quarterly Financial Reports and what action was taken to regularise the excess expenditure. The Ministry stated in a note as under:—

"The detailed Project Report for setting up a cement plant with a capacity of 2 lakh tonnes per annum at Kurkunta was sanctioned at a cost of Rs. 442.79 lakhs, on the 7th June, 1969. The Corporation submitted the revised estimates of Rs. 514.77 lakhs on 10th February, 1971. These estimates were examined by the Ministry in consultation with the Bureau of Public Enterprises and the Ministry of Finance. The Ministry of Finance agreed to sanction the estimates at Rs. 510.27 lakhs as against Rs. 514.77 lakhs proposed by the Corporation. Before issuing formal sanction to this amount, this Ministry wrote to the Corporation on 17th November, 1971 bringing this to their notice. In reply to this, the Corporation informed this Ministry in a letter dated 14th March, 1972 that due to delay in the commissioning of the plant and certain additional works, the total cost of the project was expected to exceed the revised project estimate as submitted by the Corporation. The Corporation, therefore, stated that the total capital cost was being assessed and that the revised estimates would be resubmitted to the Government for consideration.

The Corporation was able to submit the revised estimate of Rs. 617.08 lakhs only on the 19th June. The reason for this delay, explained by the Corporation, is that after the plant was commissioned various defects and deficiencies in the performance of the plant started coming to light from time to time. Pending decisions on the various items of work that were to be taken up including those suggested by the Action Committee for removing the defects and deficiencies in the operation of the plant, the submission of a revised project cost estimate would again have been only an interim one. It was, therefore, considered that revised estimates be prepared only after decision were taken on the various matters."

Thus, no doubt, it has been within the knowledge of the Ministry that expenditure on Kurkunta project had exceeded the approved estimate by the permissible limit of 10 per cent. However, Government had also to keep in view the difficulty, explained in the preceding paragraph, of the Corporation in submitting the final revised estimate. The facts of excess expenditure and upward revision of project estimates have been duly brought to the notices of Parliament. In the "Supplement to the Demands for Grants for 1972-73—Notes on Important Projects and Schemes", it was stated as follows:—

"The Government of India approved in 1966 the setting up of two Cement Plants, each with annual production capacity of 2,00,000 tonnes of cement, one at Mandhar (MP) and the other at Kurkunta (Mysore) at a total capital cost of Rs. 451.51 lakhs and Rs. 442.79 lakhs respectively. It is anticipated that the total capital outlay at Mandhar and Kurkunta Projects will increase to Rs. 490.37 lakhs and Rs. 510.27 lakhs respectively. The revised cost estimates for these projects are under consideration of the Government of India."

Again, in the "Detailed Demands for Grants of Ministry of Industrial Development for 1973-74" it was stated—

"The Kurkunta Project was also approved by the Government of India in 1966 at a total capital cost of Rs. 442.79 lakhs. Due to increase in the scope of works and delay in completion of the project it became necessary to revise the Project cost estimates. Accordingly revised cost estimates for Rs. 514.77 lakhs were submitted to Government in February, 1971. However, due to further increase in the scope of work and delay in commissioning of the plant because of certain defects in the plant & machinery the capital cost of the project exceeds the revised cost estimates. The second revised project cost estimates are under preparation. It is anticipated that the capital outlay on this project will now be Rs. 565 lakhs approximately."

7.14. The Committee were informed that the actual expenditure upto 31st December, 1974 against the revised estimate of Rs. 617.08 lakhs was Rs. 586.75 lakhs. It was expected that the project would be completed within the revised estimates of Rs. 617.08 lakhs.

7.15. The Committee note that the Detailed Project Report envisaging a capital investment of Rs. 469.40 lakhs for setting up cement plant at Kurkunta with a capacity of 2 lakh tonnes per annum was submitted by the Corporation directly to the Government in January, 1967 without obtaining the approval of the Board and was sanctioned by the Government at a cost of Rs. 442.79 lakhs in June, 1969. The Management have admitted that "it has not been possible to locate as to how the lapse occurred." The Committee are surprised at the omission. As the actual outlay exceeded the amount approved by Government and the project was in the last stages of construction, the Corporation submitted the revised estimates of Rs. 514.77 lakhs in February, 1971. The revised estimates were examined by the Ministry in consultation with the Ministry of Finance which agreed to sanction the estimates at Rs. 510.27 lakhs but before the formal sanction was issued, the Corporation informed the Ministry in March, 1972 that due to delay in the commissioning of the plant and certain additional works, the total cost of the project was expected to exceed the revised project estimates

and that the Corporation was reassessing the total capital cost and second revised estimates would be submitted to the Government for consideration. Meanwhile, the actual outlay had exceeded the revised project estimates of Rs. 514.77 lakhs. The Corporation was able to submit the second revised estimates of Rs. 617.08 lakhs only in June, 1974. As regards the reasons for delay in submitting the revised estimates the Committee were informed that after the plant was commissioned, various defects and deficiencies in the performance of the plant started coming to light from time to time and it was, therefore, considered that the revised estimates might be prepared only after the decisions were taken on the various items of work that were to be taken up including these suggested by the Action Committee for removing the defects and deficiencies in the operation of the plant. The Committee are distressed to note that the Government have taken more than 2 years to approve the original project estimates. The Committee regret to observe that the Corporation was allowed to continue to incur expenditure in excess of the sanctioned estimate without an appropriate sanction of Government.

7.16. The Committee need hardly stress that revised estimate should not be treated as a mere routine exercise but as an instrument of financial control.

7.17. The Committee regret to note that the sanction to the first revised estimates of Rs. 510.27 lakhs, though agreed to by the Ministry of Finance, was not issued just because the Corporation was in the meantime reported to be re-assessing the total capital cost and thinking of submitting the second revised estimates to the Government for approval. They feel that estimates should be considered by Government as soon as these are received from the Corporation and the whole exercise should be taken to the logical end by issuing a formal sanction so that no one remains in suspense about the expenditure actually authorised and the Corporation is not held liable for spending in excess of the sanctioned amount.

7.18. The Committee also note that it was within the knowledge of the Ministry that the expenditure on Kurkunta Project had exceeded the approved estimates by the permissible limit of 10 per cent. They were informed that the facts of excess expenditure and first upward revision of project estimates had been duly brought to the notice of Parliament, through the Supplementary Demands for Grants. The Committee are constrained to observe that in spite of the excess the Government have not brought to the notice of Parliament the effect of the excess on the cost of production and

on the economics of the Project. The Committee expect Government to bring these to the notice of Parliament without any further delay.

Increase of cost over DPR

7.19. The following factors accounted for the increase of cost over the Detailed Project Report Estimates:—

(i) The Detailed Project Report provided for expenditure during construction under 'Erection Cost' and 'Civil Works', Erection of plant and machinery was proposed to be done departmentally at a cost of Rs 16.50 lakhs. The work was, however, got done on contract basis through the plant suppliers at a total cost of Rs. 16.40 lakhs, thereby leaving a balance of Rs. 0.10 lakhs only for meeting the expenditure on maintenance of establishment during construction. The actual expenditure on the establishment, however, amounted to Rs. 39.18 lakhs.

7.20. The Ministry stated (June, 1974) that erection was got done through plant suppliers in order to avoid the problem of surplus labour and complaints from the suppliers in regard to erection defects. It had further been stated that "this coupled with the delay in commissioning of the plant led to excess expenditure on the maintenance of establishment during construction."

7.21. The Committee asked whether the provision of Rs. 16.50 lakhs in the Detailed Project Report towards expenditure on staff employed during construction and staff required for erection was not inadequate in view of the fact that the Management had already decided in July, 1968 in the case of Mandhar Plant to get the erection work done on contract basis, thereby entailing higher capital expenditure than envisaged in the D.P.R. They further enquired whether this fact was brought to the notice of the Ministry in the case of Kurkunta Unit for being taken into account while sanctioning the estimates in June, 1969.

7.22. The Management in reply stated in a note as under:—

"After placing order for erection for the Mandhar Project the Government was intimated that in the case of Kurkunta Project also it was brought to the notice of the Government in April, 1969 *i.e.* prior to the sanction of the estimates, that the provision for erection cost was not sufficient. The Detailed Project Report submitted earlier contained a provision for contingency for Rs. 18.57 lakhs. The excess expenditure on erection and establishment expenditure during construction and erection period was contemplated to be met out of the proposed provision of Rs. 18.57 lakhs from the contingency. The Government, however, in the original sanction for the Project included only a sum of Rs. 5.07 lakhs against contingency."

(ii) The Detailed Project Report provision of Rs. 5.20 lakhs on account of 'Head Office Overheads' was based on the assumption that five plants would be set up by the Corporation. During this period, however, only two plants had been set up. The actual 'Head Office Overheads Expenditure' allocated to the plant was Rs. 33.54 lakhs up to 31st March, 1973.

7.23. The Ministry stated (June, 1974) that the delay in commissioning of the Plant also contributed to the excess expenditure under 'Head Office Overheads'.

7.24. When asked about the extent to which the delay in the commissioning of the Plant led to increase in Head Office overheads expenditure and whether the initial provision of Rs. 5.20 lakhs was not inadequate, the Management stated that the increase in the Head Office overheads expenditure for the Kurkunta Project was due to both the implementation of lesser number of projects than originally anticipated and the delay in commissioning of the plant. As regards the contingency of the initial provision of Rs. 5.20 lakhs it was stated that the matter was brought to the notice of the Government in August, 1969.

(iii) The increase under 'Civil Works' over the project estimates was mainly due to increased quantum of work them envisaged in the Detailed Project Report (Rs. 31 lakhs) and substitution of ordinary shuttering by sliding/hydraulic shuttering in respect of cement/slurry slies and chimney (Rs. 9 lakhs). The original quantities of work based on the initial layout drawing supplied by the plant suppliers had to be revised on receipt of detailed drawing from them.

7.25. Explaining the reasons for increase in the cost of civil engineering works over D.P.R. Provision, the Management in a note stated that: The detailed project report provided for *ad hoc* amount for plant foundations and structures. The actual execution was done based on machinery suppliers lay out and load data drawings which were supplied from time to time. Therefore, the quantities of all the items as executed are different from the *adhoc* quantities assumed at the time of inviting tenders. The increase in the cost is mainly due to increase in the quantum of civil engineering works of factory foundations and structures and use of sliding shuttering in the construction of cement silos, slurry silos and chimney. Since there was no basis at the time of inviting tenders for estimating cost correctly nor there was any past experience in this regard at that time, therefore, keeping in view the circumstances the increase in cost is not unusual.

(iv) The estimate of Rs. 24.50 lakhs under 'Interest on loan during construction' in the Detailed Project Report was reduced to Rs 13.50 lakhs in the estimate sanctioned by Government in June, 1969. The actual expenditure up to 31st March, 1973, however, amounted to Rs. 46.75 lakhs on account of delay in the commissioning of the plant.

7.26. When asked about the justification for reducing the incidence of interest on capital in the sanctioned estimates, the Management stated that at the time of preparation of the Detailed Project Report, it was expected that the Government would release funds simultaneously for equity and loan for the Projects. However, as the equity capital was released first and loans later, while preparing the first revised estimates for the Kurkunta Project, the interest on capital was reduced to Rs. 13.50 lakhs and the sanction given by the Government accordingly.

7.27. The Committee note that as against a provision of Rs. 16.50 lakhs in the original sanction towards erection cost, the actual expenditure upto 31st March, 1973 amounted to Rs. 55.58 lakhs of which Rs. 16.40 lakhs was the expenditure on erection work got done on contract basis (though originally it was proposed to be done departmentally) and erection know-how and Rs. 39.18 lakhs was spent on maintenance of establishment during construction. The Committee also note that the DPR included a consolidated provision of Rs. 16.50 lakhs under erection cost and Government have also given their sanction accordingly. The revised estimate of February, 1971 however provided Rs. 16.50 lakhs for erection cost and a sum of Rs. 22.86 lakhs for establishment expenditure during construction. According to the Corporation, the provision in the DPR was grossly inadequate and excess over this sub-head would be from the provision under "contingency". The Committee are of the opinion that this procedure is not regular. The Committee are not happy that even after the decision to get the work done through contractor, the establishment expenditure during construction has increased abnormally. The Committee would like Government to critically analyse the reasons for the excess over the provision made in the originally sanctioned estimates to see how far it is justified.

7.28. The Committee are also informed that the allocation of Head Office over heads was based on the assumption that 5 plants would be set up by the Corporation while the actual number was

less. The Committee fail to understand as to why the provision was not reduced when the capacity to be set up by CCI had been curtailed considerably and the cost of establishment was not regulated accordingly. The Committee also note that the actual expenditure under 'civil works' unto 31st March, 1973 had exceeded the revised estimates of Rs. 177.68 lakhs by about 12 per cent. It has been stated that the increase is due to increase in actual quantity of civil engineering works, etc. as the quantity indicated in the tender was ad hoc. The Committee are surprised as to how in the absence of detailed drawings and schedule of quantities and technical estimates for the works could tenders be invited and contract finalised. The Committee would like that the reasons for the excess should be examined critically to see how far the excess was justified. Its effect on the cost of production and economics of the project should also be brought to the notice of Parliament.

B. Contract for Civil Work

7.29. The contract for the construction of factory buildings and connected civil engineering works was awarded to M/s. Mysore Construction Company in November, 1967. In terms of the contract, the entire work was to be completed within a period of 12 months No detailed schedule for completion of civil works of the various departments was, however, laid down in the contract. There was delay ranging from 10 to 21 months in the completion of the civil works of the various departments as per details given below:—

Sl. No.	Department	Scheduled date of completion of the civil engineering work	Actual date of completion of the civil engineering work	Period of delay beyond the scheduled date of completion
1.	Crusher	24-11-68	4-6-70	18 months
2.	Crane	24-11-68	23-5-70	18 months
3.	Slurry Mill	24-11-68	23-5-70	18 months
4.	Slurry Silo	24-11-68	March, 70	16 months
5.	Slurry Basin	24-11-68	29-9-69	10 months
6.	Coal Mill	24-11-68	3-9-70	21 months
7.	Auxiliary for Coal Mill	24-11-68	3-9-70	21 months
8.	Kiln	24-11-68	25-9-69	10 months
9.	Cement Mill	24-11-68	Before December, 1969	12 months

7.30. In April, 1969, the Corporation extended the time for completion of work up to 30th November, 1969 subject to the right to recover liquidated damages, if any. It appears from the note put up to the Board on 17th November, 1970 that, although the progress of civil works was slow throughout, no drastic action was taken against the contractor in view of unsatisfactory position of the supply of plant and machinery and forcible termination of the contract would have resulted in the litigation and brought all the civil works to stand still.

7.31. Towards the close of 1969 M/s. Walchand Nagar Industries Limited (suppliers for plant and machinery) accelerated the pace of delivery of the machinery. As the contractor was still very much behind schedule, it was proposed by the Managing Director in the 31st Meeting of the Board that in order to ensure that commissioning of the Plant was not delayed, it would be worthwhile to permit the contractor to use hydraulic shuttering in the construction of cement silos and chimney, subject to the following conditions:—

(a) The contractor will complete all civil works between December, 1969 and September, 1970 as per schedule drawn up for the various sections and, in case of his failure he will be allowed rates for ordinary shuttering only.

(b) A bank guarantee for Rs. 6 lakhs will be furnished and encashed if civil works were not completed according to schedule.

7.32. The above proposal which involved an additional expenditure of Rs. 6.16 lakhs, was approved by the Board and an agreement was executed with the contractor on 16th December, 1969 to this effect.

7.33. The contractor could not complete all the items of civil engineering works by the stipulated date of 30th September, 1970. In this connection, the following points were brought to the notice of the Board on 17th November, 1970:—

(a) The contractor had achieved overall targets for the completion of work except in the case of RCC Chimney, Mill Hoppers, Coal and Gypsum Hopper and inter-floors in Raw and Cement Mill House and their roofing. The work of RCC Chimney and Coal and Gypsum Hopper could not be completed on account of difficulties in the supply of steel by the Company and unprecedented heavy rains as a result of which the consultants had advised not to start concreting of the chimney to avoid any mishap. After rainy season, the work was taken in hand and had been completed.

(b) Mill Hopper on Mill House could be completed only after erection of Cement and Raw Mill. The erection had been done and work on these items had been taken up in hand.

(c) As the contractor was finding great financial difficulty in arranging for bank guarantee hypothecation of the contractor's machinery of the market value of Rs. 5.4 lakhs had been accepted after obtaining legal advice.

(d) It was thus clear that the contractor had fulfilled his obligations and the result desired by the Company, while sanctioning steel sliding shuttering for silo and chimney, had been achieved.

7.34. The matter again came up before the Board on 17th February, 1972. In addition to the reiteration of the facts mentioned above, it was stated in the note placed before the Board on 17th February, 1972 that the changed drive motor for the Kiln arrived at Kurkunta in the 3rd week of September, 1971 and the plant could not have been commissioned earlier upto clinkering stage even if the civil engineering works could have been completed before September, 1970. In view of these circumstances, the request of the contractor for granting extension of time up to 30th September, 1971 was proposed and approved by the Board.

7.35. When asked about the reasons for not lying down in the contract detailed schedule for completion of civil works of the various departments, the Management stated that 'since at the time of inviting tenders for civil works the machinery lay out drawings and load data etc. were not available it was not possible to lay down a schedule of completion of individual works. The priorities of supply of machinery and erection thereof were also not known at that time. There was no lapse on the part of anybody calling for fixing of responsibility.

7.36. When asked whether the target dates of completion of the civil engineering works were realistic, the Management stated that the quantum of work actually involved and the erection hold ups etc. for a cement industry were not correctly known at the time of inviting tenders for the civil works of this plant which was the first to be taken up by the Cement Corporation. From actual experience it had been seen that the period of completion as given in the civil works contract was not adequate.

7.37. When further asked whether any periodical progress reports were obtained by the Corporation from the contractor concerned and justification for the delay enquired and reported to the Board, the Management stated:—

"Progress reports were obtained periodically from the site. The programme and progress of civil construction, machinery supply and erection etc. were also discussed periodically in co-ordination meetings held at site. The position of progress was brought to the notice of the Board also during various Board meetings. In one of the meetings (31st meeting held on 19-11-69) while explaining the delay in execution of civil works, the Managing Director recommended use of sliding shuttering in case of cement silos and chimney.

The main reasons for slow progress of civil works were:—

(i) *Delay in supply of drawings*—There was delay in supply of drawings by the machinery suppliers and subsequently revisions were made by them from time to time due to which civil engineering designs and issue of construction drawings also got delayed.

(ii) *Difficulty in availability of steel*—As steel had to be planned and arranged sufficiently in advance, bulk of the steel had been arranged on the basis of approximate requirements. The exact sizewise/section-wise quantities can be known only when detailed designing of all the structures has been carried out based on machinery suppliers lay out drawings and load data. Therefore, the additional quantities required were procured from time to time based on actual requirements. Due to acute shortage of steel during that period, supply of some of the steel items got delayed inspite of all efforts.

(iii) *Slow progress on the part of civil contractors*—The contractor's own progress was also slow."

7.38. The Committee were informed that the main consideration for permitting the use of steel sliding shuttering for the construction of cement silos and chimney was to expedite the progress of the other civil works. Besides this, use of sliding shuttering was also considered desirable after observing the behaviour of silos constructed at Mandhar with ordinary shuttering and also keeping in view the nature of Kurkunta stone aggregates as mentioned in the Brief put up to the Board in its 39th meeting.

7.39. It was stated that the use of steel sliding shuttering was approved by the Board in its 31st meeting. There appeared to be no proposal from the Unit backed by technical considerations. The proposal was made during 31st meeting of the Board while explaining the delay in the execution of civil engineering works at Kurkunta.

7.40. When asked whether the additional expenditure of Rs. 6.16 lakhs in the use of sliding shuttering resulted in any additional gain to the contractor, the Management stated that the position with regard to the achievement of the purpose of incurring extra expenditure in the use of sliding shuttering was explained in a brief put up to the Board during its 45th meeting dated 17th November, 1970. Keeping in view the position explained to the Board, the Board in its 46th meeting held on 17-2-1971 approved extension of the time up to 30th September, 1971 for completion of the remaining works.

7.41. Since it had been found that the Contractor had completed most of the work except those held up on account of non-availability of steel and unprecedented heavy rains, the Board agreed to the above extension of time and therefore, the Management did not consider it necessary to impose any penalty for delay.

7.42. Prior approval of the Board was not obtained before agreeing to accept the hypothecation of machinery instead of the bank guarantee.

7.44. The Committee asked as to why the prior approval of the Board was not obtained before agreeing to accept the hypothecation of machinery instead of bank guarantee. The Management stated in reply as under:—

> "At this stage, it is difficult to say why the proposal was not put up to the Board regarding hypothecation of contractor's machinery in lieu of bank guarantee for prior approval. However, the interest of the Corporation was protected by hypothecation of the machinery".

7.45. In addition to the use of steel sliding shuttering in cement silos and chimney sanctioned by the Board in November, 1969, the contractor was also permitted in February, 1969 to use hydraulic shuttering in slurry silos involving an additional cost of Rs. 2.78 lakhs, the approval of the Board for this deviation was obtained. The Management stated (November, 1973) that the decision regarding use of steel shuttering (which was an alternative item in the contract) was taken by the Managing Director on technical considerations and it was not considered necessary to place the matter before the Board.

7.46. The Committee enquired if it was not proper to place the matter before the Board for prior approval as the proposal involved additional commitment on behalf of the Corporation and the Board had accepted the tender initially on the basis of ordinary shuttering.

The Management stated as under:—

"At this stage it is difficult to clarify this point."

7.47. When asked as to how was the reasonableness of the rate for hydraulic shuttering in respect of slurry silos determined, the Management stated as under:—

"The rate for sliding shuttering was a tendered rate of M/s. Mysore Construction Co. from the records it appears that no separate exercise was made to verify its reasonableness."

7.48. The Committee regret to note that though the contract for the construction of factory buildings and connected civil engineering works was awarded to M/s. Mysore Construction Company in November, 1967, and the work was to be completed within a period of 12 months, no detailed schedule for the completion of civil works of the various departments was laid down in the contract. The Committee were informed that it would not be possible to lay down the schedule because at the time of invitation of tenders for civil works, the machinery lay-out drawings and load data were not available. The priorities for supply of machinery and erection thereof were also not known.

7.49. It is surprising that the Corporation has not even been able to fix realistic target dates for completion of the work on the ground that the quantum of work actually involved and erection hold ups etc. for the cement industry were not correctly known at the time of invitation of tenders. The Committee are at a loss to understand as to how without the basic details of drawings, design quantities etc., the Corporation went about invitation of tenders and on what basis agreement with contractor was entered into.

7.50. The Committee regret to note that there had been delays ranging from 10 to 21 months in the completion of civil works in the various departments. Although the Corporation extended time for completion of the work up to 30th November, 1969, subject to recovery of liquidated damages, no drastic action was taken against the contractor in view of unsatisfactory position of supply of plant and machinery. It was felt that any forcible termination of the contract would have resulted in litigation and brought all the civil works to a stand-still. The Committee however find that at the close of 1969, the suppliers for plant and machinery accelerated the pace of delivery of the machinery with the result that the contractor was very much behind schedule. The Management, therefore, decided that the contractor should be permitted to use hydraulic shuttering in the construction of cement silos and chimney, subject to the condition that he would complete the work by September, 1970 failing which he would be allowed rates only for ordinary shuttering and a bank guarantee for Rs. 6 lakhs would be furnished for the civil works not completed according to the schedule. The Committee find that this proposal involved an additional expenditure of Rs. 6.16 lakhs. In spite of the extension of time and facility of hydraulic shuttering, the Committee regret to observe that the contractor was not able to complete the work by 30th September, 1970 although the management claimed that he had achieved the overall target for the completion of the work except in the case of chimneys, mill hoppers, coal and gypsum hopper and inter floors in Raw and Cement Mill. There were also difficulties in the supply of steel and unprecedented heavy rains when the contractor was not allowed to start concreting. The contractor was allowed because of his difficulties, hypothecation of his machinery of the market value of Rs. 5.4 lakhs in lieu of the bank guarantee though this proposal was not put up before the Board for their approval. The Committee are also informed that the plant could not have been commissioned earlier up to clinkering stage even if the civil engineering work could have been completed before September, 1970. The contractor was therefore granted extension up to 30th September, 1971. It is regretable that no periodical progress reports were obtained from the contractor. It was also stated that the use of steel sliding shuttering was approved by Board without any proposal from the unit backed by technical considerations. It is surprising that, in spite of these delays, no action was taken against the contractor and the contractor was allowed to hypothecate his machinery worth Rs. 5.4 lakhs. The Management have admitted that the matter was not placed before the Board and their prior approval was not obtained. It was also stated during evidence in this connection that at this stage it is difficult to clarify the point. It is also surprising that the management had not even verified the reasonableness of the rates before allowing the contractor to undertake hydraulic shuttering. It has been admitted by the management that 'from the records it appears that no separate exercise was made to verify its reasonableness'.

7.51. The Committee take serious view of these lapses. They would like that the matter should be thoroughly investigated, responsibility fixed and the Committee informed.

C. Crane grantry structure at Kurkunta

7.52. The crane gantry structure at Kurkunta was completed by the civil contractors on 12th August, 1970 at a cost of about Rs. 13 lakhs. It was designed and supervised by M/s. Master Sathe and Kothari, the civil consultants of Kurkunta Project. During the operation of the stock yard gantry in September, 1971, vibrations were observed and difficulty was experienced in the operation of the crane. The structure was inspected in October, 1971 jointly by the Company's Civil Engineering Adviser and the Chief Engineer of civil consultants. In addition to the vibrations in the structure, the rail alignment was also found to be not correct and the crane wheels were rubbing against the rails at a number of places. As a result of the joint inspection, some defects were rectified and certain stiffening measures were also carried out to reduce the vibrations.

7.53. On being asked to explain the reasons for the vibration, the civil consultants listed in April, 1973 a number of reasons more important of which were as follows:—

(i) The crane gantry had been designed for a maximum wheel load of 26 tonnes, whereas the actual wheel load was more.

(ii) In the absence of any data regarding surge and longitudinal forces of the crane from the crane manufacturer's side, the structure was designed on the basis of I.S. Code. In actual operations, the figures appeared to be much higher.

(iii) Crane rails were not properly aligned by M/s. Walchandnagar Industries Ltd. *i.e.* suppliers of plant and machinery.

7.54. In the meantime, the matter had also been referred to the National Industrial Development Corporation Ltd. for looking into the problem in its entirety and suggesting the measures for reducing vibrations. Their Chief Structural Engineer visited the site on 6th April, 1973 and on 12th April, 1973 and quoted a lump sum fee of Rs. 97,000 for carrying out the remedial measures. During discussions, the Corporation was also informed that the extra structural steel work of 150 to 200 tonnes (approx.) involving a cost of Rs. 5 lakhs (approximately) might be required for carrying out the stiffening measures.

7.55. The matter was considered by the Board in its meeting held on 1st May, 1973 and it was decided that the civil consultants of Kurkunta Project may be entrusted with the work of preparing detailed designs and drawings for strengthening work. The work would be undertaken by them on priority basis, free of cost and they would furnish a guarantee for due performance of the crane gantry after the completion of the work. The Board also desired that the question of fixing responsibility for the existing defects in the crane gantry should be duly examined by the CPDO, and the Civil Engineering Adviser and joint report submitted in the next meeting of the Board.

7.56. In this connection, the Management stated (November, 1973/ March, 1974) as follows:—

(a) 90 per cent work in connection with the strengthening of the stock yard has been completed and the balance modification works will be undertaken when the kiln is stopped for relining.

(b) "The Corporation is presently busy in removing the defects and deficiencies existing in the smooth operation of the plant at the full capacity. As soon as this is completed the question of fixing responsibility for the defects in crane gantry will be examined."

The Ministry stated (June, 1974) as follows:—

(a) "In case the original design would have been based on the correct data the same also would have involved extra consumption of steel and increased cost in the beginning itself."

(b) "The question of fixing responsibility for the defects in the crane gantry were examined and placed before the Board in its meeting held in March, 1974. The Board noted the information and decided that it would not be possible to fix responsibility for under-designing of the stock yard gantry."

7.57. As regards (a) above, it may be pointed out that generally strengthening a structure results in greater increase in cost than that to be incurred on the basis of correct design initially. Moreover, afflux of time would also contribute to additional cost on account of rise in price of steel.

7.58. The Committee were informed that 'the total expenditure incurred so far in rectifying deficiencies in the two crane gantry structures was approx. Rs. 6.0 lakhs. The balance 10 per cent work had mostly been completed but erections of some of the structural steel which had been fabricated could not be done due to materials stacking against the columns. This job would be taken up as and when conditions permitted without causing interruptions to the running plant. This would involve only a nominal expenditure of few thousand rupees.'

7.59. The Committee enquired whether a joint report on the question of fixing responsibility for the defects in the crane gantry was submitted by the Chief Project and Development Officer and the Chief Engineering Adviser of the Corporation and whether any responsibility had been fixed. The Management stated in reply that a joint report of the Civil Enginering Adviser and Chief Project and Development Officer could not be prepared as the Civil Engineering Adviser repatriated to his present department. However, keeping in view the various facts, a brief was prepared for the Board's decision in the meeting held in March 1974 in which the position was explained. The board noted this information and decided that it would not be possible to fix responsibility for under-designing of the stock yard of the gantry.

7.60. The Committee enquired as to what would have been the additional cost to be incurred by the Corporation in case original design would have been based on the correct data, and how that compared with the cost actually incurred. The Management stated as under:—

"An exact comparison of the cost that would have been incurred initially if original design was based on correct data and that as actually incurred is difficult at this stage. The contractors rate are based on a fixed issue rate for the steel provided in the Contract Agreement whereas steel is procured from time to time at rates current at that time. The difference in cost of actual procurement of steel and that provided in contract issue rates is debited directly to the work. Therefore, a comparison of rates excluding the cost of steel is indicated below:—

Approximately, 250 tonnes of structural steel work has been done for the strengthening work. The cost excluding supply of steel as per contract rates comes to Rs. 97,500/- (Contract rates Rs. 1,360/- per tonne, issue of steel Rs. 970/- per tonne, Rs. 1360/- (—) Rs. 970/- =Rs. 390/- per tonne; 390×250=97,500). The cost at fabrication rates now paid for the strengthening work comes to Rs. 1,62,500 (250×650). In addition, some welding work has been done. Therefore, the extra cost excluding supply of materials may be taken as approximately Rs. 80,000/-."

7.61. The Committee regret to note that, though the crane gantry structure was completed by the civil contractors on 12th August, 1970 at a cost of Rs. 13 lakhs, during the operation of the stock yard gantry in September, 1971, vibrations were observed and difficulty was experienced in the operation of the crane. The rail alignment

was also found to be incorrect and the crane wheels were rubbing against the rails at a number of places. According to the civil consultants who inspected the structure, the Vibrations were on account of crane gantry having been designed for a maximum wheel load of 26 tonnes, whereas the actual wheel load was much more. Moreover, the crane rails were not properly aligned by the suppliers of plant and machinery. In the absence of any data regarding surge and longitudinal forces of the crane from the crane manufacturer's side, the structure was designed on the basis of I.S. Code. In actual operations, the figures were much higher.

7.62. The Committee are surprised as to how in the face of these defects the work done by the civil contractors was accepted at all by M/s Master Sathe and Kothari, the civil consultants who were to supervise the work. The Committee are not sure whether any performance guarantee of the crane was insisted upon before it was taken over. The Committee would like that this matter may be investigated and a report furnished.

7.63. The Committee also note that the matter was referred to the National Industrial Development Corporation for suggesting measures for reducing the vibrations. According to the National Industrial Development Corporation, extra structural wheel work involving a cost of about Rs. 5 lakhs would be required for carrying out the stiffening measures. The N.I.D.C. quoted a lumpsum of Rs. 97,000 for carrying out the remedial measures. When the matter was referred to the Board, it was decided that civil consultants of Kurkunta project should be entrusted with the work of preparing detailed designs and drawings for the strengthening work and they should undertake the work on priority basis free of cost and furnish a guarantee for due performance of the crane gantry. The Board also decided that the question of fixing responsibility for the existing defects in the crane gantry should be duly examined by the C.P.D.O. and the Civil Engineering Adviser and a joint report furnished to the Board. The Committee were informed that while most of the strengthening work was completed, the erection of some of the structural steel which had been fabricated could not be done due to stacking of material against the columns and it could be taken up as and when conditions permitted without causing interruptions to the running of the plant.

7.64. It was also stated that the Joint report of the Civil Engineering Adviser and the Chief Project Development Officer could not be prepared as the Civil Engineering Adviser was repatriated to his parent department. The Committee fail to understand how the Civil Engineering Adviser was permitted to go back to his parent department without his having completed the enquiry.

7.65. It is also surprising as to how in the absence of the report, the Board, which considered the matter, decided that it would not be possible to fix responsibility for under-designing the stock yard gantry.

7.66. The Committee are also surprised that while the defects in the gantry came to notice in 1971, the decision to fix responsibility was taken after a delay of almost two years. The Committee feel that because of the failure of the consultants, a defective crane gantry had to be accepted which has involved an extra expenditure of Rs. 5 lakhs to the Corporation. The Committee would therefore like that the entire matter should be thoroughly investigated with a view to pin-point the responsibility for the lapses and the Committee informed of the action taken.

D. Supply and erection of plant and equipment and defects in the equipment

7.67. The letter of intent placed on M/s. Walchand Nagar Industries Limited in February, 1967 stipulated the completion of the supply of equipment by August, 1968 In the final agreement executed in October, 1969 the date of completion of the supply of equipment was, however, mentioned as 31st December, 1969. Another agreement was executed in October, 1969 with this firm for the erection of the plant and machinery.

(i) *Delay in supply of equipment*

7.68. There was delay ranging from 10 months to 20 months in the supply of plant and equipment, as per details given below:—

Sl. No.	Item	Scheduled date of completion of delivery as per agreement	Actual date of completion of delivery
1	2	3	4
1.	Crushing plant I	December, 1969	28-11-70
2.	Crushing paant II	Do.	9-11-1970
3.	Stock yard	Do.	9-11-1970
4.	Raw Material milling 'plant	Do.	5-2-1971
5.	Slurry silos and mixer	Do.	24-2-1971
6.	Dosing of raw material	Do.	6-4-1971
7.	Rotary Kiln	Do.	6-9-1971

1	2	3	4
8.	Cooling & transport of clinker	December, 1969	6-9-1971
9.	Coal milling plant	Do.	14-3-1971
10.	Cement milling plant	Do.	31-8-1971
11.	Gypsum & coal crushing plant	Do.	9-11-1970
12.	Cement transport	Do.	4-4-1971
13.	Cement silos	Do.	12-2-1971
14.	Packing plant	Do.	13-2-1971
15.	Compressor station	Do.	31-8-1971
16.	Electrical equipment	Do.	10-3-1971

7.69. In case of delay, firm was liable to pay liquidated damages @½ per cent of the value of the machine so delayed for every full month; subject to a maximum of 5 per cent of the value of the respective machine. No liquidated damages were, however, leviable under the agreement in case;

(a) Company was not ready for installation of the machinery;

(b) the late delivery of a particular machine, component or equipment did not delay the Company's erection programme;

(c) there was delay in supply of special type of well-wagons or there was a delay due to delay in the infringement sanction of Railways for the oversize and bulky cement machinery or there was delay in obtaining the Railway sanction for the movement of machinery arising out of non-payment or there was delay in payment of dues and charges, if any, by the Company for the alteration & additions to the Railway track for the machinery.

7.70. It was noticed that there was delay in erection work in the following cases on account of delay in the supply of machinery.

Sl. No.	Particulars	Scheduled date of delivery by the supplier as per agreement	Actual date when the delivery was completed by supplier	Scheduled date of erection	Actual date of erection
1	2	3	4	5	6
1.	Apron feeder	December 1969,	30-10-70	7-3-71	23-7-71
2.	Primary crusher	Do.	Do.		
3.	Secondary crusher	Do.	9-11-70		
4.	Slurry mill	December, 1969	17-12-70	7-5-70	16-10-71
5.	Kiln Department	Do.	7-12-70	15-5-70	12-12-71
6.	Dosing and dedusting plant	Do.	11-11-70	15-5-70	12-12-71
7.	Cooler	Do.	17-12-70	15-5-70	12-12-71
8.	Coal Mill Deptt.	Do.	17-12-70	5-10-70	3-12-71
9.	Cement Mill	Do.	7-12-70	7-6-70	April, 72

7.71. No liquidated damages were levied against the firm for delay in supply of above equipment. The Corporation had not, however, settled the final bill of the firm amounting to Rs. 12.29 lakhs.

(ii) *Delay in erection owing to non-completion oi civil foundations*

7.72. Schedule IV of the erection agreement indicated the dates by which civil foundations in respect of the various units of the Plant were to be ready in all respects and also the dates by which erection work in respect of these units was to be completed. The Corporation, however, failed to complete the civil works by the dates indicated in the schedule and there were delays in this respect ranging from 6 months to 9 months. Erection work was, therefore, not done by the firm according to the time schedule in the following cases:—

Sl. No.	Particulars	As per Schedule IV of the Contract: Civil foundations to be ready in all respects latest by	As per Schedule IV of the Contract: Erection to be completed by	Actual date of handing over of civil foundation	Actual date of completion of erection
1	2	3	4	5	6
1.	Crusher Department . .	7-12-1969	7-3-1970	4-6-1970	23-3-1971
2.	Crane Department .	30-11-1969	15-3-1970	23-5-1970	23-6-1971
3.	Slurry Mill Deptt. .	15-11-1969	7-5-1970	23-5-1970	16-10-1971
4.	Slurry Silo Deptt. .	30-10-1969	30-11-1969	March, 1970	5-11-1971
5.	Slurry Ban Deptt. .	15-10-1969	15-11-1969	29-9-1969	November, 1970
6.	Coal Mill	15-1-1970	15-3-1970	3-9-1970	3-12-1971
7.	Auxiliary for Coal Mill Department . . .	3-6-1970	30-9-1970	3-9-1970	3-12-1971
8.	Kiln Department . .	15-10-1969	7-8-1970	25-9-1969	12-12-1971

7.73. It was noticed that there was no clear record of the dates on which erection work of the various units of the plant was actually completed. No final payment in respect of erection work had also been made and the question of damages, if any, recoverable from the firm remained unsettled.

The Ministry stated (June, 1974) as follows:—

> "The plant supplier has yet to give performance test for certain units of the plant viz. Crusher, raw mill, kiln and fuel consumption in the kiln. The question of levy of liquidated damages for delay in supply and erection will, therefore, be considered before releasing the final payment after the supplier has given performance test for the above units."

7.74. The Committee asked whether the withheld amount of Rs. 12.29 lakhs would be adequate to cover the damages recoverable from the plant suppliers for (i) delay in supply of equipment and erection thereof; (ii) deficiencies in the manufacture of crane gantry structure, and (iii) non-fulfilment of performance guarantee on account of various defects and deficiencies in the plant. The Management in a written reply stated as under:—

> "Since the performance guarantee on account of various defects and deficiencies is yet to be established the damages recoverable cannot be ascertained at this stage.
>
> In addition to the amount of Rs. 12.29 lakhs withheld on account of commissioning and fulfilment of performance guarantee, an additional sum of Rs. 7.67 lakhs payable to the machinery suppliers has also been withheld. It has been decided that it will not be possible to fix any responsibility for the deficiency in crane gantry structure. It is hoped that it will be possible to recover the damages on account of delay and performance guarantee from plant suppliers."

7.75. The Committee regret to note that there were delays ranging from 10 months to 20 months in the supply of various items of plant and equipment by the plant suppliers. Though the contract provided for payment of liquidated damages in case of delays by the plant suppliers no liquidated damages were leviable in case, among other things, the late delivery of a particular machine etc. did not delay the Corporation's erection programme. The Committee learn that the erection work in a number of cases was delayed due to delay in the supply of machinery but no liquidated damages have been levied against the plant suppliers (who were also given the erection contract) for delayed supply of equipment even in those cases though the Corporation has not settled the final bills of the plant suppliers amounting to Rs. 12.29 lakhs. Besides, an additional sum of Rs. 7.67 lakhs payable to machinery suppliers has also been withheld by the Corporation. The Committee find that erection work was delayed by the plant suppliers in certain cases due to non-completion of civil foundations by the Corporation itself. However, no clear record of the dates on which erection work of the various units of the plant was actually completed was kept. The Committee recommend that each case of delay in supply of plant and equipment and completion of civil foundations and erection work should be critically analysed so as to allocate the responsibility in the matter between the Plant suppliers and the contractor for civil works. The Committee also recommend that Government/Corporation should make sure that the withheld amount of Rs. 12.29 lakhs would be adequate to cover damages recoverable on account of delays in

supply of equipment, deficiencies in the manufacture of crane gantry structure and non-fulfilment of performance guarantee.

(iii) *Defects and deficiencies in the equipment*

7.76. Owing to delay in the completion of civil works, supply of plant and machinery and erection thereof, the trial runs could be commenced with effect from May, 1971 and continued upto 28th April, 1972 as per details given below:—

Units of the plant	Date of trial run
Crusher . . .	1-5-1971
Crane	25-6-1971
Slurry mill . .	5-11-1971
Slurry silo	5-11-1971
Slurry basin	25-11-1971
Coal mill . .	3-12-1971
Kiln . .	12-12-1971
Cement mill	Not available
Cement silo and packing house	28-4-1972

7.77. The trial runs revealed a number of defects/deficiencies in the equipment supplied by the firm. In February, 1972, the Works Manager of the Project, while requesting the firm to expedite the rectification of deficiencies, stated that the frequent break-down and consequential enormous loss of production was due to 'substandard quality of machinery supplied and design failure.' The firm was also informed that it was not possible for the Corporation to take over the Plant until all the defects had been rectified and proper performance tests conducted. On 6th March, 1972, the firm agreed to remove all the defects/deficiencies within a period of six months.

As the firm failed to carry out the work as promised, the Corporation informed it on 10th October, 1972 that unless all defects of the Plant were rectified within 2 months, *i.e.* by 10th December, 1972, the works would be got done through other agency at firm's cost and risk. On 16th October, 1972 the firm agreed to complete the work within 3 months. The work had however, not been completed and was still (April, 1974) going on. Consequently, the performance guarantee tests as stipulated in the agreement for certain units of the Plant were yet June, 1974) to be obtained.

7.78. It may be mentioned that the contract limits the liability of the firm to the replacement, rectification or repair free of charge of the components or parts of the machinery or equipment found defective and does not cover the loss of production resulting from such defective/deficient equipment.

7.79. In this connection, the Management stated (March, 1974) as follows:—

(a) The firm has, so far, given performance guarantee for Cement mill, Coal mill and Packing Plant. The performance guarantee tests for other units (Crusher, Raw mill and Kiln including fuel consumption in the Kiln) had been abandoned as there were frequent power interruptions and break-downs.

(b) The firm was to demonstrate performance guarantee tests for the remaining units by December, 1973, but this was not done. It has, however, been reminded to undertake performance guarantee after the Kiln and other units are commissioned after relining of the Kiln by the middle of April, 1974.

7.80. The Committee asked whether it was not a fit case for investigation by a technical Committee in view of the various defects and deficiencies noticed in the equipment supplied by the plant suppliers and whether any assessment had been made of the loss of production caused by frequent breakdown on account of such defects in the equipment. The Management in reply stated as under:—

"Main machinery supplied at Kurkunta is of standard quality. There are certain defects in the auxiliaries which are being attached to by the suppliers. It is difficult to assess the loss in terms of production because of other major constraints which are prevailing in that area such as severe power cut shortage of wagons, poor quality of coal etc."

7.81. In this connection, the Ministry stated in a note as under:—

"The Action Committee on Public Enterprises appointed by the Government of India for scrutinising the working of the plants of the Corporation, has already gone into the working of the Kurkunta Plant.

The Committee has visited the Kurkunta plant and identified certain weak links, defects and deficiencies in the plant, such as gap between primary crusher output and the bolt conveyor, performance of the crane, slurry mixer basin, compressed air insufficiency, supply of material to the crusher and movement of materials, etc. Some of the defects etc. have already been attended to by either the Corporation or the plant suppliers and others are in the process of rectification.

The gap between the primary crusher outlet and the belt conveyor leading to the secondary crusher has been suitably modified. Certain adjustments have been made in the operations of the cooler resulting in improvements in the performance of the cooler and the drag chain. The work regarding the strengthening of the stockyard has been completed to the extent of about 95 per cent. A twin drive system for the slurry mixer basin has been provided by the suppliers of the plant, as a result of which the basin is now operating with load up to 4 metres as against a maximum of 4.9 metres. The other rectifications are in progress. As a result of the improvements carried out, the clinker production during the first three quarters of 1974-75 was 86,985 M.T. as against 84,910 M.T. during the corresponding period of 1973-74. In spite of non-availability of wagons and power cut ranging from 10 per cent to 60 per cent imposed in the Karnataka State, cement production during the above periods was 79,543 M.T. as against 83,433 M.T. during the corresponding period of last year.

The plant suppliers have given performance tests for the cement mill and packing plant and are yet to give the performance tests for the crusher, raw mill, kiln and power and fuel consumption. The question of imposing penalty on the plant suppliers for defective plant and machinery will be considered by the Corporation in terms of the contract after the suppliers have given performance test for all the units.

As the defects and deficiencies pointed out by the Action Committee have been rectified/are being rectified either by the Corporation or by the plant suppliers and in view of the above it has not been considered necessary to appoint another technical committee to investigate the working of the plant.

The Corporation, however, has withheld an amount of about Rs. 19 lakhs due to the suppliers on various accounts.

It is difficult to assess the loss of production due solely to defects and deficiencies in the plant as other constraints like power shortage, water shortage, floods, shortage of wagons etc. from time to time were also contributory factors for under utilisation of the capacity."

7.82. When asked as to why the performance guarantee tests for crusher raw mill and kiln (including fuel consumption) were abondoned especially when the plant suppliers was yet to demonstrate performance guarantee test for certain other units, the Management stated that 'attempts were made by the plant suppliers for giving the performance guarantee for different units. The rectifications work in the plant was underway by the suppliers. They would give performance guarantees of crusher, Rotary kiln, power and fuel consumption.'

7.83. The Committee regret to note that apart from the delays in civil construction, the trial runs of the plant and equipment revealed a number of defects and deficiencies in the equipment supplied by the plant suppliers which were attributed by the Works Manager of the project to "sub-standard quality of machinery supplied and design failure".

7.84. The Committee were informed that on 6th March, 1972, the plant supplier had agreed to remove the defects/deficiencies within a period of 6 months, but as the suppliers failed to carry out the work as promised, the Corporation gave a period of 2 months from 10th October, 1972 to the firm to complete the rectification work failing which, the supplier was told, that the work would be got done through other agencies at his cost and risk. Even though the suppliers had agreed to complete the rectification work within 3 months from 16th October, 1972, the work had not been completed till April, 1974 and many of the defects are reported to be still unrectified. Consequently, the performance guarantee tests, as stipulated in the agreement, are yet to be obtained. The Committee are further informed that the plant suppliers have given performance tests for the cement mill, coal mill and packing plant but they have yet to give the performance tests for the crusher, kiln and power and fuel consumption. The Corporation is stated to have withheld an amount of about Rs. 19 lakhs due to the suppliers on various accounts and has stated that the question of imposing penalty on the plant suppliers for defective plant and machinery would be considered by the Corporation in terms of the contract after the suppliers have given the performance test for all the units. The Committee find that the Corporation had not so far assessed the loss of production due to the defective supplies and the delays. The Committee recommend that the entire matter regarding supply of machinery,

their erection, performance guarantee etc. should be thoroughly investigated with a view to fixing responsibility and Committee informed of the action.

7.85. The Committee were informed that the Action Committee on public enterprises appointed by the Government of India scrutinised the working of the plants of the Corporation at Kurkunta and as the defects and deficiencies pointed out by the Action Committee have been rectified/are being rectified either by the Corporation or by the plant suppliers, it had not been considered necessary to appoint another technical Committee to investigate the working of the plant. The Committee feel that the purpose of the Action Committee was not to decide whether the plant supplied was of sub-standard quality and of bad design or not but to remove the defects and help the Corporation achieve higher production in the plant. In their opinion, an investigation is still called for to determine whether the plant and equipment supplied by the plant suppliers were of sub-standard quality and poor design and, if so, what action should be taken against the plant suppliers in this regard. In the circumstances the Committee do not agree that no investigation is called for. The Committee recommend that Government should appoint a Technical Committee to go into the working of the plant with a view to identifying its deficiencies.

E. Quarry Operations

7.86. The Detailed Project Report envisaged the mechanical operation of the quarry and equipments worth Rs. 17.70 lakhs were purchased during the period from June, 1969 to August, 1971 for this purpose. Initial development of the quarry was, however, taken up in February, 1971 through the agency of piece rate contractors Mechanical operations commenced with effect from November, 1971 only. The quantity raised through contractors and through mechanical operations together with the cost of raising/collection, as intimated by the Management, is indicated below:—

	up to 31-3-1972		1912-73	
	Quantity (In tonnes)	Value (Rs. in lakhs)	Quantity (in (tonnes)	Value (Rs. in lakhs)
(*a*) Through contractors . . .	93,797	0·80*	Nil	Nil
(*b*) Through mechanical operations	20,101	1·12	60,844	3·06

*Represents cost of raising for 34,744 tonnes only. Cost of raising for 59,053 tonnes was not separately available. The cost of raising and transporting this quantity, as furnished by the Management, was Rs. 4·58 lakhs.

7.87. It will be seen from above that the cost of raising limestone through mechanical operations was higher.

7.88. During the year 1973-74, a quantity of 1,74,545 tonnes of limestone was raised departmentally, i.e. through mechanical operations at a cost of Rs. 12.13 lakhs and a quantity of 15,645 tonnes was raised and transported by the contractor to the factory at a combined cost of Rs. 1.17 lakhs.

7.89. Explaining the reasons for raising and transport of limestone through the contractors, in 1973-74, the Management stated that after rectification of the defects the performance of the plant was expected to improve substantially. To meet the limestone requirement of the plant the Action Committee recommended to build up sufficient stock of limestone in the factory. In view of the inadequate grounds stock of limestone and in view of the necessity to build up the ground stock by the time the rectifications were expected to be over, the work for raising and transport of limestone was awarded to the contractors.

7.90. The Management informed the Committee that they had examined the economics of quarry operations for raising 1000 tonnes of limestone per day and felt that under the present labour-wage structure and the cost of the inputs to the machinery "mechanical operations will be as economical."

7.91. Asked as to how the cost of raising and transporation of limestone obtained in 1972-73 and 1973-74 compared with the incidence anticipated in the DPR and/or standard cost, the Management stated as under:—

> "The Detailed Project Report was prepared in 1966 on the then prevailing costs. The cost of raising and transport of limestone obtained in 1972-73 and 1973-74 cannot therefore be compared with the incidence anticipated in 1966 as the cost of various elements that go into the ultimate cost of raising have undergone substantial changes. The per tonne cost of raising and transportation of limestone in 1972-73 and 1973-74 as compared to standard costs prepared in March, 1974 were as follows:—

and 1973-74 as compared to standard costs prepared in March, 1974 were as follows:

	Rs.
1972-73	0·96
1973-74	8·48
Standard costs	8·00

7.92 The Detailed Project Report had envisaged transportation of limestone from quarry to factory through a 3.5 kms. long Narrow Gauge track. The work was taken up in November, 1967 departmentally and a sum of Rs. 1,00,740 was deposited with the Railways for supply of rails. As Railways could supply rails worth Rs. 29,564 till July, 1970 and thereafter further supplies were stopped by an injunction order issued by the Court, the Corporation decided in February, 1971, to award the work to the Railways and for this purpose a further sum of Rs. 4 lakhs was deposited with the Railways in June, 1971. The work was completed by the Railways in February, 1972 and the final bill was still (November, 1973) awaited.

7.93. For the transportation of the limestone, Corporation had placed an order in January, 1968 for the supply of 80 wagons which was reduced to 60 wagons valued at Rs. 6.06 lakhs in June, 1969. The wagons were received during the period from January to October, 1970. A locomotive was also purchased at a cost of Rs. 0.79 lakh in February, 1972. The wagons and the locomotive could not, however, be put to use till November, 1972 due to the time taken in the completion of the Narrow Gauge track and thereafter on account of nonregistration of the boiler. Another loco was also purchased on 15th December, 1972 at a cost of Rs. 0.73 lakh and was stated to be under repairs (July, 1973). The Ministry stated (June, 1974) that "the second loco has also since been put to use".

7.94. The Committee were informed that the final bill from the Railways for laying Narrow Gauge track had not yet been received.

The time taken in getting the boiler registered was as under:

Loco No.	Date of Receipt	Date of Registration
1 .	10-2-1972	23-9-1972
2	15-12-1972	23-4-1973

7.95. It was stated that as 60 wagons for transporting limestone from quarry to factory were not adequate, additional 8 wagons had since been procured for this purpose.

7.96. Pending completion of the Narrow Gauge track, the Corporation took up in January, 1971, the construction of a service road with water bound surfacing by the side of the track. The work was undertaken departmentally and completed on 6th April, 1972, at a cost of Rs. 1.25 lakhs. The longer time taken for completion of the service road upto water bound stage was stated to be due to non-availability of road roller and trucks and acute shortage of water.

7.97. Even after completion of the service road, it was found unsuitable for plying dumpers for transportation of limestone boulders. On 6th September, 1972, the Management decided to provide block topping for this road at a cost of Rs. 1 lakh to make the road suitable for regular dumper traffic. The work was scheduled to be completed by November, 1972, but had not been completed so far (August, 1974). The crusher was put to trial run on 1st May, 1971. As neither the railway track nor the service road were ready by that time and as the service road was found suitable after completion the transportation of limestone was done by the contractors through the private lands. As a result the Corporation had to forego the rebate offered by the two contractors in the event of the facility of good service road being available and had also to allow an extra rate of Re. 0.31 (for transportation within the factory area) and Re. 0.75 per tonne (from quarry to factory) to the third contractor on the same score.

7.98. The Committee were informed that service road between factory and quarry was required for inspections supply of materials spare parts and such other items and was a means of communication between factory and quarry. Therefore a regular service road was always necessary between factory and the quarry wherever the transportation of limestone was by any means other than road. Therefore, the expenditure incurred on the construction of service road had served the purpose.

7.99. Asked about the reasons for not implementing the decision taken in September, 1972, to provide black topping on the service road till August, 1974 the Management stated as under:

> "After taking decision in September, 1972 to provide black topping on the service road, the work of collection of stone aggregates, stone chips etc. was got done. However, due to extreme drought conditions in the area, consolidation of stone metal which required appreciable quantity of water could not be done. In addition, the procurement of bitumen also got delayed due to acute scarcity of bitumen in the country. However, the work of consolidation of the metal had been completed in July 1973. The procurement of bitumen and chips for pre-mixing had also been completed. Laying of the pre-mix which involves labour only could not be done at that time as the bitumen work cannot be done during rainy season.
>
> The work of pre-mix could not be taken up so far and

would be taken up at a suitable time. This is a small work which involves labour only."

7.100. The Committee asked whether any investigation had been made and responsibility fixed for non-completion of the service road in time in view of the fact that it was not being put to use and additional expenditure had been incurred by the Corporation, the Management stated in a written reply as under:

"The service road as originally intended was only to provide access to quarry and not for the regular movement of dumpers carrying limestone. The developments leading to metalling and pre-mixing of service road took place from time to time in view of the changed conditions as the commissioning of N.G. track by railways was getting delayed. Therefore it is not correct to say that the extra expenditure on the transportation of limestone has been incurred due to non-completion of the service road. The question of fixing responsibility on this account, therefore, does not arise."

7.101. The total expenditure incurred on the construction of the service road was Rs. 1.88 lakhs. The total amount paid to the contractor on account of extra rate of Re. 0.31 per tonne (for transportation within the factory area) and Re. 0.75 per tonne (from quarry to factory) was Rs. 53,986.

7.102. In regard to losing the rebate offered by the two contractors, in the event of the facility of good service road being made available, the Management explained the position as follows:

"It may be stated in this connection that the work of collection and transportation of limestone boulders was awarded to the two contractors on the basis of the tenders received at the end of 1970 and negotiations held in January, 1971. During negotiations, the Contractors who were allotted the work had indicated that they would have agreed for reducing the rates quoted by them provided the facility of a good service road was available. Since the work was awarded on the then existing conditions at the site, the observation that the Company had to forego the rebate offered due to absence of the facility of good service road would be only hypothetical."

7.103. The Committee regret to note that though the DPR envisaged mechanical operation of the quarry and accordingly equipments worth Rs. 17.70 lakhs were purchased during the period June,

69 to August, 71, the initial development of the quarry was taken up in February, 1971 through the agency of piece-rate contractors and the mechanical operations commenced w.e.f. November, 1971. They are constrained to remark that the equipment purchased as early as June, 1969 was kept idle till November, 1971. They cannot but express their displeasure at this lack of coordination and planning in the development of the quarry, purchase of equipment and commencement of mechanical operation and hope that lessons will be learnt from this in future.

7.104. The Committee also note that although in 1971-72 the cost raising limestone through mechanical operations was higher, the Corporation has since examined the economics of quarry operations and has come to the conclusion that under the present labour-wage structure and the cost of inputs, mechanical operations will be economical. They, however, regret to note that the per tonne cost of raising and transportation of limestone in 1972-73 (Rs. 8.86) and 1973-74 (Rs. 8.48) was higher than the standard cost prepared in March, 1974 (Rs. 8.08). The Committee would like the Corporation to identify the deficiencies and defects in the mechanical operations which account for higher cost of raising and transportation of limestone and take suitable remedial steps to bring the cost of mechanical operation at least to the level of standard cost.

7.105. The Committee note that the DPR envisaged transportation of lime stone from quarry to factory through 3.5 kms long narrow gauge track and a sum of Rs. 1 lakh was deposited with Railways for supply of rails. Since Railways could supply rails worth Rs. 29564 till July, 1970 and thereafter further supplies were stopped through a court order the Corporation decided in February, 1971 to award the work to the Railways and deposited Rs. 4 lakhs with Railways in June, 1971. Although the work was completed in February, 1972, the final bill from Railways is still awaited. The Committee feel that the long delay of over 4 years could have been avoided if the work had been entrusted to Railways from the beginning.

7.106. The Committee also note that the wagons for the transportation of limestone were received during the period from January to October, 1970 and a locomotive was purchased in February, 1972. But the wagons and the locomotive could not be put to use till November, 1972, due to the time taken in the completion of the narrow gauge track and thereafter on account of the non-registration of the boiler. Another loco was purchased on 15th December, 1972 but it was registered on 23rd April, 1973. The Committee regret to note that there was no synchronisation in the completion of railway track, purchase of wagons and locomotives and the registration of

the boilers with the result that the rolling stock had to remain idle for a number of months. They would have liked the Corporation not to have proceeded with the construction of the railway track and the procurement of the various items of rolling stock in such a haphazard and uncoordinated manner.

7.107. The Committee find that pending the completion of the narrow gauge track the Corporation took up in January, 1971 the construction of a service road and completed it at a cost of Rs. 1.25 lakhs in July, 1972. Even after completion it was found unsuitable for plying dumpers for transportation of limestone boulders. Though a decision was taken in September, 1972 to black top the surface and work was to be completed by November, 1972, the work has not so far been completed. The Committee regret to observe that when the crusher was put to trial run, in May, 1971, neither the Railway Track nor the Service road was ready by that time. Since Service Road was not found suitable on completion, the transportation of limestone was done by the contractors through private lands. As a result, the Corporation had to forego the rebate in rates offered by two contractors and had to allow an extra rate to the 3rd contractor. The Committee fail to understand why the Management could not have implement the decision to black top the surface. As a result, the service road had not served its purpose and extra expenditure to the tune of Rs. 53986 had to be incurred for transportation of limestone through the third contractor. The Committee suggest that the matter may be investigated and responsibility for the lapses fixed.

F. Production Performance

7.108. The Project was scheduled to be completed and commissioned by August, 1969. However, due to delay in the completion of civil works, supply of plant and machinery and erection thereof, the individual units of the Plant were put on trial runs between May, 1971 and April, 1972. As mentioned earlier, a number of defects and deficiencies were noticed in the equipment during trial runs.

7.109. The Plant was, however, deemed to have gone into commercial production with effect from 1st October, 1972. Till that date, the Plant had produced a total quantity of 25,320 tonnes of cement. The performance of the Plant subsequent to the commencement of the commercial production was also very unsatisfactory. As against the rated capacity of 1 lakh tonnes (based on six months working), the actual production from 1st October, 1972 to 31st March, 1973 was only 43,443.65 tonnes.

7.110. The non-achievement of capacity had been mainly due to the following defects:

(a) The gap between primary crusher outlet and belt conveyor leading to the secondary crusher being limited, frequent jamming of stone occurred, resulting in severe damage to the belt and lower output.

(b) The performance of E.O.T. crane had been unsatisfactory due to weak gantry, resulting in the crane track going out of alignment frequently and due to slow operation.

(c) The slurry mixer basin drive mechanism had been a total failure so far due to defective design and supply of faulty equipment. As a result the slurry was directly fed from the silos to the kiln. Owing to non-working of the slurry mixer basin, the material in silos got clogged, leading to frequent stoppages of kiln, higher consumption of fuel in the kiln and also contributing to weaking of its refractory lining. The Management stated (March, 1974) that the principals of the plant suppliers proposed to replace the slurry mixer basin by making alterations and modifications in the drive mechanism shortly.

(d) The chain system in the kiln was defective, causing formation of irregular nodules and high fuel consumption. It was reported (December, 1973) to the Board, in this connection, that a fresh design was to be supplied by M/s. Walchand Nagar Industries Limited.

7.111. The Ministry stated (June, 1974) that, according to the kiln expert M/s. Polysius of West Germany—Foreign collaborator of the plant suppliers), the chain system in the kiln was in order.

(e) The cooling arrangements for the clinker was inadequate. The Ministry stated (June, 1974) that the foreign expert after his visit to the plant, had agreed to furnish his views for effecting improvements in the performance of the cooler.

(f) The clinker transport system through the drag chain conveyor was defective. There were frequent breakages in the chain system which itself had been ascribed to reception by the conveyor of hotter clinker than the chain could take.

(g) Frequent break-downs of high pressure fine coal fan mainly on account of wearing of impeller and damage to bearings.

7.112. As a result of the above defects, the actual output of the various sections of the plant had been much less than guaranteed output, as per details given below:

Section of the Plant	Guaranteed output	Actual output average (1-10-1972 to 31-3-1973)	Actual position average (1973-74)
1. Crusher .	200 tonnes per hour	91 tonnes per hour	74 tonnes per hour
2. Raw Grinding Mill .	55 tonnes per hour	45 tonnes per hour	50 tonnes per hour
3. Kiln .	600 tonnes per hour	456 tonnes per hour	502 tonnes per hour
4. Packing mill	60 tonnes per hour	44 tonnes per hour	51 tonnes per hour
5. Cement Grinding Mill .	35 tonnes per hour	..	34·4 tonnes per hour

7.113. There were also frequent stoppages due to mechanical defects and other reasons, as mentioned in the table below:—

1. 10. 1972—31. 3. 1973

Sl. No.	Name of the Section of Plant	No. of shift	Total Available working Days	Total Available working Hours	Actual working hours	Stoppages due to in (hours) Mechanical and electrical defects	Shortage of raw materials, air, water, coal, etc.	Power cut Shortage	Shortage of wagons	Want of space in silos	Brick lining & maintenance	Other miscellaneous constraints	Running not required	Total
*1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1.	Crusher . .	1 to 2	160	2128	740	339	432	10	..	..	..	181	426	1388
2.	Raw Grinding Mill .	3	182	4368	1410	524	51	42	..	2197	..	144	..	2958
3.	Kiln . .	3	182	4368	2061	1872	30	30	..	..	356	19	..	2307
4.	Cement Mill .	3	182	4368	1238	1979	211	97	..	216	..	627	..	3130
5.	Packi-g Mill . .	2	162	2592	1073	366	307	12	834	..	..	..	..	1519
	1973–74													
**1.	Crusher . .	2	365	5840	2596	998	1246	45	..	..	..	526	639	3454.00
2.	Raw Grinding Mill .	3	365	8760	3961·40	1313·40	443·30	419·58	..	1638·00	52·40	930·35	..	4798·20
3.	Kiln . .	3	365	8760	5564·30	1723·05	247·20	141·50	..	..	367·30	715·45	..	3195·30
4.	Cement Mill . .	3	365	8760	3204·05	2474·40	1094·15	945·45	..	343·00	..	791·15	..	5555.55
5.	Packing Mill .	2	365	5840	2047·30	1033.30	301	18	1550	..	..	98.00	..	3000.30

* In Crusher and Packing Mill one day's weekly off is observed. However, in some months these were run on certain off days also. Moreover, for 106 days the Crusher was run on two shifts.

** In Crusher and Packing Plant one day's weekly off is observed.

7.114. The position regarding the rectification of the various defects was stated (January, 1975) by the Management as follows:—

"(a) The gap between the primary crusher outlet and the belt conveyor leading to the secondary-crusher has been suitably modified.

(b) The work on the strengthening of the stock-yard has been completed except for a few colunms where due to material build-up (accumulation of clinker due to power cut ranging between 10 per cent and 60 per cent), it has not been possible to complete the job. The final alignment of rails shall be done after the strengthening work is over. The performance of the E.O.T. crane is likely to improve further on completing the above jobs.

(c) The modification work for the slurry mixer basin is progressively being done and has not been completed so far. The twin drive system has been installed and the mixer basin is being run with load of slurry—4 meters against the maximum of 4.9 meters. The air piping system was modified in September, 1974. The slurry mixer basin has not been replaced by the suppliers.

(d) The chain system in the kiln has not been modified by the plant suppliers. CCI still feels that the chain system is not upto the mark.

(e) & (f) Certain adjustments have been made in the operations of the cooler resulting in improvements in the performance of the cooler and drag chain. The recommendations of the foreign experts are awaited.

(g) Improvements in the performance of the H.P. Fan have been achieved due to some modification work."

7.115. The Committee enquired whether the legal position had been examined with a view to bind the plant suppliers for the various defects and deficiencies in the plant and other contractual failure on their part. The Management stated in a written reply as under:—

"The Plant has been taken over is only in respect of completion of erection of all the units. Plan suppliers have yet to give performance guarantees for Crusher, Raw Mill, Rotary Kiln, Power and Fuel consumption. C.C.I. is holding more than Rs. 12 lakhs. Further, under the terms of contract the suppliers are bound to rectify the defects/deficiencies in the plant. They are already rectifying the defects. They are making arrangements to give performance guarantees shortly."

7.116. It is noticed from the Annual Report of the Corporation for 1973-74 that, as against the target of 1.25 lakh tonnes of cement, the Kurkunta Unit produced 1.10 lakh tonnes in 1973-74, thereby achieving 55 per cent of the installed capacity of 2 lakh tonnes. It has also been mentioned therein that the plant was expected to achieve 70 per cent of the installed capacity during 1974-75. The shortfall in achievement of targets in 1973-74 was stated to be due to frequent power failures interruptions and fluctuations in addition to power cuts. There were also unprecedented rains as a result of which production had to be shut down for 22 days in August, 1973.

7.117. When asked about the reasons for fixing the target of production in Kurkunta factory in 1973-74 much below the installed capacity of 2 lakh tonnes, the Management stated as under:—

> "Normally for the first year of operation, capacity utilisation is taken at about 50 per cent. For 1973-74, the target was fixed at 1.25 lakhs tonnes taking into account the teething troubles and the deficiencies that were noticed in the performance of the plant and machinery. The target for 1974-75 of 1.40 lakhs tonnes also was fixed taking into consideration the defects and deficiencies in the plant and machinery and the anticipated power cut."

7.118. When asked as to when the installed capacity of 2 lakh tonnes per annum was expected to be achieved, the Management stated in a written reply as follows:—

> "The Management expects to achieve 85 per cent capacity utilisation (as has been fixed by Task Force on cement industry appointed by Government of India) *i.e.* 1.70 tonnes of cement production per annum at Kurkunta provided (i) Power restrictions imposed by Karnataka Electricity Board are completely withdrawn, (ii) The railways supply wagons for inward movement of coal and gypsum and for outward movement of cement, and (iii) natural calamities like floods, during monsoon and scarcity of water during summer months do not hamper the cement production."

7.119. The Committee were informed that the production of Pozzolana cement during 1974-75 at Kurkunta by inter-grading of flyash with clinker was expected to be about 5 to 10 per cent of the total production in that factory.

7.120. The Committee note that the project was scheduled to be completed and commissioned by August, 1969. However, due to delay in completion of civil works, supply of plant and machinery and erection thereof, the individual units were put to trial runs between May, 1971 and April, 1972. A number of defects and deficiencies were noticed during trial runs. The Plant was deemed to have gone into commercial production from 1st October, 1972. The Committee regret to note that even after this, the performance was very unsatisfactory. As against the rated capacity of 1 lakh tonnes, the actual production from 1st October, 1972 to 31st March, 1973 was 43443 tonnes. During 1973-74, against the target of 1.25 lakh tonnes, the production was only 1.10 lakh tonnes or 55 per cent of the installed capacity. The plant was expected to achieve 70 per cent of capacity during 1974-75. The non-achievement of capacity was stated to be due to—

(a) the gap between primary crusher outlet and belt conveyor resulting in severe damage to the belt and lower output;

(b) performance of EOT crane being unsatisfactory due to weak gantry;

(c) total failure of slurry mixer basin drive mechanism due to defective design and faulty equipment;

(d) the chain system in the kiln being defective;

(e) inadequacy of cooling arrangements for clinker;

(f) defective clinker transport system through drag chain conveyor; and

(g) frequent break-down of high pressure fine coal fan;

As a result of these defects the actual output of the various sections has been less than the guaranteed output. There were also frequent stoppages due to mechanical defects and other reasons. The Committee are informed that though rectification of some defects had been done, the slurry mixer basin and chain system have not been rectified by the suppliers. Though according to foreign collaborator of the Plant suppliers the chain system was in order, the CCI feels this is not up to the mark. It has also been stated that the plant suppliers are yet to give performance guarantee for Crusher, Raw Mill, Kiln, Power and Fuel Consumption and the Corporation is with-holding more than Rs. 12 lakhs, and the suppliers are bound to rectify the defects. The Committee are distressed to find that there was already a delay of about 2 years in commissioning the plant and even after 2/1/2 years of the plant going into commercial production, the plant is not able to attain its rated capacity due mostly to mechanical defects. Although the Committee are assured that the suppliers of plant and machinery are yet to give performance guarantee and the Corporation is with-holding Rs. 12 lakhs, the fact remains that 5 years of valuable time, has been lost and even then there has been under-utilisation of capacity and consequential loss in production. The Committee recommend that an expert Committee should go into the working of Kurkunta Plant diagnose the ills, and demarcate the responsibilities of the suppliers so that Corporation may be in a position to improve its performance and maximise production.

7.121. The Committee note that the management expects to achieve 85 per cent capacity utilisation at Kurkunta as has been fixed by the Task Force of Government of India on Cement Industry provided power restrictions imposed by the Karnataka Electricity Board are completely withdrawn and the Railways supply wagons for inward movement of coal and gypsum and for outward movement of cement and the natural calamities like floods and drought do not hamper cement production. They feel that the availability of adequate number of wagons for the plant should not be very difficult if the Corporation and the Department of Industry maintain a close and constant liaison with the railway authorities at the centre and in the region. The Committee would also like the Central Government to take up the question of adequate power supply to Kurkunta plant with the State Government authorities and persuade them to find out ways and means of meeting the power requirement of the plant. They would urge the Corporation to make all out concerted efforts to achieve the target of 85 per cent utilisation of capacity in the current year.

VIII

BOKAJAN PROJECT

A. Detailed Project Report

8.1. In April, 1967, the Board approved the proposal to set up a Plant at Bokajan on the consideration that there was only one cement plant at Cherrapunji in Assam and the Planning Commission and State Government were keen to have another Plant in upper Assam.

8.2. On the basis of the investigations carried out by the Corporation between November, 1967 and April, 1968, it was estimated that 13 million tonnes of cement grade limestone and 1 million tonnes of blendable limestone was available for mining in an area of 420 acres. This was considered adequate to sustain a cement plant of 600 tonnes per day for a period of 45—50 years. A Feasibility Report was prepared and submitted to Government in January, 1968.

8.3. Pending approval of the Feasibility Report the Corporation proposed to the Government on the 13th March, 1969 that the Corporation be allowed to take up further preliminary surveys so as to be in a position to take up the preparation of Detailed Project Report immediately on receipt of Government's approval for the project, thus cutting short the time for the completion of the project.

8.4. On 19th March, 1969, Government accepted the proposal and in April, 1969 conveyed the approval for the setting up of the Plant.

8.5. In October, 1969, Corporation submitted the Detailed Project Report to the Government which was approved by the latter in May, 1971.

8.6. The Detailed Project Report envisaged an investment of Rs. 1125.91 lakhs and anticipated a return ranging from 4.95 per cent in the second year of operation to 9.20 per cent in the 8th year and at about 6 per cent from the 11th year onwards when tax became payable. These anticipations were based on the attainment of 90 per cent of the rated capacity of 2 lakh tonnes per annum and selling price of Rs. 130 per tonne.

B. Project Estimates

8.7. The table below compares the estimates of capital outlay as indicated in the Detailed Project Report, as approved by Government in May, 1971 and the actual expenditure upto December, 1974.

(Rs. in lakhs)

Main components of the project estimates	As indicated in the Detailed Project Report	As sanctioned by Government in May, 1971	Actual expenditure upto December 1974
(i) Plant and machinery (including pre-commissioning expenditure, sales tax and other Misc. Items) .	570·75	570·75	418·76
(ii) Electrical installations (including street lighting) .	15·25	15·25	3·20
(iii) Erection costs	22·00	22·00	14·82
(iv) Civil Engineering works (including cost of land Rs. 12·25 lakhs but excluding street lighting Rs. 3 lakhs) .	442.20	442.20	287.28
(v) Headquarters overheads	15·00	15·00	21·08 (upto 3/74)
(vi) Proving of lime-stone deposits .	4·71	4·71	3·85
(vii) Interest on loan capital during construction	56·00	28·00	2·95
TOTAL .	1125·91	1097·91	751·94

The Project was scheduled to be completed by May, 1975.

8.8. It will be seen that the expenditure on headquarters overheads has exceeded by more than 10 per cent of the sanctioned estimate.

8.9. Explaining the reasons for this excess expenditure on headquarters overhead, the Management stated in a note as under:

> "The reasons for this excess expenditure are the same as in the case of Mandhar and Kurkunta, namely a lesser number of projects being under implementation as compared to the number originally envisaged to be taken up simultaneously and hence increase in the allocation of head office overheads to Bokajan Project. As per the commitments made, erection cost will also exceed the 10 per cent limit.
>
> The commitments against the aerial ropeway exceeds the amount envisaged for the same in the detailed project estimates. However, aerial ropeway is a part of the

plant and machinery. The fact that the expenditure on aerial ropeway is likely to exceed more than 10 per cent of the sanctioned estimates for the same was brought to the notice of the Government. The Government intimated that the Corporation may submit the revised estimates for the approval of the Government indicating the exact amount for which Government sanction is required. As the implications of the escalation are still not definitely known, pending completion of installation and commissioning of the ropeway, it has not been possible to intimate to Government the exact expenditure on this account."

8.10. Explaining the reasons for not adhering to the time schedule in regard to the commissioning of the plant in May, 1975, the Chairman and Managing Director stated during evidence as follows:

"As far as Bokajan is concerned, we could not keep the time schedule mainly because of the major trouble of Bangladesh at that time. Prior and after that incident, for quite sometime, the movement of machinery was very difficult because priority was given to various other items. We are also putting up with the transport difficulty because there the metre-gauge could not carry a single-standard unit of 600 in the standard of a single unit. Because of the constraints of transport in Railways, we are putting up smaller units of 300. One unit as per the revised schedule will be put up by August, 1975. Another unit will be ready by February, 1976. It is a clinker unit. The productions of cement will start by February, 1976 except certain castings for which our suppliers ACC have placed orders with the Heavy Engineering Corporation as early as 1970, but till today the HEC has not delivered the same....

* * * *

Except this delivery from HEC Ranchi, in all other respects we hope to keep up the Schedule provided we get the gears".

8.11. The Committee note that a Feasibility Report for setting up a 600 tonnes per day plant at Bokajan (Assam) was prepared and submitted by the Corporation to Government in January, 1968. Pending approval of the Feasibility Report, the Corporation proposed to the Government on 13th March, 1969 that it might be allowed to take up further preliminary surveys so as to be in a position to take up the preparation of Detailed Project Report (DPR) immediately on receipt of Government's approval for the project, thus cutting short the time for the completion of the project. On

19th March, 1969, the Government accepted the proposal and in April 1969 they conveyed the approval for the setting up of the Plant. In October, 1969 the Corporation submitted the Detailed Project Report to the Government which was approved by the latter in May, 1971. The Committee regret to note that the Government took more than a year to accord its approval to the Feasibility Report submitted by the Corporation and they took more than 18 months to approve the DPR. They feel that the time taken by the Government in either case was too long especially in view of the keenness of Planning Commission and the State Government to have another plant in upper Assam, in the deficit areas.

The Committee would like the Government to look into the whole system of according approval to feasibility report/DPR which was delayed in this case and which has also been delayed in many other cases that have come to Committee's notice and take remedial measures to ensure that such delays are avoided in the interest of the expeditious execution of the projects.

8.12. The Committee find that the DPR envisaged an investment of Rs. 1125.91 lakhs but the Government approved the project in May, 1971 for a capital outlay of Rs. 1097.91 lakhs. The Committee find that the actual expenditure on headquarters over-heads has already exceeded the provision made in the project report and the sanctioned estimates by more than 10 per cent and the increase is reported to be due to lesser number of projects being under implementation as compared to the number originally envisaged. The Committee were also informed that the commitment against the aerial rope way had also exceeded the amount envisaged in the DPR and this fact had been brought to the notice of the Government which had asked the Corporation to submit revised estimates for their approval indicating the exact amount for which Government sanction was required. As the implications of the escalation clause are still not definitely known pending installation and commissioning of the ropeway, the Corporation has not so far intimated the Government the exact expenditure on this account. The Committee would like the Corporation to apprise the Government of the probable/actual excess both under Aerial Ropeway and on Headquarters overheads also and get the approval thereto. They feel that the revised estimates as required by the Government ought to have been be prepared as early as possible and got approved by the Government before the actual expenditure exceeds the amounts sanctioned by the Government under various heads.

8.13. The Committee also note that the project was scheduled to be completed by May 1975; but this scheduled date is not likely to be adhered to and there has been delay reportedly due to the dislocation in the movement of machinery prior to and after the liberation movement in Bangladesh. Besides, another transport difficulty had arisen inasmuch as the meter gauge railway in that part of the country could not carry the large size machinery for the 600 tonnes per day plant. Because of this constraint of transport through railways, the Corporation is now reported to be putting up two smaller units of 300 tonnes per day each, one of which is expected to be completed by August, 1975 and the other by February 1976. The Committee are surprised to note that this difficulty of transport of machinery because of meter gauge railway in Assam was not visualised at the time of the preparation of DPR. They are constrained to remark that this was a lapse which could have been avoided if all the factors had been borne in mind while preparing the DPR. The Committee would like Government to look into the causes of the failure of the Corporation to visualise the difficulties of transport at the time of preparation of DPR when it was already known that there was a metre gauge railway in that part of the country which could not carry large size machinery. They hope that such lapses will not recur in future and the DPRs will be prepared after taking into account all the known factors which may have a bearing on the execution of projects.

The Committee strongly recommend that Government/Corporation should take serious and concerted measures to ensure that the projects come up by scheduled dates and are not further delayed.

C. Supply of Plant and Machinery

8.14. In response to limited tenders invited in May, 1969 from 8 indigenous manufacturers for the supply of plant and machinery, 4 tenders were received in September, 1969. On 22nd July, 1969 the Board constituted a Committee comprising 5 members to negotiate with the tendrers regarding technical and financial details. 2 members of the Committee *viz*. DGTD and Joint Secretary, Ministry of Finance were subsequently replaced by Senior Industrial Adviser of DGTD's office and Deputy Secretary, Ministry of Finance.

8.15. Considering the technical and other relevant data furnished by the tenderers, the Negotiating Committee in its meeting held on 27th November, 1969 concluded that the choice for the placement of orders should be between Messrs. K. C. P. Limited (for Rs. 1,95,50,000) and Messrs. ACC (for Rs. 2,04,51,602). The Committee, however, did not make any final recommendation as it could not decide which of the two pre-heaters, namely Humbolt or Skoda design would be more suitable from the standpoint of overall economy, ease of operation and the location, etc. The matter was discussed by the Board on 8th December, 1969 and it decided that the opinion about the efficiency of the pre-heater etc. be obtained from Director General of Technical Development. Accordingly the matter was referred to the Director General of Technical Development on 12th December, 1969, but he regretted his inability to give advice on the matter due to certain administrative restrictions. In pursuance of the decision of the Board taken on 27th February, 1970, the matter was thereafter referred to the Engineers India Limited who stated in April, 1970 that they had no specialised knowledge in cement industry.

8.16. The Board then reconsidered the pros and cons of the offers of both the parties and decided that the order be placed on Messrs. ACC in view of the following considerations but that the Managing Director should negotiate for further reduction of the price quoted by Messrs. ACC:

(a) The technical appreciation given before the Board was that the pre-heater offered by ACC would outweigh Messrs. K.C.P.'s in case of operation.

(b) Messrs. K.C.P. have limited experience in the dry process plants and their pre-heater *i.e.* Skoda has neither been installed nor tried in this country. There was so far only 2 or 3 Skoda pre-heaters installed in the world, whereas there were more than 200 Humbolt pre-heaters (offered by Messrs. ACC), in operation in the world, out of which 9 were in operation in India.

(c) Messrs. ACC have already put up a number of dry process plants in India and the teething troubles in their case would be minimum. The additional expenditure was only a small percentage of the total investment of the project which would involve an increase of 30 paise per tonne in the cost of cement and was not of significance.

8.17. The matter was thereupon discussed by the Managing Director with Messrs. ACC and a letter of intent dated 1st/2nd May, 1970 for Rs. 20,00,51,600 was issued in their favour for the supply of plant and equipment. The formal agreement with Messrs. ACC was yet to be finalised and signed (June, 1974).

8.18. According to the letter of intent, the delivery of the plant and machinery should have commenced from May, 1971, and completed by February, 1972. However, Messrs. ACC commenced supply of the machinery only with effect from February, 1972. Upto June, 1973 they had supplied 45 per cent of the total plant and machinery.

8.19. The delay in supply was attributed to the following factors:

(1) Lock-out in the works of the sub-contractors of Messrs. ACC—Messrs. ACC Vickers, Babcok Limited, Durgapur. The lock-out was lifted in October, 1970 only.

(2) Restrictions on the movement of goods to the Eastern Sector during the war.

(3) Till 1972 the railway siding was not ready for receiving the heavy consignments.

(4) Delay in the supply of large size castings by Messrs. Heavy Engineering Corporation, Ranchi.

(5) Delay in making M.S. Steel available to ACC by the Hindustan Steel Limited.

8.20. The Ministry stated (June, 1974) that Messrs. ACC had supplied 69 per cent of the plant and machinery up to 31st March, 1974 and the delay in supply was due to severe power cuts, wagon shortage, strike in the suppliers' works at Shahabad and delay in supply of heavy castings by HEC Ranchi.

8.21. Asked about the nature of administrative restrictions because of which DGTD regretted his inability to give advice, the management informed the Committee that CCI was not aware of the nature of administrative restrictions.

8.22. When enquired about the contractual liability of M/s ACC for delay in supply of plant and machinery and the total delay involved so far, the Management stated as under:—

"If the delivery schedule is not maintained, the liquidated damages payable by M/s. A.C.C. is at half per cent of the quotation prices of the respective machinery per month for the first two months of delay and thereafter at one per cent per month subject to a maximum ceiling of 7½ per cent and payable on all courts of the contract inclusive of performance guarantee. M/s. A.C.C. were to commence supply from May, 71 and were to complete the same by February; 1972 subject to force majeure condition. Some portions of the plant and machinery is yet to be delivered, as M/s. A.C.C. have not received the castings from M/s. H.E.C. (A Government of India Undertaking). The total delay so far is a little over 3 years. The delay, due to force majeure condition is being assessed.

M/s. A.C.C. had completed the supply of 77 per cent of the plant and machinery upto 30th September, 1974.

8.23. Enquired as to when the entire supply was likely to be completed, the Management stated that M/s. A.C.C. had completed supplies of about 90 per cent of the plant and machinery upto date. For some critical castings like gear, pinion of Raw-mill and cement Mill, they were dependent on supply of castings from M/s. H.E.C. The matter was being expected at all levels. As per present conditions, it was stated, that the supply was expected to be completed by February-March, 1976.

8.24. The Committee note that the tenders for the supply of plant and machinery were received in September, 1969 and a Committee to negotiate with the tenderers had been appointed by the Board earlier (July, 1969). The Director General, Technical Development, who was earlier a member of the negotiating Committee was subsequently replaced by the Senior Industrial Advisor of DGTD's office. After considering the tenders the negotiating Committee came to the conclusion that the choice for the placing of orders should be between M/s. K.C.P. Limited (for Rs. 1,95,50,000) and M/s. A.C.C. (For Rs. 2,04,50,602). The final decision depended on the comparative suitability from the stand point of over all economy, ease of operation and the location etc. of two pre-heaters, namely, Humbolt offered by M/s. A.C.C. and Skoda offered by M/s. K.C.P. Under the directions of the Board the matter was referred to the DGTD in December, 1969 but he regretted his inability to give advice on the matter due to certain administrative restrictions. The Engineers India Limited, who were then approached, stated that they had no specialised knowledge in cement industry. After considering the pros and cons of the offers the Board decided to place the order with M/s. A.C.C. after the Managing Director negotiated a reduction of the price quota by them.

8.25. The Committee are unable to understand as to what was the need to refer the matter to DGTD for technical advice on the comparative suitability of the two pre-heaters, when the Senior Industrial Advisor of DGTD's office was already on the negotiating Committee. They do not see the utility of appointing such technical experts on the negotiating Committee if they cannot give positive advice to the Corporation on such technical matters. What has distressed the Committee more is the fact that the DGTD should have regretted his inability to give advice on the matter due to "certain administrative restrictions." The Committee are not able to appreciate the so called administrative restrictions which prevented DGTD to give his views. The Committee would like that this may be investigated by the Government and results intimated.

8.26. The Committee were informed that though according to the letter of intent signed with M/s. A.C.C. the delivery of the plant and machinery should have commenced from May, 1971 and completed by February, 1972 M/s. A.C.C. commenced supply of plant and machinery only w.e.f. February, 1972 and have not completed sup-

plies so far It has been stated that so far 90 per cent of the plant and machinery has been supplied and the balance of the machinery is expected to be supplied by February-March, 1976. They delay in supply is attributed to the lock-out in the works of the sub-contractors M/s. A.C.C., restriction on the movement of goods in the Eastern Sector during war and delays in constructing railway siding for receiving the heavy consignments, delay supply of large size casting by HEC and availability of M.S. Steel from Hindustan Steel Limited. The delay is also reported to have been due to severe power cuts, wagon shortage and strike in the suppliers works at Shahbad. The Committee regret to note that the supply of plant and machinery would be delayed by over 4 years in all and some of the reasons for delay do not appear to be entirely unavoidable. The Committee cannot see any justification for delaying the construction of the railway siding till 1972. They also feel that the question of supply of M.S. Steel from HSL and the supply of large size casting by HEC should have been pursued more vigorously at the Ministry level and as the castings have yet not been supplied, the matter may at least now be taken up with HEC at the highest level. They would like the Government to investigate the reasons for the delay in the supply of large size castings by HEC as such delays in supply have a bearing on the cost of the project apart from the delays in erection and commissioning. The Committee are not sure whether the Corporation has taken action to review the conditions of contract in the context of these delays and modify them suitably to provide for guaranteed performance.

.. 8.27. The Committee understand that M/s. A.C.C. have a contractual liability for delay in the supply of plant and machinery subject to force majeure condition and the delay due to force majeure condition is being assessed by the Corporation. The Committee would like the Corporation to complete the assessment of delay due to force majeure condition quickly and consider the question and quantum of penalty to be levied on M/s. A.C.C. for the delay which is not due to force majeure condition, before setting their bills.

D. Erection of Plant and Machinery

8.28. For the erection and commissioning of the plant and machinery, M/s. Associated Cement Companies had submitted their tender for Rs. 22.28 lakhs in September, 1969 alongwith the tender for the supply of plant and machinery. The offer was reduced to Rs. 21 lakhs in November, 1969 after negotiations. No action was, however, taken to finalise the erection contract with M/s. Associated Cement Companies alongwith that for the supply of plant and machinery.

8.29. On 26th September, 1972, the Corporation approached M/s. Associated Cement Companies, for undertaking the erection work. M/s. Associated Cement Companies, however, declined to accept the work unless a revised price of Rs. 40 lakhs was accepted. The Corporation then decided that the erection work be done either departmentally or through an erection contractor. Accordingly, tenders were invited for (a) supply of labour and (b) for execution of erection on turnkey basis.

8.30. Out of 8 tenders received, two firms had quoted for supply of labour and 6 firms for complete erection on turnkey basis. As the firms quoting for the supply of labour were not prepared to furnish any security or bank guarantee and as a number of firms had quoted for complete erection, the Management decided to get the erection work done on turnkey basis.

8.31. Out of 6 firms quoting for complete erection, the offer of 4 firms was not considered on the following grounds:—

(a) Lack of experience in erection of cement plants in the case of 2 firms.

(b) Rate offered being unworkable in respect of third firm.

(c) Offer being exorbitant in respsct of fourth firm.

8.32. The remaining two offers were from M/s. Associated Cement Companies Bombay and Western India Erectors, Poona for Rs. 33.08 lakhs and Rs. 24.38 lakhs respectively. Negotiations were conducted with both the parties stood as follows:—

1. M/s. Western India Erectors, Poona ..Rs. 23.13 lakhs
2. M/s. Associated Cement Companies, Bombay—Rs. 27.74 lakhs*

*After making an allowance for Rs. Rs. 3.061 lakhs representing the supervision charges of M/s. A.C.C.

8.33. In response to another tender enquiry, M/s. Western India Erectors had also quoted for electrical erection. After negotiations, their offer of Rs. 7.06 lakhs was reduced to Rs. 1.87 lakhs for this item of work.

8.34. As the finally negotiated offer of Rs. 25 lakhs of M/s. Western India Erectors, Poona for mechanical and electrical erection work was cheaper than that of the offer (Rs. 27.74 lakhs) of Associated Cement Companies for mechanical work and that of (Rs. 2.51 lakhs). M/s. Macneill Barry for electrical erection, the Corporation awarded the composite contract on 15th November, 1973 for Rs. 25 lakhs to M/s. Western India Erectors.

8.35. In connection with the contract awarded to M/s. Western India Erectors—it may be mentioned as follows:—

(a) With a reference to the initial offer of M/s. Associated Cement Companies for Rs. 21 lakhs, the Corporation had to accept the offer of M/s. Western India Erectors for Rs. 23.13 lakhs.

(b) On 17th March, 1974 M/s. Associated Cement Companies were engaged for the supervision of erection work being undertaken by M/s. Western India Erectors. The incidence of erection supervision, as worked out by the Management, has estimated at Rs. 3.06 lakhs on the basis of certain assumed time schedule. There was however, no mention about supervision of erection in the letter of intent issued to M/s. Western India Erectors.

8.36. The Ministry stated (June, 1974) that "suitable provision regarding supervision of erection work by M/s. A.C.C. will be made in the contract to be signed with M/s. Western India Erectors".

8.37. When asked about the reasons for not accepting the initial offer of M/s. A.C.C. for Rs. 21.00 lakhs made in November, 1969 for the erection of Plant and Machinery, thereby leading to additional cost, the Management stated in a written reply that —M|s. A.C.C.'s offer for erection at Rs. 21.00 lakhs was accepted by C.C.I. and in this conncetion they had sent the draft agreement also. C.C.I. wanted to club both supply and erection contract together which was to be confirmed by A.C.C. Due to difficulties of Sales Tax etc. Later on M/s. A.C.C. did not went to accept the erection contract and adopted delay tactics and avoided taking up the erection job.

8.38. Enquired whether contract with M/s. Western India Erectors had since been finalised and it included a provision for supervision of erection by M/s. A.C.C., the Management stated as under:—

"Contract with M/s. W.I. Erectors has not been signed. M/s. A.C.C. are supervising the erection only entrusted by C.C.I. so that they are bound for giving the performance guarantees of different sections of the plant under the terms of agreement with them. It cannot be called a dual system. However, the work is going satisfactorily."

8.39. The Management informed the Committee that the cost of supervision of erection payable to M/s. A.C.C. was to be borne by the Corporation.

8.40. In reply to a question as to whether it would be possible for the Corporation to limit the incidence of erection supervision to their own estimate of Rs. 3.06 lakhs, the Management stated that the expenditure of Rs. 3.00 lakhs anticipated was based in certain terms and conditions. The conditions had since been changed and the expenditure was likely to increase.

8.41. The Committee regret to note that for erection and commissioning of plant and machinery, though M/s. Associated Cement Companies (A.C.C.) had submitted in September, 1969 their tender for Rs. 22.28 lakhs which amount was reduced to Rs. 21 lakhs in November, 1969 after negotiations, no action was taken by the Corporation to finalise the erection contract with M/s. A.C.C. along with that of supply of plant and machinery. In September, 1972, the Corporation approached M/s. A.C.C. for undertaking the erection work but they declined to accept the work unless a revised price of Rs. 40 lakhs was accepted. The Corporation did not accept the revised price. The Committee were informed that M/s. A.C.C.'s original offer for erection at Rs. 21.00 lakhs was accepted by the Corporation and in that connection it had sent the draft agreement also. The Corporation wanted to club both the supply and erection together due to difficulties of sales tax etc., but, later on, M/s. A.C.C. did not want to accept the erection contract and is reported to have adopted delay tactics and avoided taking up the erection job. The Committee have not been able to understand why M/s. A.C.C. after tendering for the erection work and negotiating a reduced price of Rs. 21 lakhs in November, 1969, backed out and if actually they had backed out in 1969, why the Corporation waited till 1972 and approached them again in 1972.

8.42. The Committee note that the Corporation on further invitation of tenders and negotiation with M/s. Western India Erectors had finalised on 15th November, 1973, a contract for erection for Rs. 25 lakhs. In addition, on 17th March, 1974, the A.C.C. was engaged for supervision of the erection work being undertaken by M/s. Western India Erectors. The incidence of the cost as estimated by the management is stated to be of the order of Rs. 3.06 lakhs. It has been stated that a suitable provision would be made in the contract with Western India Erectors to provide for supervision of the erection by A.C.C. The Committee are informed that this arrangement was necessary to bind the A.C.C. to give the performance guarantee of different sections of the plant under the agreement with them and the incidence of such a provision would be borne by the Corporation. Although the Corporation estimated the incidence of supervision at rupees 3.06 lakhs based on certain terms and conditions, it has been stated that the expenditure is likely to increase as the conditions have changed. The Committee are not sure whether the dual system of supply and erection by two different agencies would serve the best interest of the Corporation and will not result in any delay. The

Committee feel that it would have been advantageous for the Corporation to have the supply and erection of the plant and machinery done through the same contractor in the over-all interest of coordination and fixing of responsibility for the entire work instead of through the different contractors. The Committee regret to observe that because of the initial failure on the part of the Corporation to finalise the erection contract in November, 1969 it had to go in for this dual arrangement which has resulted in an extra expenditure of Rs. 4 lakhs with an additional uncertain liability for supervision charges. The Committee would like Government to investigate the matter and communicate their findings.

E. Aerial Ropeway

8.43. The Detailed Project Report provided for the installation of an aerial ropeway at a cost of Rs. 200 lakhs for the transport of crushed line-stone from the quarry at Dillai Parbat to the Plant at Bokajan, a distance of 18 Kms., as transportation by ropeway was considered economical.

8.44. Accordingly, tenders were invited in August, 1969 for the turn-key job of installing a bicable ropeway. Out of the eight tenders received in October, 1969 four tenders were not considered by the Negotiating Committee as:

(a) one tender was for a second hand ropeway;

(b) another tender was incomplete and did not contain technical details;

(c) one of the tenderers failed to attend the meeting and later confirmed that he was not interested; and

(d) another tenderer regretted his inability to submit the revised offer without escalation.

8.45. Clarifications were obtained from the remaining 4 parties. As the information furnished was not decisive, the Negotiating Committee decided on 4th May, 1971 to issue a fresh enquiry to these parties. Revised offers in pursuance of the fresh enquiry were received on 1st October, 1971. Again, certain clarifications were called for. Thereafter, negotiations were held in December, 1971 with the parties to discuss the various conditions attached with the prices quoted by them.

8.46. The Negotiating Committee recommended the tender of M/s. Usha Breco who had not only past experience but were also the lowest. The price as offered by M/s. Usha Breco, after negotiation, was Rs. 207 lakhs with D.G.S. & D. escalation clauses or a firm price of Rs. 219.5 lakhs.

8.47. At the instance of the Government Director, the matter was, however, referred to the Government on 24th December, 1971.

8.48. On 23rd February, 1972, Government decided that the order may be placed on M/s. Jessops and Company Ltd., at a cost of Rs. 227.70 lakhs with escalations Accordingly, the Corporation placed in March, 1972 an order for Rs. 227.70 lakhs on M/s. Jessops and Company. According to the order, delivery including commissioning was to be completed by March, 1975.

8.49. The progress of the work, as intimated (March, 1974) by the Management, was as follows:—

> "Till first week of February, 1974, foundations for all trestles (108) had been completed. Excavation of angle divide station and castings of foundations has been completed. Excavation as well as foundations at unloading station is in progress. Rope has been despatched. 25 per cent of structural works at their workshop at Dum Dum, Calcutta have been completed."

8.50. Asked about the considerations which weighed with the Government in awarding the order for Ropeway to M/s. Jessops and Company Ltd, at a cost of Rs. 227.70 lakhs with escalations as against the firm offer of M/s. Usha Breco for Rs. 219.5 lakhs as recommended by the Negotiating Committee, the representative of the Ministry stated during evidence as under:—

> "Government had 50.15 per cent shares in Jessops. Technically it was not a Government Company. If it becomes a Government Company, then 10 per cent price preference would have been applicable to this. Government Commitments in Jessops were to the extent of 15 crores. We, therefore, wrote to the Finance Ministry that in this case we should make an exception and they agreed".

8.51. The witness informed the Committee that about 25 to 30 per cent of the mechanical erection was over and about 85 per cent of the machinery had already arrived at site.

8.52. The Ropeway would be operated by middle of June, 1975.

8.53. The Committee note that as against the provision of Rs. 200 lakhs in the DPR for installation of an aerial ropeway the Corporation invited tenders in August, 1969 for a turn-key project. Although eight tenders were received in October, 1969, all of them had been rejected for one reason or the other. Tenders were therefore re-invited and revised offers were received in October, 1971. The negotiating committee recommended the offer of M/s. Usha Breco which

was Rs. 207 lakhs with DGS&D escalation clause or a fixed price of Rs. 219.5 lakhs. The Government to whom the matter was referred in December, 1971 decided on 23rd February, 1972 that the order may be placed on M/s. Jessops at a cost of Rs. 227.70 lakhs with escalation. It has been stated that the Corporation placed the order in March, 1972 for Rs. 227.70 lakhs on M/s. Jessops. Although the Committee appreciate the idea of placing the order on M/s. Jessops which is now a Government Company, the Committee cannot but express their regret that there had been a delay of about 3 years in placing the order. The Committee are not sure about the financial implications of the escalation before the advantage of placing the order with M/s. Jessops could be assessed as prima facie there has been an extra cost of Rs. 8 lakhs over the firm offer of M/s. Usha Breco and the excess will be more if the effect of escalation clause is taken into account.

F. Civil Works

(i) *Plant structure*

8.54. Open tenders for the construction of plant structure were invited on 15th January, 1971. Four tenders were received as shown below:—

1. M/s. Gannon Dunkerley & Co.	Rs. 1,61,20,430·72
2. M/s. Gangoomal & Brothers	Rs. 1,71,45,640·80
3. M/s. Bridge Roof & Co.	Rs. 2,01,20,440·00
4. M/s. Hindustan Steel Works Construction Limited	Rs. 2,34,06,355·70

8.55. Negotiations were carried out with M/s. Gannon Dunkerley and Company, the lowest tendered, on 20th and 21st May, 1971. The tender was accepted on 17th June, 1971 and they were requested to start preliminary arrangements for the work. Thereafter, an agreement was executed with them on 5th August, 1971 for Rs. 1,62,33,242. In terms of the agreement, the entire work was to be completed by 4th August, 1973. It was, however, noticed from the monthly progress reports that approximately 32 per cent of the work had been completed upto January, 1973. The delay in progress of work was attributed to:

(a) Presence of soft rock in the excavation work.

(b) Delay in receipt of drawings.

(c) Non-availablity of higher dia rods.

(d) Disturbances in the Assam Area.

8.56. The Management have since stated in a written reply that the progress on construction of plant structures upto December, 1974 was approximately 85 per cent. The structures required for erection of machinery were being handed over from time to time as per requirements. The factory foundation and structures were likely to be completed by June, 1975. The contractor had so far been granted extension upto 31st December, 1974.

8.57. **The Committee note that though the lowest offer of M/s. Gannon Dunkerley & Co. for the construction of plant structure was for Rs. 161.20 lakhs, the value of the contract as finalised in August, 1971 was Rs. 162.33 lakhs. The Committee do not understand as to Why the final contract was in excess of the original offer by over a lakh of rupees. Though in terms of the agreement, the entire work was to be completed by 4th August, 1973, 85 per cent of the work is reported to have been completed upto 31st December, 1974, the date upto which the contractor has been granted extension. The Committee are informed that the factory foundation and structures are likely to be completed by June, 1975. The Committee regret to note the delay of nearly two years in construction work of plant structure. They would like the Corporation to assess the effect of the delay in construction work on the erection of plant and machinery and to determine the liability of the contractors for the delay before finally setting their bills.**

(ii) *Township*

8.58. In response to the tenders invited in November, 1970 for the construction of residential and other buildings at Bokajan, four quotations were received by 30th December, 1970. The lowest tender of Shri Sohan Singh of Dimapur for Rs. 60 lakhs was considered best.

8.59. In their meeting held on the 23rd January, 1971 the Board of Directors considered a note (Appendix IV) submitted by the Managing Director regarding tenders for residential and other buildings for the Bokajan Plant. The Board decided that if the Government approved the D.P.R. for the Bokajan plant or approved awarding of the construction work in anticipation of the sanction of the D.P.R., the Corporation may accept the lowest tender of Shri Sohan Singh for the construction of residential and other buildings.

8.60. The issue regarding the tenders for residential building and other buildings for the Bokajan Plant came up before the Board of Directors again at their meetings held on 15th March, 16th June and

4th September, 1971. Relevant extracts of the Minutes are enclosed (Annexure I).

8.61. From these Minutes it is seen that in their meeting held on 15th March, 1971 it was confirmed that the brief on the subject 'tenders for residential and other buildings for Bokajan Plant' submitted to the meeting of the Board held on 23rd January, 1971 had the concurrence of F.A. & C.A.O. though the same had not been specifically indicated in the brief.

8.62. In the subsequent meeting of the Board of Directors held on the 16th June, 1971, the Managing Director, however, wanted the Board to replace the words 'had the concurrence of F.A. &C.A.O.' by 'had been prepared after taking into consideration the comments recorded by F.A. & C.A.O. on the relevant file'.

8.63. He explained that in the last Board meeting (15-3-71), when he mentioned that the brief placed before the Board regarding tenders for the township at Bokajan, had the concurrence of FA & CAO, he had in mind the fact that all the tenders had been examined by the financial wing of the Corporation and the note of FA&CAO had been considered by him before putting up recommendation to the Board.

8.64. At this meeting, (held on 16th June, 1971) the Board was informed that on receipt of Government's approval for D.P.R., the work had been awarded on 4th June, 1971 for Rs. 60.00 lakhs to Shri Sohan Singh.

The Board of Directors objected to the procedure followed by the Managing Director on the following counts:—

"(i) The brief put up to the 41st meeting of the Board of Directors did not contain a comparative statement giving merits of various tenderers and especially why the lowest tender was the best acceptable in all respects. No mention was also made whether brief had the concurrence of F.A. & C.A.O.

(ii) In the 42nd meeting the confirmation given by the Managing Director that the brief put up in the 41st meeting had the concurrence of F.A.&C.A.O. was not again borne out by the statement made by him in the 43rd meeting. The circumstances under which the objections of Financial Adviser & Chief Acconts Officer were not brought to the notice of 41st meeting were not clarified.

(iii) In accordance with the procedure laid down, the views of the Financial Adviser & Chief Accounts Officer that he had certain reservations in regard to the competence of the lowest tendered were also not brought to the notice of the Board either in the 41st or in the 42nd meeting.

(iv) The objections of the F.A. & C.A.O. in regard to the financial capability of the tendered, Sardar Sohan Singh were got investigated by the Civil Engineering Adviser and on the basis of the note submitted by Civil Engineering Adviser on 4th June, 1971 the tender was accepted by the Managing Director on the same date without consulting the Financial Adviser & Chief Accounts Officer.

(v) The Board felt that the tender should not have been accepted on 4th June, 1971 *i.e.* twelve days before 43rd meeting of the Board, which was scheduled to meet on 16th June, 1971."

8.65. The Managing Director explained that the Financial Adviser was on leave at that time and he had returned from tour only on 22nd of January. The Board meeting was scheduled to be held on January 23rd, and since the foundation stone of Bokajan plant had been led on January 17, 1971, he felt that the tenders shoulud be accepted so that the work could be taken in hand as soon as sanction to the project was received. He also informed the Board that as per decision of the Board, he had accepted the tenders on receipt of sanction of the project and according to the recommendations of the Civil Engineering Adviser.

8.66. One of the members of the Board suggested that in view of the above and especially because the contract was for an amount of Rs. 60 lakhs approximately, whether it could not be cancelled at this stage. The Managing Director explained that there would be not only legal but also financial implications if the tender already accepted was cancelled. The Managing Director also stated that the tenderer Shri Sohan Singh had been instructed to collect certain materials in view of the heavy monsoon in the area where Bokajan is situated. It was further explained by the Managing Director that the comments of the Financial Adviser were considered and although the Civil Engineering Adviser and he himself was fully satisfied that the contractor would be able to do the work, even when he had taken precaution and asked the contractor to undertake only 50 per cent of the work in the first instance, so that if the contractor's progress was not satisfactory, his contract could be terminated. In regard to the suggestion that the tender might be cancelled, the Chairman took consensus of the opinion of the members of the Board and it was that tenders should not be cancelled. The Board thereupon approved the action taken by the Managing Director with the provision that the contractor shall not be awarded execution of contract beyond the first phase of the work, unless and until the Board was satisfied with his performance and the progress of the execution of the project.

8.67. The Committee asked as to why the Financial Adviser and Chief Accounts Officer was not consulted before accepting the tender on 4th June, 1971. The Management state:

> "It is not possible to say at this stage why the Financial Adviser and Chief Accounts Officer was not consulted before accepting the tender on 4th June, 1971."

8.68. Asked as to when the Civil Engineering Adviser of the Corporation was asked to investigate the financial capability of the lowest tenders, it was stated that—

> "The then Civil Engineering Adviser joined towards the end of April, 1971. Since he visited Bokajan in May, 1971 and submitted his report on 4th June, 1971 he must have been requested for conducting necessary verifications regarding the working and financial capacity of Shri Sohan Singh some time in May, 1971 only."

8.69. During evidence, the Committee enquired whether the managing Director by himself was empowered to do it without reference and approval of the Board.

The Chairman and Managing Director stated:

> "Normally, we have to go to the Board and that is what we are practising strictly."

8.70. In reply to another question as to whether it was necessary for the Managing Director to have the concurrence of the Financial Adviser, the witness stated that 'the concurrence of F.A. should have been there'. It was added that the F.A. was consulted and he had some doubt about the contractor's capability to perform the contract. He made some comments.

8.71. The Committee enquired whether it was not normal to put before the Board the comments of the F.A. In reply, the witness stated as under:—

> "The Managing Director did not perhaps put before the Board the comments of the FA because on receiving the comments of the FA he entrusted the Civil Engineering Adviser with the job of making further inquiry about the doubt the FA had expressed and the Civil Engineering Adviser, after going to the site and inquiring about the past works done by the contractor and his financial resources, made a report

that the contract or was quite capable of performing this work. So, the Managing Director put up the proposal to the Board. Only, he did not make it clear that the FA had expressed a doubt and that he had got that doubt clarified by subsequent inquiry."

8.72. The witness added that the Managing Director should have informed the Board that F.A. expressed a doubt about the capacity of the civil contractor.

8.73. The entire phase I work which was required to be completed by 4th June, 1972 was completed by the contractor by 30-9-1972.

8.74. The Board of Directors approved on 28th April, 1972 the proposal of the Managing Director to permit the contractor to collect necessary quantity of timber required for the 2nd phase of construction, subject to the condition that the communication to be made to the contractor in this behalf should be so worded that this permission did not amount to Corporation's awarding him work for the 2nd phase.

8.75. The Board decided on 17th August, 1972 that legal opinion should be obtained as to whether it would be possible to give the 2nd phase work to any other contractor(s) and if so, what would be its implications. According to the opinion of the Legal Adviser, there was no valid ground on the basis of which the contract could be terminated. In the meantime, the contractor also informed the Corporation on 20th October, 1972 that he was suffering a loss of several thousands of rupees per month by way of staff maintenance and blocking of several lakhs of rupees on the acquisition of materials for 2nd phase of work and that he reserved the right of recovering the loss from the Corporation for not allowing him to take up 2nd phase of the work.

8.76. The matter was considered by the Board on 2nd November, 1972, and in view of the satisfactory performance of the contractor and the legal opinion obtained, it was decided that there was no objection in awarding the second phase work to Shri Sohan Sing. Accordingly, the contractor was permitted on 12th January, 1973 to take up the work of 2nd phase. The work was to be completed within 18 months from the date of issue of the order i.e. by 15th July, 1974.

8.77. Uuto 30th September, 1974 work of the value of Rs. 28.40 lakhs out of the tendered value of Rs. 35 lakhs had been completed in respect of 2nd phase.

8.78. When asked about the reasons for delay in completion and whether any penalty had been levied on the contractor for his failure to complete work by the scheduled date of 15th July, 1974, the Management stated as under.

"As per progress ending December, 1974 the work had been practically completed except for some small finishing items.

The Bokajan site office has recommended extension of time upto 15-1-75 and has intimated that there is no valid reason for levy of liquidated damages as the delay in execution is partly due to delay in supply of drawings and materials from the Corporation. The case is under consideration.

It is likely that the cost of completion of 2nd phase work may be less than Rs. 35.0 lakhs. However, the exact position would be known on preparation of final bill."

8.79. The Committee note that the Board of Directors decided on 23rd January, 1971 that in case Government approved the DPR for Bokajan Plant or approved awarding of construction work in anticipation of the sanction of DPR, the Corporation might accept the lowest tender of Shri Sohan Singh for construction of the residental and other buildings. At the meeting of the Board held on 15th March, 1971, it was confirmed that the brief on the subject considered by the Board on 23-1-71 "and Concurrence of the Financial Advisor and Chief Accounts Officer (F.A.&C.A.O.) though the same had not been specifically indicated in the brief." But in the subsequent meeting of the Board held on 16-6-71, the Managing Director clarified that when he mentioned about the concurrence of F.A. and C.A.O. what he had in mind was that all the tenders had been examined by the financial wing of the Corporation and the note of F.A. and C.A.O. had been considered by him before putting up the recommendation to the Board. At that meeting (on 16-6-71) the Managing Director had informed the Board that as per decision of the Board he had accepted the tender on receipt of sanction of the Government to the D.P.R. and according to the recommendations of the Civil Engineering Adviser but that as a measure of precaution he had asked the contractor to undertake only 50 per cent of the work in the first phase the cost of the total work being Rs. 60 lakhs. The Committee were informed that the F.A. & C.A.O. had expressed some doubt about the contractors' capability to perform the contract and the Managing Director should have placed the views of the F.A.&C.A.O before the Board. They were told that on receiving the comments of the F.A. & C.A.O. the Managing Director entrusted the Civil Engineering Advisor with the job of making enquires about the past performance and financial resources of Shri Sohan Singh. The Civil Engineering Advisor reported on 4th June, 1971 that the contractor was quite capable of performing the work in question and on the basis of the note submitted by the Civil Engineering Adviser on 4-6-71, the tender was accepted by the Managing Director on the same date without consulting the F.A.&C.A.O. further. At its meeting held on the 4th September, 1971, the Board felt that the tender

should not have been accepted on 4-6-1971 i.e. 12 days before 43rd meeting of the Board which was scheduled to meet on 16-6-1971. The Committee are constrained to remark that the procedure followed by the Managing Director in dealing with this tender has been, to say the least, strange throughout. There are a number of points which if not fully investigated will leave a fingering suspicion about the fairness of the whole affair e.g. why the doubts expressed by the F.A. & C.A.O. about the competence of the contractors were not brought to the notice of the Board at its meeting held on 23-1-71 at which the original brief was submitted by the Managing Director recommending the award of work to Shri Sohan Singh; why the brief put up at that meeting did not contain a comparative statement giving merits of various tenderers; why an erroneous statement was made at the Board's meeting held on 15-3-71 that the brief submitted by the Managing Director had the a concurrence of the F.A. & C.A.O. why the comments of the F.A. & C.A.O. were not brought to the notice of the Board even at its meeting held on 15-3-71 or at the next meeting held on 16-6-71 at which the Board was asked to approve the award of contract; why the F.A. & C.A.O. was not consulted again after the receipt of the note of the Civil Engineering Adviser about the competence of the Contractor and before the acceptance of tender on 4-6-71 by the Managing Director; and why undue haste was shown by Managing Director in accepting the tender on 4-6-71 when the Board was scheduled to meet on 16-6-1971. In the context of the other circumstances of the case, the Committee cannot but also take notice of the speed with which the enquiry was conducted by the Civil Engineering Advisor who joined towards the end of April, 1971, visited Bokajan in May, 1971 and gave a favourable report to the Managing Director on 4th June, 1971. The Committee strongly feel that in order to clear the air, a thorough and independent enquiry should be held into all the aspects of this case and results of the enquiry communicated to the Committee.

8.80. The Committee note that the Phase I of the work which was required to be completed by 4-6-72 was completed by 30-9-72. As regards Phase II, which was scheduled to be completed by 15-7-1974, the contractor had completed work of the value of Rs. 28.40 lakhs by 30-9-74 out of the tendered value of Rs. 35 lakhs. They were told that the Bokajan Site Office had recommended extension upto 15-1-75 and had intimated that there was no valid reason for levy of liquidated damages as the delay in execution was partly due to delay in supply of drawings and materials by the Corporation. The Committee would like the Corporation to examine the question of delay independently with a view to fixing responsibility and also the liability of the contractor.

IX

PAONTA PROJECT

A. Detailed Project Report

9.1. In 1965, the Board approved the proposal for prospecting lime-stone deposits at Rajban (Paonta) in Himachal Pradesh. The investigations were carried out by the Geological Survey of India between January, 1966 and August, 1967 at a cost of Rs. 6.89 lakhs and a total reserve of 46.33 million tonnes of lime-stone was proved in three different blocks. Of the total reserves, one block at Sataun consisting of 20.49 million tonnes of lime-stone was without any overburden and was estimated to be capable of sustaining a 600 tonnes per day cement plant for about 50 years.

9.2. Based on the information available, a Feasibility Report for the setting up of a 600 tonnes per day dry process cement plant at Rajban was prepared and submitted to the Government on 6th August, 1968.

9.3. While the Feasibility Report was under consideration of the Government, they accepted in March, 1969 the proposal of the Corporation to take up preliminary surveys for Paonta Project. In April, 1969 the Government, however, asked the Corporation to examine the Paonta Scheme further in the light of the fact that there would be no control on distribution, price, etc. of cement with effect from 1st January, 1970 and to furnish a detailed report on the scheme from the economic stand point. Accordingly, the Management examined the Paonta Scheme again and it was brought out that there would be a saving of Rs. 34.6 lakhs per annum on freight alone from the proposed plant at Paonta. The matter remained in correspondence with Government till February, 1970 when a Detailed Project Report was prepared and submitted to Government.

9.4. While the Detailed Project Report was still under consideration of Government, the Ministry of Industries and Development desired in February, 1971 that the proposed projects at Paonta and Baruwala (Dehradun)—Detailed Project Report for Baruwala Project was sent to the Government on 13th October, 1970) may be combined into one with separate kilns. It was further desired by Government that the economic viability/profitability of the intergrated project should be got examined in detail by an independent specialised agency, M/s. Holtec Engineers Private Limited, who had offered their services free of cost (excluding T.A. & D.A.).

9.5. In May, 1971 Government approved the Detailed Project Report of the Paonta Project on the consideration that the criteria of viability could not be applied to this project as it was essential to promote the development of industry in a relatively backward areas, increase the potential for employment there and provide for supplies of cement in the deficit areas by utilising locally available resources.

9.6. In their Report submitted in December, 1971, M/s. Holtec recommended a 1000 tonnes per day integrated cement grinding and packing plant at Dehradun with separate kilns for Paonta and Mandarsu. They also recommended the shifting of the site of the Rajban Plant to Manal, which was closer to the quary site.

9.7. The Corporation did not accept the recommendations of M/s. Holtec and communicated its rejection to the Government in January, 1972. In March, 1972, Government allowed the Corporation to proceed with the installation of a 600 tonnes per day plant at the site originally selected *viz.* Rajban.

9.8. It will be seen from above that it took a period of over 4-1|2 years from the date of completion of lime-stone investigations to clear the project for implementation.

9.9. During evidence, the Committee asked as to what considerations weighed with the Ministry in asking the Corporation in February, 1971 for considering the integration of Paonta and Baruwala Projects, and getting the economic viability/profitability of the integrated project examined by M/s. Holtec Engineers Pvt. Ltd. The representative of the Ministry stated as follows:—

> "This was a thought which was given to us and we had examined this. We consulted the consultants also. Their reports came. We again examined them. CCI ultimately came to the conclusion that these projects would not work."

9.10. When asked about the reasons for delay in clearing the project for implementation the witness stated as follows:—

> "The reports were submitted only in February, 1970. We examined the reports up to December, 1970 and we went

to the Cabinet in February, 1971. We received the reports of the Finance Ministry, the Planning Commission etc. in February, 1971. The Cabinet approved it on 29th April, 1971. In May, 1971 we conveyed the approval to the Cement Corporation of India...."

9.11. The Committee pointed out that the Paonta Plant was to be installed in a deficit area and the limestone Investigation Division had also submitted its report four years ago. They asked the reasons for inordinate delay in preparing the DPR by CCI. The representative of the Ministry stated that the original report was prepared in 1968. Then from August, 1968 to February, 1970 they took about 17 months or so in preparing the DPR.

9.12. Replying to another question as to whether the Ministry were satisfied with the speed with which the CCI had worked, the witness stated 'we should have expedited it?'

9.13. The Committee note that, after the completion of the limestone investigations by the Geological Survey of India at Rajban (Paonta)—Himachal Pradesh, a Feasibility Report for the setting up of a 600 tonnes per day dry process cement plant at Rajban was prepared and submitted to the Government on 6th August, 1968. When the Feasibility Report was under consideration, Government asked the Corporation to examine the scheme in the light of de-control on distribution of cement w.e.f. November, 1970. The matter remained under consideration and the Detailed Project Report was prepared and submitted to Government in February, 1970. While the DPR was under the consideration of Government, the Ministry desired in February, 1971 that the proposed projects at Paonta and Baruwala (Dehra Dun) may be combined into one with separate kilns and that the economic viability/profitability of the integrated project should be got examined in detail by an independent specialised agency, M/s. Holtec Engineers Private Ltd., who had offered their services free of cost (excluding TA & DA). However, Government approved the DPR on Paonta in May, 1971. In December, 1971 Holtec recommended an integrated plant at Dehra Dun with separate kilns for the two projects. The Corporation did not accept the recommendations of M/s. Holtec and communicated its rejection to the Government in January, 1972. In March, 1972, Government allowed the Corporation to proceed with the installation of a 600 tonnes per day plant at the site originally selected, namely, Rajban, for which the Government had already in May, 1971 given their approval to the DPR on the consideration that the criteria of viability could not be applied to this

project as it was essential to promote the development of industry in a relatively backward area. The Committee see no reason as to why when the DPR was prepared after examining the economic standpoint as desired by Government in April, 1967 Government should have asked the Corporation in February, 1971 for consideration of the integration of the two projects when it was clearly known that the criteria of economic viability would not be applicable to a deficit area project. The Committee regret to note that it has taken a period of 4½ years from the date of completion of limestone investigations to clear the project for implementation, a delay which in the opinion of the Committee could have been avoided. The representative of the Ministry admitted during evidence that "we should have expedited it." The Committee cannot but express their displeasure at the inordinate delay on the part of the Corporation to prepare the DPR and of Government in according approval to the project. It is surprising that even after communicating the sanction to DPR in May, 1971, it was only in March, 1972 that Government allowed the Corporation to proceed with the project. The Committee see no reason for this delay of 10 months. The Committee expect that such delays will be avoided in future as they have a bearing on the capital cost and the profitability of the project.

B. Project Estimates

9.14. The Detailed Project Report envisaged an investment of Rs. 761.30 lakhs. However, on receipt of tenders for the plant and equipment in January, 1972 it was estimated that the capital cost of the project would increase to about Rs. 1,178 lakhs. It was also estimated that the average return would be 5.2 per cent only as against 11.5 per cent. contemplated in the Detailed Project Report. Simultaneously, the economic viability of setting up a 750 tonnes per day capacity plant was also examined by the Corporation. The capital cost of such a plant was estimated at Rs. 1,326 lakhs with an average return of 6.8 per cent on the capital employed. Considering the comparative cost/profitability, etc. the Board approved in August, 1972 the setting up of a 750 tonnes per day capacity Plant. These developments were reported to the Government in September, 1972 with the proposal for the setting up of a 750 tonnes per day capacity cement plant. The Management stated (November, 1973) that "sanction of Government for the revised project cost estimates of Rs. 1,178 lakhs for a 600 tonnes per day capacity plant had been accorded in April, 1973."

9.15. The table below compares the estimates as per Detailed Project Report, the revised estimates approved by Government in April, 1973 and the actual expenditure up to December, 1974:—

(Rs. in lakhs)

Particulars	Estimates as included in DPR and approved by Government in May, 1971	Estimates as revised in August 1972 and approved by Government in April, 1973	Actual expenditure upto December, 1974
1. Plants & machinery (including pre-commissioning expenditure and other miscellaneous expenditure)	340·40	656·00	90·77
2. Sales Tax	11·00	20·00	Nil
3. Electrical installation	16·00	20·00	Nil
4. Erection cost	18·00	40·00	3·20
5. Civil Engineering Works	333·00	387·00	50·46
6. Proving of limestone deposit	6·90	6·90	6·89
7. Headquarters overheads	13·00	15·00	8·02*
8. Interest on capital	23·00	33·00	..
	761·30	1177·90	159·94

*The headquarters overheads for 1974-75 are yet to be allocated to different projects.

The Project was originally scheduled to be commissioned on 1st October, 1976. However, due to changes in the decisions from time to time as mentioned in the preceding paragraphs, the Project was likely to be delayed.

9.16. When asked about the extent to which delay in the execution of the project was apprehended, the Management stated that order for main plant and machinery for this project had already been placed. Based on the load data and drawings so far received, notice inviting tenders for civil work relating to plant structures and machinery foundations had been issued. Construction of first phase of residential quarters and some of the welfare buildings was nearing completion. The Project was expected to be commissioned in February, 1977.

9.17. The progress of the implementation of the various items is given below:—

(i) *Land*

The Detailed Project Report envisaged 40 acres land for colony, 60 acres for Plant, 50 acres for gypsum quarry, 300 acres for quarry, 35 acres for approach road to quarry, water supply, etc. and 25 acres for Railway siding (private land). The land for colony and plant (100 acres) had been made available by the Himachal Pradesh Government on 99 years lease with annual ground rent of Rs. 30 per acre for the 1st 30 years and lease deed had been executed in October, 1973. The Management stated (November, 1973) that the matter relating to acquisition of land for other purposes was under correspondence with the Himachal Pradesh Government.

9.18. When asked whether the land for quarry, approach road, railways siding etc. had been acquired by the Corporation, the Management stated as under:—

> "Mining lease for the quarry area is in land belonging to the Government. Therefore, acquisition will not be necessary. The factory and township are located along state highway. No approach road is therefore required for these. As regards approach road to quarry, action for land acquisition/lease is being taken.
>
> No railway siding is envisaged at plant site. However, a private railwey siding is being taken at Jagadhari. Northern Railways are taking necessary action in the matter. The siding work will be done by them as a deposit work."

(ii) *Civil Works*

9.19. The work of construction of camp office, godown, hutments and field hostel had been completed. The contract for Phase I buildings of the township at an estimated cost of Rs. 13 lakhs had also been awarded in September, 1973.

(iii) *Plant and machinery*

9.20 Tenders for the supply of plant and machinery were invited from 10 machinery manufacturers on 6th September, 1971. In all 5 quotations were received. The lowest offer of M|s McNally Bird Engineering Company for Rs. 269.71 lakhs was not considered as they had quoted for a wet process plant.

9.21. The Board of Directors in their meeting held on 17/18th January, 1972 appointed a Negotiating Committee consisting of 7 members to negotiate the technical details, price, etc. with the remaining four tenders. No discussions were, however, held with the tenderers till 25th March, 1972, when the parties were requested to extend the validity of their offers upto 30th June, 1972. All the parties agreed to the extension, subject to increase in their quoted prices. Thereafter, the Management held discussions with these parties individually on 19th/20th May, 1972.

9.22. The Negotiation Committee met for the first time on 19th July, 1972; thereafter on 4th August, 1972 and on 24th January, 1973 and held discussions with the representatives of the four parties. During discussions, all the parties agreed to extend the validity of their offer upto 1st April, 1973 subject to price increase.

9.23. The order for the supply of the main plant and machinery (excluding bought out items and customs duty on imported components) and for erection of plant and machinery was finally placed in August, 1973 on M/s Larsen & Toubro (the second lowest tenderer) at a cost of Rs. 278.20 lakhs and Rs. 32 lakhs respectively. The initial offer of this firm was for Rs. 296.59 lakhs (including bought out items of the value of Rs. 17.08 lakhs and customs duty (amount not ascertainable) payable on imported components. The delivery of the equipment was to be completed within 28 months of the date of order and erection within 36 months of the date of order.

9.24. On being asked about the reasons for delay in finalising the order for plant and machinery, tenders for which were received before January, 1972, the Management stated that the tenders for plant and machinery were received in January, 1972. On an examination of the tenders it was observed that the prices quoted by different manufacturers were more than double as compared to 1970's price. This abnormal increase in the prices of plant and machinery necessitated the revision of the whole project estimate costs. The revised estimates were submitted to the Government on 1-9-72 and the approval for the same was given by the Ministry on 7-4-1973. Orders thereafter were placed for main plant and machinery, after due deliberations, in August, 1973.

9.25. When enquired whether the delay in acceptance of the offer of M/s. Larson & Toubro devolved any additional expenditure on the Corporation, the Management stated in a written reply as under:—

"The approximate value in the initial offer of M/s. Larson & Toubro for the corresponding items for which orders were placed in August, 1973 (*i.e.* after excluding bought out items and customs duty) was Rs. 274.00 lakhs. As against this order was placed for Rs. 278.20 lakhs in August, 1973. As the ordering for bought out items is not yet complete and the amount of customs duty would depend on the rates of customs duty prevailing at the time of import and the value of the imported components, it is difficult at this stage to indicate the comparative figures."

9.26. The Committee find that the DPR of the Paonta Project envisaging an expenditure of Rs. 761.30 lakhs for a 600 tonnes per day plant was revised upwards to Rs. 1178 lakhs on receipt of tenders for the plant and equipment in January, 1972. The Board made alternative proposal to the Government in September, 1972 for the setting up a 750 tonnes per day plant at a cost of Rs. 1326 lakhs after considering the comparative cost/profitability but the Government sanctioned the revised cost estimates of Rs. 1178 lakhs for a 600 tonnes per day plant in April, 1973. The Committee note that due to the changes in the proposal from time to time, the project which was originally scheduled to be commissioned on 1st October, 1976, is now expected to be commissioned in February, 1977.

9.27. The Committee were informed that even though tenders for the supply of plant and machinery were invited in September, 1971 and a negotiating Committee to negotiate the technical details, price, etc. with the tenderers was appointed in January, 1972, the orders for the main plant and machinery were placed in August, 1973 in view of the fact that the Government's sanction for the revised cost estimates was received only on 7th April, 1973. They feel that even if the Corporation could not place orders before receiving the Government's sanction, the delay of over 4 months in placing the orders after the receipt of Government's sanction remains unexplained and could have been avoided if preliminary action to scrutinise the tenders and hold the negotiations with the tenderers had been completed by the Corporation in anticipation of the receipt of Government's sanction. The Committee find that the ordering for bought out items is yet not complete. They feel that such delays, though short in each case, have a cumulative effect and add up to long periods of delay in the final commissioning of the plant which has a far reaching effect on the profitability of the project. The Committee cannot but express their unhappiness at the delay of over 4 months on the part of the Corporation in placing the orders for plant and machinery and at not finalising the orders for bought out item so far.

9.28. The Committee note that notice inviting tenders for civil work relating to plant structures and machinery foundations has already been issued. They would like the Corporation to finalise the orders for civil works as early as possible and include in the contract a detailed schedule for the completion of various items of civil works in juxtaposition with the scheduled dates of supply of the various

items of plant and equipment and take all possible steps right from the beginning to ensure that neither the execution of civil works nor the supply of plant and equipment is in any way delayed.

9.29. The Committee note that mining lease for the quarry area is not necessary as the land belongs to the Government. The factory and township are located along state highway and no approach road is therefore required for these. Though no railway siding is envisaged at plant site, a private railway siding is being taken at Jagadhri and the Northern Railways are taking necessary action in the matter. As regards approach road to quarry, action for land acquisition/lease is being taken. The Committee recommend that keeping in view the target date of the commissioning of the plant (i.e. February, 1977) different schedules may be fixed for securing the land acquisition/lease for the approach road to quarry and the railway siding at Jagadhri and all action to complete these items of work should be so organised that there is no slippage in the execution of these jobs beyond the scheduled dates.

X

MARKETING

A. Marketing Organisation

10.1. In view of the expectation that the Mandhar Plant would go into production in October, 1969, the Corporation created the post of a Marketing Adviser initially for 2 years (made regular subsequently) to advise the Corporation on the pattern of the marketing organisation that would be necessary in the light of the impending decontrol of cement with effect from 1st January, 1970. The incumbent joined on 21st October, 1969. In January, 1972 the Board decided that the Marketing Adviser would be incharge of purchase wing also. The total number of officers and staff (including those in the Units and Branch Offices) was 5 and 24 respectively as on 31st March, 1972.

10.2. The staff strength of the marketing organisation was 38 on 31st March, 1973 and 37 as on 31st March, 1974.

10.3. The expenditure incurred on staff and establishment on marketing since 1970-71 was as under:—

Year	Expenditure
1970-71	Rs. 1,34,682·00
1971-72	Rs. 3,111,019·00
1972-73	Rs. 3,45,530·00
1973-74	Rs. 4,00,207·00

10.4. The turnover for these years excluding excise duty are as follows:—

	Rs. in lakhs
1970-71 (Mandhar)	131·48
1971-72 (Mandhar)	277·44
1972-73 (Manohar and Kurkunta)	343·77
1973-74 (Do.)	368·71

10.5. The main functions of the Marketing Organisation at the Headquarters of the Corporation are:—

To formulate sales policies conducting market surveys, all matters pertaining to the appointment and termination etc. of stockists, evaluation of the performance of the stockists, maintenance of relations with consumers, guiding the factories regarding Cement Control Orders/Regulations etc., helping the factories in overcoming railway movement difficulties, product publicity, appointment of contractors for road transport, observance of regulations regarding distribution of cement between R.C./O.R.C. and free sale allocations. Liaison with Cement Controller on Policy matters, submission of R.C. Bills to Pay and Accounts Office, Delhi, after checking and collection of payments by regular contact etc.

10.6. The functions of the Marketing Organisation at the factories generally are:—

To receive orders from the stockists, R.C. and O.R.C. parties, execution of the same, maintenance of records thereof, submission of reports to various agencies, observance of regulations ragarding sale to R.C. and O.R.C. and Free Sale parties, raising of bills, maintenance of statistical and Central Excise records, keeping watch on the use and stock of gunny bags, arrange for wagons and checking the performance of stockists.

10.7. The marketing organisations at head office and the factories are in-charge of the entire sales and other related matters.

10.8. It has been stated that the organisationed set up is considered adequate for the purpose with the existing workload.

10.9. The Committee were informed that when the proposal for Chief Sales Manager at Headquarters was submitted for consideration of the Board, one of the Directors had observed as follows:—

"...to my mind a post of Chief Sales Manager in the scale of Rs. 1800—2250 is unnecessary at this stage. There is not much point in having such a high powered individual at the headquarters of the Corporation. What I would, instead, suggest is the appointment of a senior Sales Officer at each of the plants in the scale of Rs. 1100—1400. It must be remembered that in the context of decontrol each plant will have to seek to dispose of its production within an economic marketing zone. The two plants are separated by a great distance. Each will, therefore, have its marketing problems and will have to dispose of its production or at least the greater part of it locally. This, to my mind, would be the right way of tackling the problem. I do not see what the Chief Sales Manager sitting at the headquarters would be able to do..."

10.10. However, the Board decided that in view of the impending decontrol of cement and the necessity to obtain the services of an experienced and capable person to advise the Corporation on the pattern of marketing organisation a post of Marketing Adviser be created.

10.11. The Committee enquired about the justification for the appointment of such high officials as Marketing Adviser, in view of the fact that there was no difficulty in marketing the products of the Corporation. The Management stated in a note as follows:—

"In modern business management, marketing is a specialised technique and occupies a very important role in every organisation. Marketing effiorts are essential no matter how beneficial is the product. In fact, when a commodity is in short supply, it really needs sound marketing techniques to keep up the image of an organisation, which can be achieved only by keeping a top level Executive, who cannot only deal with the subject, but can also carry out the Company's objectives by promoting and executing sound business policies and also having a high level liaison with consumers and competitors as well as Government agencies.

The job of the top executive is not only selling, it also involves a number of other issues, such as appointment of stockists, evaluation of their performance, to keep an overall control over RC, ORC and Free Sale allocations given by the Cement Controller etc.

In addition, the Corporation is also to commission its new plants from time to time and the organisation for Marketing the product of these factories is a continuous process. It is therefore necessary that there should be a capable and experienced person to be in-charge of all this work".

10.12. During evidence, the Committee enquired whether the marketing organisation at the headquarters was necessary for the marketing of cement. The Chairman and Managing Director stated as under:—

"The marketing division is there essentially for two aspects. Of course, at present, there is heavy demand, and we need not go to the market, but cement is old under the Cement Control Order, and there are so many provisions in the Act which should be implemented strictly, and the marketing department will be held responsible for any violation in the implementation of the Act. The distribution has to be uniform in all areas. So, each factory is allotted a certain area. So, all this requires examination, inspection and implementation and some administration is involved. So, this marketing division is very essential.

But there is one thing. For consumer products, they have a marketing division much bigger than the production department. But for the cement industry, the marketing division is a small one, because except for small periods of one or two years, there is always a demand. But our marketing division, especially at the Head Office is smaller when compared to any other factory of the same capacity."

10.13. The witness further stated that a certain cell for marketing at the headquarters was essential. There should be coordination between the policy of the management and that of the Government. The marketing organisation at the headquarters was quite economical.

10.14. The Committee note that, anticipating that the Mandhar Plant would go into production in October, 1969, the Corporation created the post of a Marketing Advisor to advise the Corporation on the pattern of the marketing organisation. The incumbent joined on 21st October, 1969 though the Mandhar Plant was formally commissioned 9 months later on 19th July, 1970. The Committee find that staff strength (including officers both in Units and Branch Offices) was 29 on 31st March, 1972, 38 on 31st March, 1973 and 37 on 31st March, 1974 and the expenditure on the organisation rose from Rs. 3.11 lakhs in 1971-72 to Rs. 4 lakhs in 1973-74. The Committee were informed that the marketing organisation at Headquarters and the factories are in charge of the entire sales and other related matters. According to the Corporation, the Marketing Organisation was essential to see that provisions of Cement Control Order were complied with and distribution was fair in all areas. The Corporation's marketing division is stated to be a small one as compared to any other factory of the same capacity. The Committee however find that the

organisation at Headquarters consists of a Marketing Adviser assisted by a Sales Officer and supporting staff. The Committee feel that as the two plants at present in production are separated by a great distance, and each will be having its own marketing problems, they recommend that the marketing organisation may be decentralised and except for policy issues including compliance with the provision of Cement Control Order and inter-plant coordination, all other matters should be left to be dealt with at the plant level. This will also enable the Corporation to judge the inter-se efficiency of the marketing organisations of the plants. The Committee also recommend that the marketing organisation at Headquarters should be compact and be such as may be necessary to deal with all policy matters connected with sales of the individual units. The Committee also suggest that Government should review the necessity for the post of a high powered Marketing Adviser at Headquarters. The Committee also recommend that the Corporation should keep a strict eye on the staff strength of the marketing organisation and see that it does not expand unnecessarily unrelated to the volume of the business of each plant and the Corporation as a whole.

B. Marketing Arrangements

10.15. Cement, being a controlled item, has to be distributed as per the instructions issued from time to time by the Cement Controller, who allots the quotas for rate contract, outside rate contract and free sale. Sale to rate contract and outside rate contract parties is made by the Corporation directly. As regards free sale, on the analogy of distrubution pattern adopted by the State Trading Corporation during the period from 1956 to 1965 when they were entrusted with the distribution of cement, the Corporation decided in December, 1969 to appoint regional wholesale distributors for the sale of Mandhar cement for a period of 2 years initially. The commission payable to the distributors was Rs. 1.25 per tonne which is the rate allowed by the Government in calculating the controlled price of cement. It was also decided that in addition to the above commission, the Corporation might allow an extra commission by way of incentives @Re. 1 per tonne. This was not, however, put into practice. A similar arrangement was approved in March, 1971 for the sale of cement from Kurkunta.

Mandhar

10.16. In accordance with the above arrangements, the Corporation entered into agreements in January, 1970 with 4 distributors effective from 19th July, 1970. For the three distributors, the quota was fixed at 60 per cent of factory production per quarter and in the

4th case it was adhoc but fixed at 15 per cent with effect from September, 1972.

10.17. According to the agreements with the distributors, the Corporation could appoint stockists on the recommendation of distributors or on its own. The Corporation approved the appointment of stockists made by the regional distributors, the number as on 31st March, 1973 being 598.

10.18. The agreements with the existing distributors were renewed for a further period of 5 years with effect from 20th July, 1972.

10.19. Out of the four regional distributors, the agreements with two of them liad down that the security deposit of the stockists would be collected and held by the Corporation. In the case of remaining two distributors, the security deposit was to be collected and held by them. As a result, the two distributors retained the security deposits worth Rs. 11 lakhs.

10.20. When asked as to what considerations weighed with the Management in according differential treatment in the matter of retaining security deposits of stockists by the Regional Distributors of Mandhar Plant, the Management stated in a note that the Board of Directors in the meeting had approved that the deposits of the stockists could be held by the Regional Distributors. However, efforts were made with the Regional Distributors to agree that the security deposis could be held by the Corporation. In this connection personal discussions were held with each of the four selected Distributors. Two distributors came out with the argument that, as they had a bigger area to cover involving a larger number of stockists, they were covering heavier risks, particularly as they were indemnifying the Corporation for any losses whatsoever, on account of any default by any of the stockists. In view of the above, they could not be persuaded to allow the security deposits of the stockists to be retained by the Corporation. In the case of the other two CCI could, however, make them agree to its retaining the security deposits of the stockists in their areas. Hence the Agreements with the Regional Distributors were signed accordingly.

Opening of branch offices

10.21. It was reported to the Board on 17th November, 1970 that the State of Madhya Pradesh, not being a potential consumer of cement, there was no alternative but to market the Mandhar cement, in the States of Maharashtra, U.P., West Bengal, Bihar and Union Territory of Delhi. In order to compete with the other producers who were selling their products through their branch offices and thereby avoiding the liability for Central Sales Tax the Corporation proposed the opening of branch offices or allowing a rebate of 2 to 3 per cent in the selling price of the cement. With a view to selling the cement at competitive rates, the Board approved the proposals to open branch offices at 4 or 5 places. The Board however, decided that the expenditure on the branch offices should be kept to the barest minimum.

10.22. Accordingly, branch offices were opened at Calcutta, Kanpur and Nagpur in August, 1970 and Bombay and Hyderabad in August, 1972.

10.23. Consequent upon the opening of these branch offices, the regional distributors in the respective States were also appointed as clearing and forwarding agents on a remuneration of Re. 0.75 per tonne. As against the payment of Re. 0.75 per tonne made to the regional distributors, the Corporation recovered Re. 1 per tonne from the stockists to whom the cement was despatched by the regional distributors for sale to the consumers.

10.24. Under the stock transfer system, the Corporation sold 1,37,522.73 tonnes of cement during 1970-71 to 1972-73 in respect of both the plants. On this quantity, the Corporation recovered a sum of Rs. 34,382 in excess of the clearing and forwarding charges paid to the regional distributors. As against this recovery, the expenditure on the branches, as intimated by the Management, amounted to Rs. 88,860 (approximately) in 1970-71 to 1972-73. There was thus extra burden on the Corporation to the extent of Rs. 54,478 (approximately.)

10.25. The stock transfer system was intended to make the retail price of the Corporations cement competitive with that of the other manufacturers by avoiding the incidence of 3 per cent. Central Sales Tax. It is, however, doubtful whether, in view of the shortage of the cement, any real competition did exist. In fact out of the total free sale of cement aggregating 3.77 lakh tonnes during 1970-71 to 1972-73, the sale under 'stock transfer system' aggregated only 1.38 lakh tonnes (approximately).

10.26. The consequence of the operation of this scheme had been that the Corporation had to incur an extra expenditure of Rs. 54,478 (approximately) as mentioned above. In addition, the exchequer was deprived of the Central Sales Tax, the incidence whereof amounted to Rs. 5.61 lakhs based on the average sales realisation of Rs. 136 per tonne on a quantity of 1,37,522.73 tonnes.

10.27. The Committee enquired whether in view of the shortage of cement in the country for the last several years, any competition did really exist in the matter of marketing cement, and whether the proposal to open branch offices was based on the difficulties experienced by the Corporation in the matter of sale of Mandhar cement in the States of Maharashtra, U.P., West Bengal, Bihar and Union Territory of Delhi. The Management stated in reply as under:—

> "When a new product is introduced in the market, it has to compete with the other established products of similar nature and hence it becomes imperative to adopt the policies generally followed by other competitors. Always there is not only some resistance in the market for a new product but there is also preference of consumers for the established products which one has to face. As such, in view of the then existing conditions, the Company had to resort on a very restricted basis to do business under stock transfer."

10.28. In reply to a question whether the proposal made in November, 1970 for opening branch offices, when the Mandhar Plant was commissioned in July, 1970 not pre-mature, it was stated that 'this was a sound business proposition.'

10.29. The Management has informed that the 'Stock Transfer Scheme' had been discontinued with effect from 1-6-1973.

10.30. It was stated that a total quantity of 1,00,462 tonnes of cement was sold under 'Free Sale category' during the year 1973-74 including a part of it sold by stock transfer. The valued cement sold by stock transfer in 1973-74 at various branches was Rs. 30.27 lakhs on which Central Sales Tax @3 per cent to the extent of Rs. 90,810 approximately did not become payable by the consumer.

10.31. The total expenditure incurred on the branch offices *viz.* Kanpur, Nagpur, Bombay and Hyderabad during 1973-74 was Rs. 26,711.00. This however did not include the expenditure on the Calcutta Office. The substantial part of work of the Calcutta Office related to the purchases work and liaison work. In addition it looked after stock transfer sales work. As Calcutta Office would have been there even if the Corporation had not undertaken any stock transfer sale work, the expenditure on this office was not included.

Sale of cement under stock transfer arrangements stopped from 1-6-1973. The amount paid/payable as clearing and forwarding charges to the Regional Distributors during 1973-74 and the recovery made from the Stockists during 1973-74 was Rs. 10,566.82 and Rs. 14,089.11 respectively.

Revised Marketing Arrangements

10.32. Consequent upon the directive from the Ministry of Industrial Development, the Corporation decided in July, 1973 to dispense with the services of the regional distributors and to undertake the distribution of the cement by itself, by 1st of January, 1974, if not earlier. Accordingly, the agreements with the regional distributors and stockists were terminated with effect from 1st December 1973, and revised application forms were sent to all the existing stockists and some new parties for being considered for stockists-ship under the direct control of the Corporation.

10.33. Keeping in view the freight element and also with a view to developing the rural areas, it was decided by the Management to withdraw very long distance markets, such as, Punjab, Haryana and certain portions of U.P. As an exception to this principle, it was, however, decided to retain the market of Delhi as a prestige issue and that of Assam, which was considered necessary to maintain the market there for the production of Bokajan Project expected to be commissioned by May, 1975.

10.34. The new arrangement became effective from 1st December, 1973, thereby avoiding payment of selling agency commission at the rate of Rs. 1.25 per tonne to the regional distributors and also expenditure on the maintenance of branches.

10.35. During evidence, the Committee enquired about the reason for issuing a directive to the Corporation in July, 1973 to dispense with the services of the Regional Distributors and to undertake the distribution of the cement by the Corporation itself. The representative of the Ministry stated:

> "I think it was a correct decision and we have saved Rs. 1.25 per tonne."

In a subsequent note the Ministry stated as under:—

> "Complaints were received from certain Members of Parliament alleging that the cement manufacturers wanted their own men as dealers and distributors and in collusion with them higher prices for cement were being charged. This Ministry examined the matter to see as to how far it would be possible to take up the wholesale distribution of cement through public sector agencies; in particular, and to begin with, whether it would be possible to distribute cement produced by the factories run by the Cement Corporation, through the Corporation itself. This matter was examined with the Cement Corporation and

it was felt that it was feasible to do so. The Corporation was, accordingly, asked to dispense with the services of the regional distributors and to undertake the distribution of cement itself.

By the new marketing arrangement, the selling agency Commission of Rs. 1.25 per tonne that was being paid to the regional distributors is being saved since 1-12-1973."

10.36. Under the new marketing arrangement, CCI's cement is being distributed through a network of stockists appointed directly.

10.37. When asked about the arrangements made to streamline the distribution of cement to avoid black-marketing, profiteering etc., the Management stated:

"As a policy, the CCI is trying to distribute the cement as evenly as possible, to all the stockists and is also trying to feed them to the maximum extent possible. The Corporation makes surveys and check the stockists' records etc. to keep a watch over the possible malpractices."

10.38. The selling and Distribution expenses per tonne incurred by the Corporation, inclusive of the incidence of Selling Agency Commission paid, is given below:

	Mandhar	Kurkunta
	(Rs. in lakhs)	(Rs. in lakhs)
1970-71	2·64	
1971-72	2·93	..
1972-73	4·36	4·66
1973-74	3·58	4·27

10.39. The Committee note that Corporation appointed 4 regional wholesale dealers in 1970 for the sale of Mandhar Plant Cement and agreed to pay them commission at the rate of Rs. 1.25 per tonne which is the rate allowed by the Government in calculating the controlled price of cement. The agreement with the distributors was renewed for a further period of five years with effect from July, 1972. Out of the four regional distributors, the agreement with two of them laid down that the security deposits of stockists were to be collected and held by them and in the case of the other two distributors, the security was to be collected and held by the Corporation. As a result of these agreements, the former two distributors retained the security deposits worth Rs. 11 lakhs and when subsequently the Cor-

poration tried to persuade them to allow the Corporation to hold the security deposits, they did not agree on the plea that they had bigger areas to cover involving larger numbers of stockists and heavier risks, particularly as they were indemnifing the Corporation for any losses. The Committee do not appreciate the rationale of treating the distributors differently and allowing two of them the advantage of holding security deposits and denying the same advantage to the other two. They feel that this was an initial mistake which should have been avoided. They note that the services of the regional distributors were terminated w.e.f. 1st December, 1973 under the directive from the Ministry of Industrial Development and the stockists were brought under the direct control of the Corporation.

10.40. The Committee note that in order to compete with the other producers who were selling their products through their Branch Offices and thereby avoiding the liability for central sales tax (3 per cent), the Corporation opened Branch Offices at Calcutta, Kanpur and Nagpur, in August, 1970 and at Bombay and Hyderabad in August, 1972. Consequent upon the opening of these Branch Offices, the regional distributors were appointed as clearing and forwarding agents on a remuneration of Re. 0.75 per tonne. As against the payment of Re. 0.75 per tonne to distributors, the Corporation recovered Re. 1/- per tonne from the stockists to whom the cement was despatched by the regional distributors. The Committee find that under this stock transfer system, the Corporation sold 1,37,522.73 tonnes of cement during 1970-71 to 1972-73 and recovered a sum of Rs. 34,382 in excess of the clearing and forwarding charges paid to the distributors while the expenditure on the Branch Offices during the same period was Rs. 88860/-, thus resulting in a loss of Rs. 54,478 (Approx.) to the Corporation. The Committee also note that as a result of this arrangement Government was deprived of the central sales tax amounting to Rs. 5.61 lakhs (approximately). In 1973-74, the excess recovery from the distributors amounted to Rs. 3,523 as against the expenditure on Branch Offices (excluding Calcutta) amounting to Rs. 26,711 and a loss to the exchequer of Rs. 90,810 on account of non-payment of central sales tax.

10.41. The Committee are shocked to observe that a public sector Corporation should have thought of resorting to the strategem of opening Branch Offices which aimed at depriving the exchequer of central sales tax amounting to Rs. 5.61 lakhs during the period 1970-71 to 1972-73. The other reason advanced in favour of opening Branch Offices that it was to compete with other producers, does not hold water as, in view of the acute shortage of cement, no competition in fact existed in the sale of cement. To cap it all, the Corporation also suffered a loss of Rs. 77,666 during this period in the bargain. The Committee cannot too strongly deprecate this action on the part of the Corporation and recommend that the Government should issue directives to the public undertakings that they should not resort to any measures which are aimed at evading Central or State taxes of defeating the purpose of such taxes. The Committee feel that in retrospect the very idea of opening branch offices was neither in the best interest of Corporation nor that of Government. It was stated that the stock transfer system was stopped w.e.f. 1st June, 1973.

10.42. The Committee were informed that complaints were received from certain Members of Parliament alleging that the cement manufacturers wanted their own men as dealers and distributors and in collusion with them higher prices for cement were charged. The Ministry examined the matter to see how far it would be possible to take up the wholesale distribution of cement through public sector agencies and in particular, to start with, whether the cement produced by the Corporation can be distributed through the Corporation itself. Having come to the conclusion that it was feasible to do so, a directive in this regard was issued by the Ministry to the Corporation. The Committee note that in pursuance of the directive issued by the Ministry of Industrial Development, the Corporation terminated the agreements with the regional distributors and stockists with effect from 1st December, 1973 and appointed stockists afresh under its direct control hereby avoiding payment of selling agency commission at the rate of Rs. 1.25 per tonne to the distributors and also saved expenditure on the maintenance of branches.

10.43. The Committee consider that the new distribution arrangement under which the middlemen have been eliminated and the Corporation itself is required to undertake the distribution through a network of dealers appointed by it directly is a step in the right direction. In the opinion of the Committee such a step could and should have been taken much earlier.

10.44. The Committee further note that the Corporation claims to be trying to distribute cement as evenly as possible to all the stockists and feed them to the maximum extent possible. The Corporation is stated to be making surveys and checking the stockists' record, etc., to keep a watch over the possible malpractices. The Committee cannot too strongly emphasize the importance of streamlining distribution of cement and eliminating hoarding, adulteration, black-marketing and profiteering in the sale of cement. The common man will judge the Corporation not so much by its production performance as by its distribution system. The Committee feel that the Corporation should spare no efforts to ensure that good quality cement is

easily available to the needy persons at the controlled price in rural areas no less than in urban areas.

10.45. The Committee find that the selling and distribution expenses per tonne incurred by the Corporation in respect of Mandhar Plant inclusive of the selling agency commission, had increased from Rs. 2.64 in 1970-71 to Rs. 4.35 in 1972-73 and came down to Rs. 3.58 in 1973-74. The Committee are not able to understand the phenomenon of the selling and distribution expenses being highest in 1972-73 when the production in Mandhar Plant was the highest (90 per cent of the capacity) achieved so far. If anything, the expenses should have gone down during that year and in any case should not have increased by 50 per cent over those in 1971-72 when the production was 82 per cent of the installed capacity. They would like the Corporation to analyse the reasons for this sharp increase in the selling and distribution expenses in 1,972-73. The Committee also recommend that the Corporation should work out norms in this respect, after studying, if possible, the pattern adopted in private sector, and ensure that expenses on selling and distribution are kept to the minimum.

C. Complaints regarding under-weight of cement bags

10.46. Asked as to whether Government|Corporation had received any complaints from the consumers to the effect that bags of cement when finally delivered were under-weight and full of foreign matter, the Corporation informed the Committee in a written reply that except for stray reports of under-weight or unsatisfactory quality of cement occasionally, there had not been any serious complaints of under-weighted bags, or about unsatisfactory quality of cement. As regards the steps taken in this regard, the Corporation added:—

> "The manufacturers of cement are required to produce cement conforming to the specification prescribed in the Cement (Quality Control) Order 1962 promulgated under the Essential Commodities Act, 1955. The Essential Commodities Act provides for imposition of penalties for contravention of orders issued under Section 3 of the Act and necessary powers have also been delegated to the State Governments under the said Act. The Government of India have also issued instructions to the Cement Manufacturers Association, all the cement producers and to the State Governments to ensure that the weight of cement in a bag should not be less than 50 kgs. The State Governments have also been asked to issue instructions to their Weights and Measures department to carry out periodical

random checks of the cement bags received at different stations to find out whether the cement bags conform to the prescribed standards and to take suitable action against defaulters."

10.47. In para 6.21 of their Sixtieth Report (1973-74) the Estimates Committee referred to the memorandum submitted by the Cement Research Institute in which the Institute had stated that quite often attention had been drawn to the loss of cement from the bags due to seepage and possible admission of moisture from the atmosphere leading to deterioration in the quality of cement in certain cases and even rejection and consequent loss which add to the national loss of this basic and much needed construction material. The Cement Research Institute was stated to have been giving a detailed attention to this subject and the Institute's experimental bags were reported to be under investigation by each of the cement manufacturers in the country.

10.48. The Committee note that reports of underweight cement bags and unsatisfactory quality of cement have occasionally been brought to the notice of Government. They learn that the Cement Research Institute has prepared experimental bags to prevent loss of cement from the bags due to seepage and possible admission of moisture from the atmosphere leading to deterioration in the quality of cement and national loss of this basic and much needed construction material. The Government of India have issued instructions to the Cement manufacturers Association, all the cement producers and to the State Governments to ensure that the weight of cement in a bag should not be less than 50 kgs. The State Governments have also been asked to issue instructions to their Weights and Measures Departments to carry out periodical random checks of the cement bags received at different stations to find out whether the cement bags conform to the prescribed standards and to take suitable action against defaulters.

10.49. Despite the instructions issued by Government, it is a matter of common knowledge that as the gunny bags packed with cement pass through the various loading and unloading operations after leaving the plant, they lose some quantity of cement by way of seepage in each such operation and the bags also get torn in this process because of the very nature and quality of texture of the gunny bags and by the time they reach the consumers, many if not most of the bags are underweight and the consumers by and large being too needy and helpless, cannot do anything but accept the underweight bags. The Committee regret that, even though this is an age-old problem, the cement manufacturers have not done anything concrete

so far to devise a foolproof method of packing cement. The fate of experimental bags made by the Cement Research Institute is also not known. The Committee urge that the Government should give a thought to this question seriously and example how far the experimental bags made by the Cement Research Institute would be advantageous. Government may also consider the feasibility of using bags lined with polythene for packing cement as is being done in the case of fertilisers and also lay down specifications for improved quality of bags for packing cement. The Committee feel that use of such bags should be made obligatory on the cement manufacturers so that the consumers get their money's worth and there is no wastage of a scarce and precious commodity like cement of which there is already serious shortage in the country. Pending this, the Government may consider the feasibility of introducing retail sale of cement and fixing its price by weight, and not by bags as at present, to save the consumers of the loss which they have to suffer on this account.

10.50. The Committee cannot too strongly emphasise the urgent need for concrete steps to prevent the seepage of cement from the gunny bags and the possibility of unscrupulous dealers adding foreign matter in cement by tampering with the bags used at present, if the interests of consumers, who find themselves completely at the mercy of such dealers, are to be safeguarded.

XI

MATERIAL MANAGEMENT

A. Purchase Procedure

11.1. No purchase procedure was laid down by the Corporation till June, 1971 when the Corporation's Accounting Manual, which *inter alia* contained detailed procedure for purchases, was approved by the Board of Directors. It had been stated that the implementation of the purchase procedure included in the Accounting Manual would be taken up during 1972-73.

11.2. In the absence of any prescribed procedure, the method generally followed by the Corporation was stated to be as under:—

(a) Purchases of gunny bags, gypsum and coal were centralised at Head Office and were generally made on the basis of limited tenders.

(b) Purchases of spare parts, motors and accessories etc. were made from Head Office on the basis of limited tenders and with concurrence of Technical Department and Finance.

(c) Plants had been delegated powers to make purchases upto Rs. 20,000 at a time but not exceeding Rs. 3 lakhs in a year, subject to various conditions, one of these conditions being that all purchase of Rs. 10,000 and above would be referred to Local Material Purchase Committee.

(d) For items on D.G.S. & D. rate contract, the Company was designated as a Direct Demanding Officer.

(e) Proprietory items were purchased directly from suppliers and/or through their authorised agents at D.G.S. & D. rate contract where there was such a rate contract or at prices at which the suppliers had sold to other Government Organisations.

11.3. In 1971, the Corporation formed two purchase committees one for purchases above Rs. 10 lakhs and another for purchases below Rs. 10 lakhs. The Heads of Departments of the Projects, Marketing and Finance considered all the purchases below Rs. 10 lakhs whereas Managing Director was also associated in the other Committee dealing with purchases above Rs. 10 lakhs.

11.4. On being asked about the reasons for not laying down the purchase procedure till June, 1971 and whether, in the absence of a prescribed Purchase procedure, the method followed by the Corporation evoked complaints of a serious nature, the Management stated that till the first factory of the Corporation went into production the purchases were mainly done through head office. The major purchases were on account of Plant and Machinery.

The purchases of plant and machinery and other major purchases were by inviting tenders and through negotiations by a committee. The committee's recommendations had to receive approval of competent authority before placement of order. The other purchases made were generally as per accepted Government procedure, namely through DGS&D for items available on Rate Contract and otherswise through invitation of open tenders, limited tenders or quotations as per well recognised cannons of financial propriety. Wherever it was inevitable to purchase proprietory articles, the same were purchased direct, after negotation wherever it was feasible. The comparative statements along with purchase recommendations were subjected to financial scrutiny and concurrence before competent authority approved the recommendation. About the time the first factory went into production audits purchase work was partially decentralised the purchase procedure as well as detailed delegation of powers to the Works Manager in this connection had been laid down.

11.5. It was stated that the method followed till June, 1971 was generally satisfactory.

11.6. It was further stated that the prescribed purchase procedure was implemented in 1972-73 to the extent possible.

B. Inventory Holdings

11.7. The table below indicates the value of inventories at the close of each of the years 1970-71 to 1973-74 in respect of the operating plants and projects under construction (including Head Office):—

(Rupees in Lakhs)

	Mandhar Plant				Kurkunta Plan				Other Projects under construction (including H.O.)			
	1970-71	1971-72	1972-73	1973-74	1970-71	1971-72	1972-73	1973-74	1970-71	1971-72	1972-73	1973-74
Stores, spares, coal and packing material at cost (excluding material in transit) . . .	34·53	44·34	53·50	65·26	9·99	16·08	34·71	51·03	4·58	17·32	28·42	34·78
Loose tools . . .	0·27	0·30	0·22	0·20	2·08	0·22	0·48	0·57	..	0·03	0·41	0·16
Raw materials (excluding material in transit) . . .	12·37	13·85	15·48	4·58	3·26	7·70	6·64	6.72	..	..		..
Semi-processed goods . . .	12·76	29·11	19·31	21·75	..	8·15	8·55	25·22	..	..	..	..
Finished goods . . .	6·61	3·43	3·77	3·79	..	..	3·43	6·93	..	..	..	..

11.8. The stock of Raw materials, stores & spares, Loose tools etc. was equivalent to 11.3 months consumption for production requirement in 1973-74 as compared to 11.8 months consumption in 1972-73. The work in progress at the end of 1973-74 represented about 1.26 months value of production at cost against 0.99 months in the year 1972-73 and 1.86 months in the year 1971-72.

Finished goods represented about 0.35 month's sale in 1973-74 as compared to 0.25 month's sales in 1972-73 and 0.18 month's sale in 1971-72.

11.9. In connection with the inventory holding as at the end of 1971-72, the Bureau of Public Enterprises observed (October, 1972) as follows:—

(a) Stocks held in respect of stores and spares for maintenance and operation were rather high. There was need for segregation of insurance items and for fixation of stock levels for each of the insurance items.

(b) Norms should be fixed for different categories of inventories with the approval of the Board and reviewed periodically at the Board's meetings. A proper classified catalogue should be prepared for the items stocked.

11.10. Management stated (March 1973) that the comments of the Bureau had been noted and instructions issued to site offices for necessary action.

11.11. The Committee were informed that the increase in the value of stores and spares etc. held by Mandhar at the end of 1973-74, was in excess to the extent of about Rs. 11.75 lakhs over that of 1972-73. While the stocks of spares carried at the end of 1973-74 were generally a little lesser than that at the end of 1972-73, the gunny bags stocks carried at the end of 1973-74 increased to normal requirement of four to five weeks' consumption which is necessary to be maintained, as compared to stock equal to only one week's consumption, carried at the end of 1972-73. Moreover, the total value of stores and spares at Rs. 65.26 lakhs as at the end of 1973-74 includes stores worth Rs. 8.85 lakhs meant for the expansion project.

11.12. As regards Kurkunta, the stores, spares etc. at the end of 1973-74 was about Rs. 16 lakhs more than that at the end of 1972-73. In 1972-73, the Kurkunta plant had just gone into production and the production and the normal stock of stores and spares required to be held had not been built up at that time. During 1973-74, the plant was in production for the full year and hence the build up of stock of stores became necessary.

11.13. Moreover, even for the same quantum of stores, spares etc., the value held at the end of 1973-74 was found to be more than 1972-73, due to the increase in overall prices and railway freights.

11.14. On being asked whether the Management had reviewed the holdings of stores and spares with a view to segregating the insurance items and fixing stocks levels therefor, it was stated as follows:—

"Though it cannot be said that a systematic review in the procedural sense has been made, care is taken to have sufficient stock of important items for ensuring the smooth functioning of the plant. With the recruitment of Industrial Engineering personnel at the units, which is under process, such a systematic review will be taken up."

11.15. When asked whether norms for different categories of inventories had been laid down with the approval of the Board and what were the reasons for not taking steps for effective control of inventory holdings so far, the Management stated in reply as under:—

"Necessary care is taken at the time of placement of each order to see that undue stock will not be built up and at the same time there will not be a chance of a stock out. The plants have classified the items of stock and they have fixed stock levels for important items.

As mentioned above, this work on expert and elaborate manner will be taken up with the assistance of the Industrial Engineering Personnel. For very critical materials requiring utmost control like bags, coal and gypsum etc. the Chairman-*cum*-Managing Director himself has indicated to Works Managers the stock levels to be maintained and watched personally by them. Boards' approval as regards stock levels will be taken for some of the major items after the work is further completed on scientific lines with the assistance of Industrial Engineering Personnel.

It may, however, be mentioned that in the present context of difficulty in arranging easy availability of different spares and stores according to fixed time schedules, bottle-necks in transport, inflationary tendency etc., holding of certain items of stores in excess of the normal requirment is perhaps unavoidable."

11.16. The Committee note that the stocks of stores, spares etc. instead of going down, went up from Rs. 44.34 lakhs in 1971-72 to Rs. 53.50 lakhs and Rs. 65.26 lakhs in 1972-73 and 1973-74 in the case of Mandhar. In the case of Kurkunta, the stocks of spares and stores increased from Rs. 16.08 lakhs in 1971-72 to Rs. 34.71 lakhs and to Rs. 51.03 lakhs in 1972-73 and 1973-74 respectively. There have been increases in the stocks of spares and stores in the case of other projects also. The increase in inventories in the case of Mandhar was stated to be due (partly) to procurement of certain stores intended for Mandhar Expansion and in the case of Kurkunta it was stated to be due to the plant being in full production in 1973-74 requiring larger inventories as compared to 1972-73. Besides, the value of inventories had also gone up due to overall increase in prices. The Committee regret to note that though the Bureau of Public Enterprises had considered the stocks of stores and spares held by the Corporation for maintenance and operation at the end of 1971-72 rather high and had suggested segregation of insurance items and fixation of stock level for each such item, the Corporation had not made any systematic review of the stocks. The Committee are informed that it is proposed to make such a review after recruiting Industrial Engineering personnel. The Bureau had also suggested that norms should be fixed for different categories of inventories, reviewed at Board's level from time to time, and a proper catalogue should be prepared of items stocked. Though stock levels of certain important items are stated to have been fixed, the Corporation considers holding of certain items of stores in excess of the normal requirement unavoidable in view of the difficulty in arranging easy availability of different items of stores etc. according to fixed time schedules, bottlenecks in transport and inflationary tendency. The Committee regret to observe that the Corporation has not appreciated the importance of the proper inventory control and in spite of the suggestions made by the Bureau of Public Enterprises as far back as October, 1972 it has not fixed norms for all the items of inventory nor has it brought down the levels of various items of stores, spares etc., it has not also segregated the insurance items either. The Committee recommend that the Corporation should not lose any more time to segregate the insurance items, fix norms of each item of inventory and ensure that the stock holdings are within these norms to avoid unnecessary blocking of capital. The Committee also recommend that the Corporation should not rest satisfied with merely issuing instructions on the basis of Bureau of Public Enterprises circulars but also ensure that the instructions are properly implemented. The Corporation should review the stock items to identify non-moving, obsolete or surplus stores and take action for their disposal by transfer to other projects or Public Undertakings.

11.17. The physical verification of the inventory of the Limestone Investigation Division lying at Delhi, Kurkunta, Mandhar and Bokajan had not been conducted after March, 1969.

11.18. The value of raw materials as on 31st March, 1973 was inclusive of an amount of Rs. 1.06 lakhs, being the value of the shortage of 10,623 tonnes of lime-stone boulders found at Mandhar Plant. The shortage was stated to be under investigation.

11.19. In this connection, the Management stated (August, 1974) as follows:—

(a) A verification of all the raw materials in the factory and quarry was conducted by a Committee constituted by the Head Office in the first week of February, 1974. According to the result of physical verification conducted by the Committee, there was a shortage of 39,201 tonnes of lime-stone with reference to book-balances as on 5th/6th February, 1974.

(b) Based on further physical verification conducted for annual accounts purposes, the net shortage in lime-stone boulders from inception to 31st March, 1974 was 38,726 tonnes valued at Rs. 4.96 lakhs (Approximately). The shortage was attributed to:

(i) Over-booking of departmental raising (mechanical mining) of usable limestone	12,480 tonnes
(ii) Embedding	14,490 tonnes
(iii) Embedding and loss of fine materials at various transfer points	11,756 tonnes

11.20. The shortage as brought out by the Committee was submitted to the Board of Directors on 10th July, 1974. The Board decided that a further report should be submitted and that the embedded lime-stone should be recovered as far as possible. On the basis of the further report received from the Works Manager, Mandhar pointing out a shortage of 38,726 tonnes (after taking into account embedded stock of 4,099 tonnes assessed as recoverable) the matter was again put up to the Board of Directors on 17th August, 1974. While approving the writing off of the shortage of 38,726 tonnes of lime-stone boulders valued at Rs. 4.96 lakhs, the Board decided that the Quarry Manager at Mandhar should be given a warning and asked to be more careful in future to avoid such losses.

11.21. The Committee enquired as to when the shortage of 10,623 tonnes of lime-stone boulders valued at Rs. 1.06 lakhs, was noticed and what were the reasons for not conducting physical verification annually. The Management stated that the exact shortage of lime-stone was noticed only in February, 1974. It was, however, known earlier that some quantity of limestone was getting embedded in the soft land at the ramp-area in the quarry of the factory.

11.22. It was stated that periodic assessment of stock was normally done at the end of each of the financial year. The exact stock verification of limestone was not possible earlier to February, 1974 because of the scattered uneven nature of the limestone stocks.

11.23. The Committee enquired on what basis was it assessed that shortage to the extent of 12,480 tonnes of limestone at the quarry ramp was due to overbooking of departmental raising. It was stated that during the physical verification of limestone by the Committee constituted for the purpose, it was found that out of the limestone boulders, raised departmentally, 12,480 M.T. of boulders was non-workable. Accordingly the quantity of 12,480 M.T. of tonnes which was earlier booked against limestone raised was removed from the total quantity of limestone raised departmentally.

11.24. It has been stated that as the material raised through contractors was taken on actual weighment and there was good watch and ward, the possibility of under-delivery or pilferage by any outsiders was ruled out. Thus, the shortage of 14,490 tonnes at the quarry ramp was attributed to embedding in the stacking area which was previously a soft paddy land.

11.25. As for embedding shortage of 11,756 tonnes, it was stated this quantity of 11,756 tonnes of limestone was found short inside the factory-compound at Mandhar on account of:

(i) embedding of limestone in the soft/semihad land; and

(ii) losses due to multiple handling of crushed and uncrushed limestone at various points.

11.26. When asked whether the soft nature of the stacking area at quarry ramp was not known to the Management, and why was no action taken to ensure that there was no abnormal loss on account of embedding, it was stated that the soft nature of quarry-ramp was known to the management. It would have been an expensive proposition, had the Corporation gone in for consolidation and concreting the stacking area to ensure that no loss takes place on account of embedding *vis-a-vis* tolerating a marginal loss of limestone on account of embedding in the soft land.

11.27. The Committee regret to note that the physical verification of the inventory of the Limestone Investigation Division lying at Delhi, Kurkunta, Mandhar and Bokajan had not been conducted after

March, 1969. The periodic assessment of limestone stock is stated to have been done at the end of each financial year but the exact stock verification of limestone was not considered possible earlier to February, 1974 because of the scattered uneven nature of the limestone stocks. The Committee are not convinced of the reasons advanced by the Corporation and regret that the Corporation had neglected to conduct an exact physical verification of limestone between March, 1969 and February, 1974.

11.28. The Committee however note that as a result of physical verification done in 1974, a net shortage of limestone boulders from inception to 31st March, 1974 of 38,726 tonnes valued at Rs. 4.96 lakhs (approximately) was discovered. The shortage was attributed to overbooking of departmental raisings (12,480 tonnes), embedding (14,490 tonnes) and embedding and loss of fine materials at various transfer points (11,756 tonnes). The Corporation has ruled out under-delivery of limestone by contractors or pilferage by any outsider on the ground that the material raised through contractors was taken on actual weighment and there was good watch and ward arrangement. The Committee learn that after going into the matter, the Board approved the writing-off of the shortage of 38,726 tonnes of limestone boulders valued at Rs. 4.96 lakhs and decided to give a warning to the Quarry Manager at Mandhar to be more careful in future. The Committee feel that if the stock verification of limestone had been done at regular intervals, the Corporation would have detected the shortage right in the beginning and could have taken preventive measures to avoid loss on this account which swelled to Rs. 4.96 lakhs in 1974. They are not convinced by the reasoning given short by the Corporation against the possibility of short delivery or pilferage and they also do not agree that the embedding of limestone was entirely unavoidable due to softness of the land etc. The Committee would like that the reasons for the shortage should be investigated with a view to fix responsibility and the Committee informed of the action taken.

XII

COSTING SYSTEM AND COST OF PRODUCTION

A. Costing System

12.1. The Corporation follows a system of process costing under which cost at each process *viz.* raising and transportation of lime-stone, crushing of lime-stone, preparation of slurry, manufacture of clinker and cement and packing is determined separately. Upto 1971-72, the Corporation was not preparing the process cost of crushing lime-stone and preparation of slurry; instead the cost of these process was clubbed with the cost of clinker. With effect from 1972-73, however, the Corporation was preparing the cost of each process separately.

12.2. The following deficiencies were noticed in the system:

(i) The costing records were not being maintained on the basis of integrated system of cost and financial accounts. The Ministry stated (June, 1974) that the proposal of the consultants for improving the costing and financial account ing records and costing procedure are awaited. Action will be taken on receipt of the proposals of the consultants.

(ii) The Company had not introduced a system of standard costing to exercise better budgetary and managerial control.

(iii) The coal and gypsum were not physically weighed on their receipt in the factories for want of weigh bridge. The difference between the R/R weight and physical balance computed on the basis of volumetric measurement at the end of a period were taken as the consumption during that period. As a result, the pilferages and losses in transit, if any, remained undetected and were treated as consumption.

(iv) All the tools purchased were treated as issued and written off in financial accounts over a period of three years whether or not actually issued from stores.

The Ministry stated (June, 1974) that the observation had been noted for reviewing the existing system and making suitable changes with effect from 1974-75.

12.3. The Committee were informed that the present position regarding rectification of various deficiencies and introduction of improvements in the system of costing is as follows:

(i) The draft recommendations of the consultants regarding system of cost and financial accounts was recently received. These were examined and discussed, based on which the final recommendation for implementation is expected shortly.

(ii) Standard cost per unit of final out-put including quantitative consumption standard of limestone gypsum power, coal and explosives etc. has been laid down. Action is being taken to lay down more standards in physical terms for consumption of stores and spares per tonne of limestone raising and clinker and cement production per unit to enable better budgetary and managerial control.

(iii) Coal and Gypsum being transported in open wagons, involving transhipment in the case of gypsum, certain loss during transit and handling is bound to take place. The railways and the suppliers do not accept responsibility for transit losses. When the same are abnormally high the suppliers are cautioned. Test check is made by volumetric measurement in the absence of weigh bridge, the installation of which is not considered economical. It may be mentioned here that the actual consumption of coal and gypsum per tonne of cement at Mandhar Unit inclusive of transit and handling losses in case of coal and gypsum, and inclusive of the higher consumption of gypsum, due to changes in the mineralogical characteristics in the clinker at Mandhar which necessitates higher consumption of gypsum, compares favourably with the percentage of consumption given in the detailed project report.

(iv) The tools are purchased to the minimum requirements and hence the value of items purchased at one time is not much. Certain small tools like cutting tools have very little life. The write off of tools on the basis of tools actually in use would entail the maintenance of stores price account for each and every item of small tools purchased, and the benefit is not commensurate with the cost. However, itemwise memoranda quantity records of small tools as to receipts, issue and stock on hand are maintained."

B. Cost of Production

12.4. The table below incorporates the overall cost of production (excluding interest on loans) from the clinker stage onwards in respect of both the plants for the period ending 31st March, 1974:—

	Mandhar Plant				Kurkunta	
	1970-71 (1-7-70 to 31-3-1971)	1971-72	1972-73	1973-74	1972-73 (1-10-72 to 31-3-73)	1973-74
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(1) Raw Material :						
(a) Clinker .	60·93	63·27	66·85	77·58	102·93	93·30
(b) Gypsum	4·71	6·07	5·28	5·84	5·44	5·69
(2) Other processing expenses in the Cement Mill .	41·81	14·77	12·74	18·41	19·11	5·54
(3) Cost of naked cement ex-works	107·45	84·11	84·87	101·83	127·48	114·53
(4) Packing cost (including cost of containers) .	34·26	37·62	37·13	38·65	39·39	34·84
(5) Selling & distribution expenses .	2·63	2·93	4·36	3·58	4·66	4·20
Total Cost .	144·34	124·66	126·36	144·c6	171·53	153·57

NOTE.—The element of processing expenses in the Cement Mill was the highest in 1970-71 at Mandhar, as the entire depreciation was allocated at the cement manufacturing stage. In 1971-72 and 1972-73 the incidence of depreciation was allocated at each process

12.5. The DPR Cost of Production at Mandhar and Kurkunta is Rs. 79.65 while the revised cost per tonne put up to Board was Rs. 108.05 at Mandhar and Rs. 109.00 per tonne at Kurkunta.

12.6. An analysis of the cost of production compiled by the Corporation and certified by the Cost Auditors indicated the following features:—

(a) The total cost per tonne increased from Rs. 124.66 in 1971-72 to Rs. 126.36 in 1972-73 in respect of Mandhar Plant. It was noticed that the Cost Auditors had not adopted the value of closing balances of clinker and cement of 1971-72 as the opening balances of 1972-73. In case correct opening balances were adopted, the cost of production would work out to Rs. 128.62 per tonne in 1972-73 as against Rs. 126.36 certified by the Cost Auditors.

(b) The increase in cost in 1972-73 was mainly on account of increased cost of clinker as compared with the data for 1971-72. The higher cost of clinker in 1972-73 was attributable to lower production.

(c) The cost of production at Kurkunta unit was Rs. 171.53 per tonne. This was much higher than the cost of production at Mandhar Plant.

12.7. In computing the cost of production for Kurkunta Plant, the closing balance of clinker manufactured prior to the date of commencement of commercial production *viz.* 1-10-1972, was valued by the Management at the rate (Rs. 69.58 per tonne) adopted for Mandhar Plant instead of the cost of production which was much higher. Had the stock of clinker been valued on the basis of actual cost of production (Rs. 120.02 per tonne) obtained in the post commissioning period, the cost of production at Kurkunta would have been much higher than Rs. 171.53.

12.8. The comparatively higher cost of production of Kurkunta was mainly due to lower volume of production, resulting in higher incidence of depreciation, overheads, etc. per tonne.

12.9. The cost of production for 1973-74 at Mandhar Plant was higher than the standard cost fixed and noted by the Board during that year. The higher cost was due to both lower volume of production and higher usage of lime-stone, coal and power as compared to the standards. The total extra cost of production in 1973-74 was Rs. 22.50 lakhs of which Rs. 13.47 lakhs was on account of volume variance *i.e.* due to volume of cement production during the year being 1.53 lakhs tonnes as against assumed standard production of 1.80 lakhs tonnes. The balance amount *viz.* Rs. 9.03 lakhs represents usage variance for limestone, coal and power and also price variance as regards limestone.

C. **Consumption of Raw Materials** vis-a-vis **Norms**

12.10. A comparative study of the consumption of raw materials per tonne of cement produced as compared with the norms laid down in the Detailed Project Report/Revised Estimates indicated the following trends:—

Raw material	Norm per tonne of cement		Actual consumption per tonne of cement					
			Mandhar				Kurkunta	
	As per DPR	As per revised estimates	1970-71	1971-72	1972-73	1973-74	1972-73	1973-74
1. Lime-stone (in tonnes)	1·6	1·6	1·68	1·61	1·57	1·54	1·51	1·49
2. Gypsum (in tonnes)	0·05	0·05	0·05	0·06	0·06	0·06	0·055	0·058
3. Coal (in tonnes)	0·28	0·29	0·30	0·26	0·29	0·31	0·33	0·35
4. Power (in (KWH) .	125	120	Not worked out	131	127	128·06	154·56	152·5

NOTE.—Unlike Kurkunta, actual consumption of power at Mandhar does not take into account line losses. In case line losses are taken into account the consumption would work out to 135 KWH in 1971-72 and 131 KWH in 1972-73.

It will be seen from the above that the consumption was higher than the revised estimates in the following cases:—

Lime-stone	In 1970-71 and 1971-72 at Mandhar.
Gypsum . . .	In 1971-72, 1972-73 & 1973-74 at Mandhar and 1972-73 & 1973-74 at Kurkunta.
Coal .	In 1970-71 & 1973-74 at Mandhar and in 1972-73 and 1973-74 at Kurkunta.
Power	In all the years at Mandhar and Kurkunta.

12.11. In 1972-73, the actual consumption of lime-stone and gypsum collectively was 1.63 tonnes and 1.565 tonnes respectively at Mandhar and Kurkunta as against the norm of 1.65 tonnes. It is not clear as to how the overall less use of lime-stone and gypsum could yield 1 tonne of cement, especially in the case of Mandhar where dust losses are stated to be abnormal.

12.12. In this connection, the Ministry stated (June, 1974) as follows:—

(i) Higher consumption of coal and power at Kurkunta unit was on account of defects and deficiencies in the performance of the Plant.

(ii) The higher consumption of lime-stone at Mandhar during 1970-71 and 1971-72 was due to abnormal dust losses and that of gypsum in 1971-72 and 1972-73 on account of high percentage of tricalcium aluminate in the cement produced. In order to control setting time of the cement containing high percentage of tri-calcium aluminate, it is necessary to add higher percentage of gypsum.

12.13 The Management stated that the higher consumption of gypsum at Mandhar as compared to Detailed Project Report in 1973-74 was due to changes in the minerological characteristics in the clinker, which necessitated higher consumption of gypsum and it was difficult to reduce the consumption of gypsum at Mandhar.

12.14 The higher consumption of coal was due to inferior quality of coal supplied by the collieries linked by the Linkage Committee to CCI's cement plants as compared to the better quality of coal envisaged in the DPR.

12.15 The higher consumption of coal and power at Kurkunta was due to the continuous teething troubles, defects and deficiencies in the working of the Plant.

12.16 On being asked about the reasons for high consumption of power at Mandhar and steps taken to reduce it to norm, it was stated that:

> Due to the high hardness of the limestone and due to the higher percentage of tri-calcium silicate contained in the clinker it was difficult to reduce the consumption of power."

12.17 The Committee note that the Corporation has been following w.e.f. 1972-73 a system of process costing under which cost at each process, viz. raising, transportation of limestone, crushing, preparation of slurry, manufacture of clinker and cement and packing, is determined separately. However costing records are not being maintained on the basis of integrated system of cost and financial accounts. It has been stated that the draft recommendations of the consultants regarding the system of cost and financial accounts were received recently and a final decision regarding their implementation is to be taken. The Committee recommend that the system be introduced soon in the interest of testing the accuracy of cost figures with reference to financial accounts. The Committee recommend that the system should be finalised and implemented without delay.

12.18 The Committee are also informed that the Corporation has laid down standard cost per unit of final output including quantitative consumption standard of limestone, gypsum, power, coal and explosives but standards in physical terms for consumption of stores

and spares per tonne of limestone raising and clinker and cement production per unit are yet to be finalised. The Committee expect that these standards will also be finalised soon so that the standard costs both in regard to quantity and value may be available for purposes of budgetary and material control.

12.19. The Committee learn that coal and gypsum are not physically weighed on their receipt in the factories for want of weigh bridge, the installation of which is not considered economical by the Corporation. The difference between the R/R weight and physical balance computed on the basis of volumetric measurement is treated as consumption. The Committee are informed that coal and gypsum are transported in open wagons and that the railways and the suppliers do not accept responsibility for transit losses. The Corporation has claimed that the actual consumption of coal and gypsum per tonne of cement at Mandhar unit inclusive of transit and handling losses compared favourably with the percentage of consumption given in the DPR. The Committee have dealt with this aspect in a separate section. They would like the Corporation to examine the present system of their transportation in consultation with the Railways and devise measures to obviate the likelihood of pilferages and losses in transit. They feel that there is a snag in the present arrangement for computing the quantities of coal and gypsum on the basis of volumetric measurements in as much the pilferages and losses in transit cannot be known exactly in the absence of a weigh-bridge. The Committee would like the Corporation to consider the economics of installation of a weigh-bridge and other alternative methods of exact measurement vis-a-vis the benefits that may accrue to the Corporation from exact weighment and adopt a suitable system which can enable it to check the R/R weight of coal and gypsum with their exact weight on receipt thereof at destination.

12.20. The Committee regret to note that, as compared to the norms laid down in DPR, the consumption of limestone was higher at Mandhar in 1970-71 and 1971-72; the consumption of gypsum was higher both at Mandhar and Kurkunta in 1972-73 and 1973-74, the consumption of coal was higher at Mandhar in 1970-71 and 1973-74 and at Kurkunta in 1972-73 and 1973-74 and the consumption of power was higher in all the years of operation both at Mandhar and Kurkunta. The higher consumption of limestone was attributed to abnormal dust losses; that of gypsum to high percentage of tri-calcium aluminate in the cement produced; that of coal due to inferior quality of coal supplied by the collieries linked by the Linkage Committee to the Corporation's cement plants and due to teething troubles at Kurkunta plant; and the higher consumption of power was due to higher hardness of the limestone at Kurkunta and higher percentage of tri-calcium silicate in the clinker at Mandhar. The Committee feel that it should be possible for the Corporation to control the higher consumption of coal and power at Kurkunta by removing the defects and deficiencies in the working of the plant without loss of time.

12.21 As regards the supply of good quality coal, the Committee have recommended in paragraph 12.36 that the matter may be taken up by the Ministry with the authorities concerned at the highest level and pursued vigourously till the supply of good quality coal is assumed.

12.22 The Committee note that as against the norm of 1.65 tonne for limestone and gypsum per tonne of cement, the actual consumption of limestone and gypsum together has been less both at Mandhar and Kurkunta. The Committee are not sure whether in view of the high percentage of dust losses in Mandhar the overall less use of limestone and gypsum could produce 1 tonne of cement without detrement to equality. The Committee would like Government/Corporation to examine this aspect.

12.23 The Committee are not sure whether in view of the hardness of the limestone and the high percentage of tri-calium aluminate in the cement discovered at Mandhar, the norms of consumption of limestone and gypsum laid down in the DPR would be the correct basis of comparison. They recommend that realistic norms for consumption of the materials, e.g. limestone, gypsum, coal, and power may be worked out keeping in view the characteristics of limestone so that a true assessment of cost and consumption of materials may be possible.

D. Pricing Policy

12.24 The Tariff Commission was asked in April, 1972 to undertake review of the cement industry. In March, 1973 the Commission made an interim report which was restricted to an assessment of the increase in costs to be provided for as immediate relief to the industry. It recommended a uniform increase of Rs. 10 per tonne for all units. This was implemented with effect from the 15th September, 1973. The final report of the Commission was submitted in April, 1974.

12.25 The Commission examined the cost of production of 23 representative units, which were selected having regard to the various factors which influence cost, such as location of the factory, capacity, process of manufacture, age of the plant, etc. Representation was also given in the sample to public sector units.

12.26 On the basis of these cost studies and 85 per cent utilisation of capacity the Commission suggested a fair uniform ex-works retention price for the existing units. The revised price was, accordingly, made effective from the 2nd August, 1974 and a further escalation granted with effect from the 15th September, 1974. The elements of the retention price, as at the time of costing and as recommended by the Tariff Commission, and of the price in force since the 15th September, 1974 are as follows:

(In rupees per tonne)

	At the time of costing	Recommended by Tariff Commission	As in the price in force since 15-9-1974
1. Gypsum	3·42	3·75	3·75
2. Other materials	1·93	2·00	2·00
3. Transport of limestone	6·30	6·40	6·40
4. (a) Wages and salaries	14·94	23·20	23·90*
(b) Gratuity	0·30	0·60	0·60
(c) Minimum bonus	0·79	1·65	0·65**
5. (a) Basic price			
(i) of coal	21·17	11·90	14·40***
(ii) Freight and other charges		14·70	17·65****
(b) Electricity	12·41	12·00	14·00£
6. Consumable stores	4·59	6·50	6·50
7. Repair stores	6·71	8·50	8·50
8. Depreciation	12·62	9·10	9·10
9. Royalty	1·48	1·70	1·70
10. (a) Factory over-heads	7·14	7·20	7·20
(b) Administrative overheads	3·44	4·30	4·30
11. Research (Central)	—	0·50	0·50
12. Contingencies	—	3·00	3·00
Ex-works cost	97·24	117·00	124·15
Return		15·00	15·00
Allowance on rehbilitation		4·00	..££
Ex-works retention price		136·00	139·15

*Increase of Re. 0·70 w.e.f. 2-8-74 on account of increase in D. A.

**Re. 1 deducted because Govt. has not accepted minimum bonus as an element of cost.

***Increase of Rs. 2·50 w. e.f. 2-8-74 on account of increase in price of coal.

****Increase of Rs. 2·95 w.e.f. 15-9-74 on account of increase in freight on coal.

£ Increase of Rs. 2·00 w.e.f. 15-9-74 on account of increase in power rates.

££ Government did not accept the proposal.

12.27 The price will be valid for the period till 1978-79 and will be subject to escalation on 1st July each year in accordance with laid down formulas following increases in—

(i) wages and dearness allowance,

(ii) price of coal,

(iii) power tariff, and

(iv) freight on coal.

12.28 When asked whether any change in the pricing policy was envisaged in near future, the Ministry stated that:—

> "The retention prices now fixed are quite reasonable for the existing units and the Government envisage no change in them. However, the question of fixing retention prices for the units expected to go into production shortly or later during the Fifth Plan period is under consideration, keeping in view the higher investments involved in such units."

12.29 The Committee note that on the basis of the cost studies made by the Tariff Commission and 85 per cent utilisation capacity, the Government have been fixing fair uniform ex-works retention prices for cement from time to time. The last revision in the retention prices was announced in September, 1974 when it was fixed at Rs. 139.15 per tonne. This price will be valid for the period till 1978-79 and will be subject to escalation on 1st July each year in accordance with laid down formulae following increases in (i) wages and dearness allowance, (ii) price of coal, (iii) power tariff and (iv) freight on coal. As retention prices now fixed are considered quite reasonable for the existing cement units, Government envisage no change in them. The Committee feel that as the retention prices have been fixed after a proper study by Tariff Commission and are subject to escalation on 1st July each year in accordance with the laid-down formulae, the Corporation has no ground to attribute its losses to lower retention prices as it has sought to do in the Chapter on profitability. They would like the Corporation to bear in mind that the only way to run its factories on profit is to bring down the cost of production and operate the plants at the maximum capacity. It would do well to identify constraints in the way of maximising production and lowering costs and make concerted efforts to remove them.

12.30 The Committee enquired as to how the actual cost of production (excluding interest on loans) at Mandhar and Kurkunta compared with that assumed by the Tariff Commission. In a written reply the Ministry stated as follows:—

"In the Mandhar factory, the clinker and cement production during the years 1971-72, 1972-73 and 1973-74 was as under:

	1971-72		1972-73		1973-74	
	Production M.T.	% Capacity utilisation	Production M.T.	% Capacity utilisation	Production M.T.	% Capacity utilisation.
Clinker	1,76,466	88·23	1,53,393	76·69	1,44,140	72·07
Cement . .	1,64,118	82·05	1,80,230	90·11	1,53,390	76·69

The actual per tonne cost of production at 85% capacity utilisation and the cost of production as assumed by the Tariff Commission (without taking into account the incidence of interest) is given below :—

	1971-72	1972-73	1973-74
1. Actual average capacity utilisation at Mandhar (average of that for clinker and cement)	85%	83%	74·4%
2. Actual cost of production	Rs. 94·43	Rs. 98·34	Rs. 116.81
3. Cost of production at 85% capacity utilisation	Rs. 94·43	Rs. 96·50	Rs. 110·85

(Selling expenses are included in the above figures).

The per tonne cost of production computed by the Tariff Commission as a result of the study of 23 units was Rs. 97.24 (excluding selling expenses). The per tonne cost of production projected for the price period was Rs. 117 (Again excluding selling expenses). This projection was accepted after deducting Re. 1, which had been included on account of minimum bonus and an additional sum of Rs. 3 per tonne was provided by way of selling expenses. Since the submission of the Report, Government has accepted further escalation in retention price, totalling to Rs. 8.15 as a result of increase in elements of cost.

When the figures relating to cost of production at Mandhar are compared to the computations made by the Tariff Commission we find:—

(a) The actual cost of production at Mandhar in 1971-72 was less than the average cost of production computed by the Tariff Commission for the 23 costed units.

(b) Even the cost of production in 1972-73, after giving allowance for the selling and distribution expenses, was less than the average cost computed by the Tariff Commission.

(c) The per tonne cost of production in 1973-74 was less than the cost projected for the price period, though the capacity utilisation was only 74.4 per cent. Had the capacity utilisation in that year been 85 per cent the per tonne cost of production would have been considerably lower.

As regards Kurkunta, the factory not yet having stabilised due to various constraints (both internal and external), the comparison of cost of production with that assumed by the Tariff Commission, will not be meaningful.

However, during quarter ended December, 1974 when the average capacity utilisation at Kurkunta was 76 per cent, the actual cost of production excluding the interest charges was Rs. 134.05 per tonne. Based on this cost, the cost at 85 per cent capacity utilisation would be about Rs. 128.37 against the cost of Rs. 127.15 taken into consideration by Government in allowing the retention price of Rs. 142.15 (including selling expenses). The cost of production at 85 per cent capacity utilisation is more than that taken into consideration by Government because of higher capital outlay."

12.31 On being asked about the reasons for high cost of production and the steps taken by Government to reduce or contain the cost of production at Mandhar and Kurkunta Plants, the Ministry has stated as follows:

"The cost of production at Mandhar at 85 per cent capacity utilisation compares favourably with that assumed by the Tariff Commission. The cost of production could be further improved if the capacity utilisation is maintained about 85 per cent. This, however, has not been possible due to various constraints such as:—

(i) Non-availability of suitable quality of coal. This matter has been taken up with the Linkage Committee set up by the Government.

(ii) Non-availability of wagons for despatch—This is being taken up by the Corporation and the Ministry with the Railway Board from time to time. However, in order of priority, cement comes only after foodgrains and as such this problem is likely to be present every now and then.

(iii) Power cuts imposed by State Governments from time to time. In the last more than 1½ years, there has been power cut varying from 10 per cent to 60 per cent in the Karnataka State and this cut is applicable to all industries in that State.

In addition to the lower capacity utilisation the other factors pushing up the cost of production, which are beyond the control of the Corporation, are:—

(i) Increase in cost of various inputs, from time to time.

(ii) Increase in the wages of labour due to rise in the minimum wages and the increase in D.A. from time to time.

Management has also been impressed upon to improve the production performance of the units."

It was further stated that—

"On the basis of optimum utilisation of the capacity at both the plants, the Mandhar plant would show a comparatively lower cost of production on account of lower capital outlay.

12.32 When asked about the steps taken to reduce the overhead charges, the Management stated as follows:—

"That incidence of Salaries & Wages (including wages of quarry) and other overheads come to Rs. 33.93 per tonnes in case of Mandhar factory and Rs. 31.15 per tonne in case of Kurkunta factory at 90 per cent capacity utilisation against Rs. 39.95 assumed by the Tariff Commission as on 31.3.1974. The incidence of Salaries & Wages and other overheads, therefore is not at all high as compared to the average weihgted figure for the Industry given in the Tariff Commission report. Our cost of limestone is high. Necessary steps are being taken to reduce the cost of limestone which in turn will reduce the cost of production of cement."

12.33 During evidence, the Committee asked whether the Corporation's cost of production compared favourably with other costs in the private sector and that in the industry as a whole the Chairman and Managing Director of the Corporation stated as under:—

"It is too difficult to answer this question because most of the private concerns keep the actual cost of production very confidential. Whenever they have to submit information to a Government agency for obtaining an increase in a certain price, they give certain figures."

12.34. When further asked whether the Corporation's cost of production per tonne of cement was not high as compared to the cost of production as assumed by the Tariff Commission, the witness stated in reply as under:—

"I admit it is so, because the production is low. Production to the extent of 50 per cent of the rated capacity is there at Kurkunta but the moment we increase it to 75 per cent to 80 per cent, the cost of production will come down, because the overheads etc. will get distributed on greater production."

12.35. As regards the improvements likely to be made in reducing the cost of production during the Fifth Five Year Plan, the Management stated that—

"Under normal circumstances, the utilisation of capacity during the Fifth Plan period is estimated at 90 per cent of rated capacity i.e. 1,80,000 tonnes per annum for each factory. The estimated costs of production both for Mandhar and Kurkunta factories with 90 per cent capacity utilisation and at prices and wages prevailing in December, 1974 are given in Appendix V.

It will be seen therefrom that with 90 per cent capacity utilisation the cost of production (without interest charges) comes to Rs. 127.62 and 128.65 per tonne at Mandhar & Kurkunta factories respectively with reference to price of inputs and wages prevailing in December, 74 against comparative cost per tonne of Rs. 127.15 assumed by Tariff Commission including escalation allowed by the Government upto 15.9.74."

12.36. The Committee note that the cost of production per tonne (excluding interest on loan) at Mandhar factory was Rs. 124.66, Rs. 126.36 and Rs. 144.06 during 1971-72, 1972-73 and 1973-74. They were informed that the actual cost of production at Mandhar in 1971-72 was less than the average cost of production computed by Tariff Commission for the 23rd costed units. Even the cost of production in 1972-73 after giving allowance for the selling and distribution expenses, was less than the average cost computed by Tariff Commission. The per tonne cost of production in 1973-74 was less than the cost projected for that period though the capacity utilisation was only 74.4 per cent. They learn that the cost of production could be further improved if the capacity utilisation is

maintained at 85 per cent which has not been possible due to non-availability of suitable quality of coal and wagons and power cuts. Besides, increases in the costs of inputs and wages of labour are beyond the control of the Corporation. The questions relating to quality of coal and supply of wagons are reported to have been taken up by the Ministry with the concerned authorities. The Committee are distressed to note that the cement factories at Mandhar and Kurkunta are not able to get good quality of coal and adequate number of wagons. They would urge the Ministry to pursue the matter more vigorously with the concerned authorities at the highest levtl and not to relent till regular supply of good quality coal and adequate number of wagons is assured on a firm basis. They would also like the Ministry to take up the question of power supply to Kurkunta factory with the authorities concerned in Karnataka State and make efforts to get adequate and uninterrupted power supply for the factory.

12.37. The Committee were also informed that the cost of production for 1973-74 at Mandhar Plant was higher than the standard cost fixed by the Board during that year due to lower volume of production and higher usage of limestone, coal and power as compared to the standards. Having achieved 90 per cent utilisation of capacity in 1972-73, they are distressed to note that the production fell in 1973-74 and resulted in higher cost of production. They have dealt with the fall in production and the higher usage of limestone, coal and power elsewhere in this report.

12.38. The Committee note that the cost of production at Kurkunta unit was much higher (Rs. 171.53 in 1972-73 and Rs. 153.57 per tonne in 1973-74) than the Mandhar plant mainly due to lower volume of production, resulting in higher incidence of depreciation, overheads, etc. per tonne. They are informed that production in Kurkunta factory has not yet stabilised due to various constraints and the comparison of cost of production with that assumed by the Tariff Commission would not be meaningful. During the quarter ended December, 1974, when the average capacity utilisation at Kurkunta was 76 per cent (as compared to 43 per cent in 1972-73 and 55.5 per cent in 1973-74) the actual cost of production excluding the interest charges was Rs. 134.05 per tonne as against the cost of Rs. 127.15 taken into consideration by Government in allowing the retention price of Rs. 142.15 (including selling expenses). The Committee are unhappy to learn that even at 85 per cent capacity utilisation in Kurkunta, the cost of production is expected to be more than that taken into consideration by the Government because of higher capital outlay. They would like the Government/Corporation to study the working of the Kurkunta factory in depth and take concerted measures to bring about reduction in the cost.

12.39. The Committee note that, besides other factors accounting for high cost of production, the cost of limestone is high. They were informed that necessary steps were being taken to reduce the cost of limestone. The Committee have already expressed their views on making the quarry operations more efficient and economical. They hope that all possible measures will be taken to maximise departmental production and lower the cost of production of limestone.

12.40. The Committee are informed that under normal circumstances the utilisation of capacity during the Fifth Plan period is expected to go upto 90 per cent of rated capacity in Mandhar and Kurkunta and on this expectation and at prices and wages prevailing in December, 1974, the cost of production (without interest charges) would come to Rs. 127.62 and Rs. 128.65 per tonne at Mandhar and Kurkunta respectively as compared to the cost of Rs. 127.15 assumed by Tariff Commission including escalation allowed by Government upto 15-9-1974. They hope that the Corporation would spare no efforts to realise its expectation of 90 per cent utilisation of rated capacity in each of these two factories during the 5th Plan period and will keep its cost of production below the level determined by the Government from time to time.

E. Containers

12.41. For packing the cement, new as well as old gunny bags are used. The permissible percentage for the use of old gunny bags during a calendar year is fixed by the Cement Controller and that percentage is taken into account in fixing the packing cost which forms part of the price recoverable by the cement manufacturers. The percentage so fixed was 27½ up to 30th June, 1973 and 33⅓ per cent thereafter.

12.42. A review of the utilisation of old and new gunny bags for the calendar years 1970 to 1973 indicated the following position:

Year	Shortage(—)/Excess(+) in the use of old gunny bags with reference to the permissible limit. Mandhar	Kurkunta
1970	(—)1,93,909	
1971	(—) 93,401	..
1972	(+)1,13,137	(—)38,382
1973	(—)2,666	(+) 5,993

12.43. It will be seen from above that there was less utilisation of old bags in 1970, 1971 and 1973 in respect of Mandhar Plant and in 1972 in respect of Kurkunta Plant, which was made good by use of correspnding number of new bags. There was, however, excess utilisation of old bags in 1972 in respect of Mandhar Plant and in 1973 in respect of Kurkunta Plant, thereby resulting in the corresponding less utilisation of new gunny bags.

12.44. After taking into account the rate differential between the price of new and old bags, the excessive utilisation of new bags resulted in an extra expenditure of Rs. 2,48.530 and less utilisation of new bags resulted in saving of Rs. 92,449.

12.45. The Corporation did not obtain the permission of the Cement Controller for the use of old gunny bags in excess of the permissible limit.

12.46. The Ministry stated (June, 1974) as follows:

> "......Since the Corporation was entering into the market for the first time, it was a prudent thing to utilise more of new gunny bags during the first year of marketing of the product of the respective factories in the respective areas so as to create an image for the Corporation's product. As a result there was more use of new gunny bags in the year 1970 and 1971 in the case of Mandhar factory and in 1972 in the case of Kurkunta factory.
>
> The excess consumption of second hand gunny bags at Mandhar and Kurkunta during 1972 and 1973 respectively was mainly because of the non-availability, delay in transit, etc. of new gunny bags......."

12.47. The Committee were informed that the use of old gunny bags in excess of the permissible limits in 1972-73 had been brought to the notice of the Cement Controller with a request for regularisation.

12.48. On being asked about the machinery available with the Cement Controller in enforcing the permissible percentage for the use of old gunny bags and|or other such matters on the cement manufacturers, the Ministry stated as under:

> "The staff of the Cement Controller during their visit to the factories collect information regarding the use of old and new gunny bags by factories on year to year basis, and extract of the report on this matter is being furnished to this Ministry from time to time by the Office of the Cement Controller.

At present there is no provision in the Cement Control Order prescribing specifically the limit upto which old gunny bags may be used. The Law Minister has also advised that the present provision of the Cement Control Order do not provide the possibility of collecting the excess amount received by the producers by the use of excess second hand bags. The question of amending the provisions of the Cement Control order to provide for penal action against the erring producers is under cnsideration.

The proportion of old and new gunny bags used in 1973-74 in respect of Mandhar and Kurkunta Plants was as follows:—

Mandhar		Kurkunta		For the Company as a whole	
New	Old	New	Old	New	Old
73·54%	26·46%	60·79%	39·21%	68·15%	31·85%

12.49. The consumption of old gunny bags for the Corporation as a whole during 1973-74 was 31.85 per cent as against the average permissible limilt of 32 per cent.

12.50 The Management informed the Committee in a written reply that the excess consumption of old gunny bags at the plants had to be resorted to due to unsatisfactory supply position of new gunny bags from time to time. However, the excess consumption of old gunny bags for the Corporation as a whole in 1972 and 1973 was insignificant considering the total number of bags used in both the factories during these two years.

12.51. The Committee note that as against the permissible limit of 27 1/2 per cent upto June, 1973 and 33 1/2 afterwards for the use of old gunny bags, the Mandhar plant used less number of old gunny bags in 1970-71, 1973-74 (upto March) and the Kurkunta plant used less number of such bags in 1972 and more in 1973-74. Lesser use of old gunny bags which required excessive use of new gunny bags resulted in an extra expenditure of Rs. 2,48,530 till 1973 and the excessive usage of old bags brought about a saving of Rs. 92.449. The Committee are informed that the Corporation used excessive number of new gunny bags during the initial period of the commissioning of its plants (1970 and 1971 in the case of Mandhar and 1972 in the case of Kurkunta) to create an image for its product. While the Committee appreciate the anxiety of the Co-

poration to create a good image when it entered the market for the first time, they cannot understand why the excessive use of new gunny bags was continued in 1973-74 in the case of Mandhar. They regret to note that by resorting to excessive use of new bags, the Corporation not only added to the cost per tonne of cement unnecessarily but also violated the orders issued by the Cement Controller in this regard. The Committee would like the Corporation to ensure that the use of new gunny bags does not exceed the permissible limits at Kurkunta or Mandhar hereafter.

12.52. The Committee were also informed that the excessive use of old gunny bags had to be resorted to due to unsatisfactory supply position of new gunny bags. They would like the Corporation to plan the purchase of new gunny bags in such a way that each plant always has enough stock of new gunny bags and temporary dislocation in the supply of new bags does not create any difficulty in the packing of cement.

F. Cost of production Vis-a-vis **average sales realisation/retention price**

12.53. In addition to the retention price fixed by the Government, the producer is also entitled to packing cost in the case of packed cement on the rates fixed by Government. During the years 1970-71 to 1972-73 the retention price fixed by the Government was Rs. 100 per tonne.

12.54. The following table indicates the comprative position of the average salts realisation (excluding excise duty and sales tax) vis-a-vis the cost of production (excluding the interest on loans) of Mandhar Plant in 1971-72 and 1972-73 where 82 per cent to 90 per cent of the capacity had been achieved:—

Actual cost per tonne	Mandhar		
	1971-72	1972-73	1973-74
(a) Cost of naked cement ex-works . .	84·11	84·87	101·83
(b) Packing cost (including cost of containers)	37·62	37·13	38·65
(c) Selling & distribution expenses .	2·93	4·36	3·58
TOTAL .	124·66	126·36	144·06
Average sales realisation per tonne . . .	136·81	139·91	141·74

12.55. As the retention price in inclusive of return on capital, it will be appropriate to add interest on loans to the actual cost of production for making a realistic aomparison. On this basic, the comparative position would be as follows:—

	Cost of production including interest on loans per tonnes	Average sales realisation per tonne.
	Rs.	Rs.
1971-72	135·12	136·81
1972-73	*136·58 (138·84)	139·91
1973-74	154·42	141.74

*As mentioned in para 12.6 (a), the cost of production for 1972-73 should be Rs. 128.62 per tonne. On this basis, the cost of production for 1972-73 (including interest on loans) would work out to Rs. 138.84 per tonne Even after taking into account the increased cost of production, the average realisation covered the entire cost of production (including interest on loans) in both the years, i.e., 1971-72 and 1972-73.

12.56. As mentioned in Para 12.53, the retention price fixed by the Government (with effect from 15-4-1969) was Rs. 100 per tonne in 1971-72 and 1972-73. This was based on the recommendations of the Tariff Commission made in 1961 and the subsequent increased made therein from time to time.

12.57. The retention price was increased to Rs. 110 per tonne with effect from 15th September, 1973 to Rs. 134.20 w.e.f. 2nd August, 1974 and to Rs 139.15 with effect from 15th September, 1974 on the recommendation of the Tariff Commission

12.58 According to the break-up of the retention price furnished by the Ministry, the total cost assumed in working out the retention price appears to be Rs. 76.90 per tonne. As against this, the actual cost (excluding interest on loans) of production in the Mandhar Plant was Rs. 93.53 per tonne in 1971-72 and Rs. 84.13 per tonne in 1972-73.

12.59. Cost of containers, *i.e.*, gunny bags per tonne allowed by the Cement Controller in addition to the retention price and the actual cost of the gunny bags are indicated below:—

Year	As allowed by the Cement Controller	Actual Cost per tonne
		Rs.
1971-72	Ranging from Rs. 34·55 to Rs. 37·95 per tonne. Average—Rs. 35·70 per tonne	30·16
1972-73	Ranging from Rs. 38·95 to Rs. 27·40 per tonne. Average—Rs. 38·79 per tonne	31·52
1973-74	Ranging from Rs. 33·52 to Rs. 36·38 per tonne Average—Rs. 35·10 per tonne.	31·32

12.60. Selling agency commission is additionally recoverable from the customers at the rate of Rs. 1.25 per tonne. The actual cost incurred by the Corporation, however, came to Re 0.97 per tonnes in 1971-72, Re. 0.71 per tonne in 1972-73 and Re. 0.21 per tonne in 1973-74.

12.61. The following conclusions emerge from the above:—

(a) Actual cost was much higher than that assumed for working out the retention price, leading consequently to reduction in profit margin.

(b) The margin left over and above the cost did not even cover the incidence of interest on loans which was Rs. 10.46 per tonne in 1971-72 and Rs. 10.22 per tonne in 1972-73.

(c) The actual cost of containers was less than that allowed by the Cement Controller and recovered from the clients. On the basis of the lowest price allowed by the cement Controller in 1971-72 and 1972-73, the savings accruing to the Corporation amounted to Rs. 7,29,145 in 1971-72 and Rs. 10,72,070 in 1972-73.

(d) The actual incidence of selling agency commission being less than that recoverable from the customers, there was a saving of Rs. 46,506 in 1971-72 and Rs. 96,971 in 1972-73.

12.62. The Management stated that the total saving in 1973-74 in respect of selling agency commission was 2,46,833. The cost of containers which was allowed by the cement controller in 1973-74 varied from Rs. 33.32 to Rs. 36.88 per tonne. On the basis of the lowest price that was allowed by the Cement Controller in 1973-74, the savings accuring to the Corporation on account of the cost of containers amounted Rs. 7,34,509.

12.63. On being asked if the increased retention price effective from 15th September, 1974 was considered adequate to off set the increase in cost on account of rise in prices, cost of establishment, etc., the Management stated as under:—

"The increased retention price effective from 15th September, 1974 is not adequate to off set the increase on account of rise in prices, cost of establishment, etc. The increase in per tonne cost of cement during April to September, 1974 at Mandhar is Rs. 10.79 as shown below, whereas the increase allowed is Rs. 7.15 only:

	Rs.
Power	3·90
Coal	3·30
Salaries & Wages	1·70
Oil & Lubricant	0·70
Gypsum	0·86
Bank Interest	0·33
	10·79

Due to further increase in Dearness Allowance the per tonne cost of production has been increased by Rs. 2.82 by December, 1974. No adjustment for this increase has been made in the retention price so far."

12.64. The Committee find that while the actual cost of production per tonne of cement (including interest on loans) was less than the average sales realisation, it was more than that assumed by Government for working out the retention price in 1971-72 and 1972-73 leading consequentially to reduction in margin of profit. They are however concerned to note that, in 1973-74 cost of production (including interest on loans) per tonne went up to Rs. 154.42 as against the average sales realisation of Rs. 141.74. During 1974-75, the gap has further widened in as much as the increase allowed by Government in the retention price is Rs. 8.15 per tonne while the cost of production had gone up by Rs. 10.79 per tonne upto September, 1974 and has further increased by Rs. 2.82 by December, 1974. The Committee have no doubt that the Corporation is fully aware of the consequences of the higher rise in cost of production than covered by the increased retention prices during 1974-75 which is sure to affect adversely the profitability of the Corporation further if nothing is done in the meantime to reduce the cost of production. The Committee recommend that the Corporation should spare no efforts to bring down the cost of production by increasing the output and by effecting economies in consumption of materials and expenses on overheads so that the profitability may be improved.

XIII

FINANCIAL MATTERS

A. Capital Structure

13.1. The Corporation was registered with an authorised share capital of Rs. 5 crores, consisting of 50,000 shares of Rs. 1,000 each. The requirement of the share capital was considered by the Board of Directors on 12th November, 1969 and it was decided that, due to increased activities of the Corporation resulting from the sanction to set up additional projects, the authorised share capital should be increased to Rs. 15 crores divided into 1,50,000 shares of Rs. 1,000 each. The proposal was communicated to the Government of India in November, 1969 for President's approval, as required by Article 42 of the Company's Articles of Association. President's approval for increasing the share capital to Rs. 6.75 crores only was, however, conveyed by Government in September, 1970.

13.2. As the share capital of Rs. 6.75 crores was still considered inadequate to meet the requirements, the matter was again taken up by the Corporation with the Government in May, 1971 for increasing the authorised share capital to Rs. 15 crores. President's approval to this enhancement was conveyed in June, 1971.

13.3. With effect from July, 1974 the authorised capital of the Corporation had been raised to Rs. 30 crores.

The paid up capital of the Corporation as on 30th November, 1974 stood at Rs. 17.95 crores.

13.4. The Government of India had also granted loans to the Corporation from time to time and the amount of the loans so granted upto 31st March, 1973 aggregated Rs. 5.09 crores. No fresh loans were granted during 1973-74. The loans are generally repayable in 13 annual instalments with two years moratorium for the repayment of principal. The repayment of the loans started from 13th September, 1971 and since then the Corporation has been repaying the instalments on due dates. As on 31st March, 1974 loans amounting to Rs. 426.38 lakhs were outstanding.

13.5. The Corporation had also made cash credit arrangement up to a limit of Rs. 78 lakhs (Rs. 43 lakhs in respect of Mandhar Plant and Rs. 35 lakhs in respect of Kurkunta Plant) against hypothecation of finished and semi-finished goods, raw materials, stores, etc. with the State Bank of India. The total amount of cash credit outstanding as on 31st March, 1973 was Rs. 10.86 lakhs (Rs. 4.56 lakhs in respect of Mandhar and Rs. 6.30 lakhs in respect of kurkunta).

13.6. Due to the credit curbs imposed by the Reserve Bank of India, the drawing power against the cash credit limit of Rs. 78 lakhs was reduced to Rs. 60.87 lakhs (Rs. 35 lakhs for Mandhar and Rs. 25.87 lakhs for Kurkunta) from December, 1973 and to Rs. 49.68 lakhs (Mandhar—Rs. 26 lakhs and Kurkunta—Rs. 23.68 lakhs) from July, 1974. The cash credit actually availed of as on 31st March, 1974 amounted to Rs. 36.70 lakhs (Rs. 15.16 lakhs for Mandhar and Rs 21.54 lakhs for Kurkunta).

13.7. The debt equity ratio for the Corporation was 0.30 : 1 as on 31st March, 1974.

13.8. On being asked whether the reduced cash credit limit was adequate to finance the working capital requirements of the two separating plants, the Management stated; "the reduced cash credit limits are not adequate to finance the working capital requirements of the two operating plants. The Government and the State Bank of India, have been approached for getting the limits increased. Certain data has been called for by the Government and, State Bank of India, which is being collected for submission to the Government and State Bank of India. To a certain extent funds received from Government for capital expenditure stand diverted temporarily to meet the working capital requirement of the two operating plants."

13.9. The Committee enquired whether the Management had asked for a different debt equity ratio from the norm of 1:1 in the light of the instructions issued by the BPE in their letter No. 46/ADV-F/BPE/88/10, dated 12th September, 1968 and whether the ratio asked for was in accordance with the DPR approved by the Government. It was stated in reply as under:—

> "The pattern of financing the capital outlay on projects is that the capital cost of township is met out of equity and the balance capital outlay on the projects is financed by way of equity and loan in the ratio of 1 : 1. This is (was) the pattern on which the financing of the projects of the Corporation is (was) given in the Detailed Project Report and approved by the Government. The debt equity ratio in respect of the two units in operation is as explained above. The equity in respect of each project is released first and the loans thereafter. No loan for the units under construction, *i.e.*, Bokajan, Rajban and Mandhar Expan-

sion has been released so far. As such, the debt equity ratio for the Corporation as a whole as on 31st March, 1974 was 0.30 : 1."

13.10. The Committee note that the Corporation had made cash credit arrangements upto a limit of Rs. 78 lakhs (Rs. 43 lakhs in respect of Mandhar Plant and Rs. 35 lakhs in respect of Kurkunta Plant) against hypothecation of finished and semi-finished goods etc. with the State Bank of India. Due to the credit curbs imposed by the Reserve Bank of India, the drawing power against the credit limit of Rs. 78 lakhs was reduced to Rs. 60.87 lakhs from December, 1973 and to Rs. 49.68 lakhs (Mandhar—Rs. 26 lakhs and Kurkunta—Rs. 23.68 lakhs) from July, 1974. The cash credit actually availed of as on 31st March, 1974 amounted to Rs. 36.70 lakhs (Rs. 15.16 lakhs for Mandhar and Rs. 21.54 lakhs for Kurkunta). The Committee are informed that the reduced cash credit limits are not adequate to finance the working capital requirements and the funds rceived from Government for capital expenditure have been diverted temporarily to meet the working capital requirement of the two operating plants. In view of the fact that the cash credit actually availed of by the Corporation was much less, Rs. 36.70 lakhs as on 31-3-1974 than even the reduced cash credit limit of Rs. 49.68 lakhs, the Committee are unable to understand the justification for the Corporation to divert capital funds received from Government to meet the working capital requirements. In the opinion of the Committee such a diversion of funds is irregular.

13.11. The Committee therefore recommend that Government should examine the implications of this arrangement and take steps to strengthen the financial position of the Company.

B. Working Results

Financial Position

13.12. The table below summarises the financial position of the Corporation under broad headings for the last four years:—

(Rs. in Lakhs)

(1)	1970-71 (2)	1971-72 (3)	1972-73 (4)	1973-74 (5)
Liabilities :				
(a) Paid-up capital . .	570·16	744·16	1094·16	1414·16
(b) Reserves and surplus development rebate reserve.	—	—	50·37	—
(B) Borrowing from :				
(i) Government of India .	483·00	496·46	463·54	426·38
(ii) State Bank of India .	29·09	34·83	10·86	36·70
(d) Current liabilities . . (including provisions)	120·59	144·08	190·03	254·72
TOTAL	1202·84	1419·53	1808·96	2131·96

1	2	3	4	5
Assets :				
(e) Gross block . . .	559·53	596·90	1087·14	1117·48
(f) Less: Depreciation . .	44·67	72·25	125·21	182·80
(g) Net fixed assets . .	514·86	524·65	961·93	934·68
(h) Capital work-in-progress (including machinery at site under/awaiting erection and in transit, etc.) .	289·50	329·04	171·08	361·78
(i) Current assets, loans & advances . . .	218·28	326·57	447·26	577·66
(j) Investments . . .	—	—	—	—
(k) Miscellaneous expenditure (not written off or adjusted)	146·01	207·64	106·45	131·51
Profit & Loss accounts (Loss) .	34·19	31.63	122·24*	126·33
TOTAL	1202·84	1419·53	1808·96	2131·96
Capital employed . . .	612·55	707·14	1220·55	1262·74
Net worth	473·71	659·16	967·38	1245·88

*Includes Rs. 50·37 lakhs representing Development Rebate Reserve created in 1972-73 although the Company had shown a loss of Rs. 40·24 lakhs.

NOTES : (i) Capital employed represents net fixed assets plus working capital.

(ii) Net worth represents paid up capital plus reserves less intangible assets.

13.13. Only 2 units have gone into production so far. While Mandhar Cement Factory commenced regular production with effect from 19th July, 1970, Kurkunta Plant was deemed to have gone into commercial production with effect from 1st October, 1972. The table below indicates the working results of the units as well as the Corporation, as a whole, for the years 1970-71 to 1973-74:—

(Rupees in lakhs)

Year	Profit (+) Loss (—) Mandhar	Kurkunta	Company as a whole
1970-71	(—)34·19	under construction	(—)34·19
1971-72	(+) 2·56	Do.	(+) 2·56
1972-73	(—) 0·64	(—)39·60	(—)40·24
1973-74	(—)25·86	(—)28·61	(—)54·47

13.14. Although Mandhar Unit's production increased from 1,64,118 tonnes in 1971-72 to 1,80,230 tonnes in 1972-73, the Unit incurred a loss of Rs. 0.64 lakh in 1972-73 as against a profit of Rs. 2.56 lakhs in 1971-72. On account of the savings accruing from the recoveries made towards the cost of containers and selling agency commission, there was a surplus of Rs. 2.56 lakhs in 1971-72 and the loss in 1972-73 was limited to Rs. 0.64 lakh.

13.15. The Ministry stated that the factors contributing to deterioration in the working results of Mandhar Plant for 1973-74 were mainly:—

(i) Under utilisation of capacity due to various constraints.

(ii) Increase in the quantity of coal consumed due to inferior quality of coal and increase in power consumed due to lower production.

(iii) Increase in the costs of inputs and labour wages.

(iv) Adjustments relating to previous years.

13.16. An analysis of the impact of above factors revealed the following results in comparison to 1972-73:—

	1972-73	1973-74
(i) *Production*		
Clinker	1,53,393 MT	1,44,140 MT
Cement	1,80,230 MT	1,53,390 MT
Loss due to lesser production	Rs.	12·94 lakhs
(ii) Loss due to lower quality of coal and more consumption of power after off setting the gain due to lesser consumption of limestone. . . .	Rs.	1·96 ,,
(iii) Increase in cost due to increase in prices of inputs and labour wages.	Rs.	13·61 ,,
(iv) adjustments relating to previous years . . .	Rs.	7·53 ,,
TOTAL LOSS	Rs.	36·04 lakhs
Less savings on account of—		
(i) interest charges due to repayment of Government loans	Rs.	2·53 lakhs
(ii) Selling agents commission due to termination of Regional Distributors services	Rs.	1·50 ,,
(iii) Increase in retention price from 15-9-73 . . .	Rs.	6·90 ,,
	Rs.	10·93 lakhs
Net excess loss .	Rs.	25·11 ,,

C. Profitability

13.17. The break-down even points as envisaged in the Detailed Project Reports for different plants are given below:—

1.	Mandhar Plant . . .	1,40,000 M.T. i.e. 70% of the installed capacity of 2,00,000 M.T. based on retention price of Rs. 56/-P/t.
2.	Kurkunta Plant	Do.
3.	Bokajan Plant	1,26,000 M.T. i. e. 63% of the install capacity of 2,00,000 M.T. based higher retention price of Rs. 130/-P/t
4.	Raiban Plant	1,20,000 M.T. i. e. 60% of the installed capacity of 2,00,000 M.T. based on the retention price of Rs. 125/-P/t.

13.18. The Kurkunta Plant which went into commercial production w.e.f. 1st October, 1972 has not yet achieved the break-even point with reference to DPR projection.

13.19. The Mandhar Plant which went into commercial production w.e.f. 19th July, 1970 achieved the break-even production in all the years of its production as per DPR Projection. There were, however, no profit except in the year, 1971-72, because of the lower retention price *vis-a-vis* cost of production.

13.20. When asked about the projections of profitability anticipated by the Corporation in respect of Mandhar and Kurkunta Plants in the Fifth Five Year Plan period and the concrete measures taken to improve the profitability of these plants by obtaining the rated capacity of production reduction in cost etc., the Management stated as under:—

"On the basis of selling price and costs prevailing in December, 1974 the Mandhar factory breaks even at cement despatches of 1,66,000 M.T., *i.e.*, 83 per cent of its installed capacity of 2,00,000 M.T. The Kurkunta factory breaks even at cement despatches of 1,70,000 M.T., *i.e.*, 85 per cent of its installed capacity. As per D.P.R. prepared in 1966, it was estimated that Mandhar and Kurkunta factories would brtak-even at cement despatches of 1,40,000 M.T. *i.e.*, at 70 per cent of installed capacity, on the basis of retension price of Rs. 96 per tonne. In the revised standard cost prepared in 3|74, it was estimated that Mandhar factory would break-even at 85 per cent of installed capacity and Kurkunta factory at 86.5 per cent of installed capacity on the basis of retention price of Rs. 110.

The price of coal has already increased from 1st January, 1975, which will have an impact of Rs. 15 and Rs. 11 per tonne at Kurkunta and Mandhar respectively. If commensurate increase in retention price is granted by Government for this as well as whatever other increase in cost keep taking place from time to time, and requisite power also is available regularly, the profit in these two plants together during 5th five year plan period will be Rs. 15 lakhs per annum approximately."

13.21. The Committee are surprised to learn that in 1972-73, when the Mandhar Plant utilised 90 per cent of its installed capacity, it suffered a loss of 0.64 lakhs as compared to a profit of Rs. 2.56 lakhs in 1971-72 when capacity utilised was 82 per cent, even though there were savings accruing from recoveries made towards the cost of containers and selling agency commission. The loss swelled to Rs. 25.86 lakhs in 1973-74 reportedly due to under-utilisation of capacity (76-1/2 per cent), increase in coal and power consumption, costs of inputs and wages and adjustments relating to previous years. The losses suffered by Kurkunta plant were Rs. 39.60 lakhs and Rs. 28.61 lakhs in 1972-73 and 1973-74 respectively. On the basis of selling price and costs prevailing in December, 1974, the Mandhar factory is expected to break even at 83 per cent utilisation of its capacity and the Kurkunta factory at 85 per cent utilisation of capacity. The Committee recommend that the Corporation should take concerted measures to maximise production, avoid excess consumption of materials and effect economies in overhead expenses so that the cost of production may be reduced and the plants are in a position to break even.

D. Internal Audit

13.22. Although internal audit started functioning in March, 1968, there was no independent Internal Audit Cell and the work was being looked after by an Assistant Financial Adviser and an Accountant. It was only in April, 1970 that an independent Internal Audit Cell headed by an Assistant Accounts Officer with one Assistant was formed. At present Internal Audit Cell consists of a Senior Accounts Officer and an Accountant.

13.23. The scope and functions of the internal audit had been laid down in the Accounting Manual of the Corporation, which was approved by the Board in June, 1971. The scope and functions had not yet (October, 1973) been implemented by the Internal Audit Cell. It had also been reported by the Cost Auditor in his Report on the accounts for 1972-73 that the existing coverage by the Central Internal Audit Cell of the operations of the units was inadequate.

13.24. The Committee on Public Undertakings in their 15th Report (4th Lok Sabha—April, 1968) recommended that the functions of the internal audit should include a critical review of the systems, procedures and the operations of the undertakings as a whole. The Ministry of Finance (Bureau of Public Enterprises), while accepting the above recommendation, directed the public sector enterprises in September, 1968 to introduce such a system. The scope of internal audit as contained in the Accounting Manual also prescribes conducting of such reviews. The Internal Audit Cell had not, however, conducted any appraisal of the performance of the Company as a whole on the above lines till October, 1973.

13.25. When asked about the reasons for not strengthening the internal audit cell so far and when it would be possible to organise the internal audit cell so as to enable it to discharge its functions effectively and purposefully, the Management stated in written reply as under:—

> "Till the Mandhar factory started production control of the purchase and almost all expenditure was centralised at Head Office. The expenditure decisions were taken invariably with the concurrence of the Financial Adviser and approval of the Managing Director. As such need for internal audit was not there. Afterwards, an Internal Audit Cell with an Assistant Accounts Officer and assistant was set up. Later from 1972 the section was headed by a senior Accounts Officer instead of Assistant Accounts Officer. The supporting staff was enhanced by giving an Accountant from 1974 in addition to the assistant provided earlier. Considering the size and economic viability of the organisation the establishment could not be increased further. The internal audit unit has done more work in 1974-75 compared to the earlier years.
>
> By the middle of the year 1975-76 the Head Office based internal audit unit will be supplemented by two field units reporting directly to Head Office. Each of the field unit will attend to regular internal audit of two projects|plants|establishments."

13.26. The Committee note that the Internal Audit Cell started functioning in March, 1968 and was strengthened first in 1970 and then again in 1972. It had, not till October, 1973, conducted any appraisal of the performance of the Corporation as a whole on the lines recommended by the Committee in their 15th Report (4th Lok Sabha—April, 1968), reportedly due to inadequate staff. They are informed that the supporting staff was enhanced, and the increased strength is considered enough in view of the size and economic viability of the organisation. By the middle of 1975-76, the Head Office based internal audit unit is proposed to be supplemented by two field units and each field unit will attend to regular internal audit of two projects/plants/establishments. The Committee recommend that the Corporation should organise the internal audit wing on a sound footing, to enable it to discharge effectively its functions, including critical review of systems, procedure and the operation of the undertaking as a whole as recommended by the Committee in their 15th Report (Fourth Lok Sabha).

XIV

ORGANISATION

A. Organisational set up

14.1. In terms of Article 116 of the Articles of Association, the business of the Corporation is to be managed by a Board of Directors. Under Article 94 of the Articles of Association, the number of Directors to be appointed by the President is not to be less than three and not more than twelve. Under Article 95, the President is empowered to appoint, from time to time a Chairman and Deputy Chairman and|or Chairman-*cum*-Managing Director of the Board of Directors and one or more Managing Directors from among the members of the Board.

14.2. The part-time Chairman appointed in March, 1965 continued upto June, 1972, when he resigned. No Chairman was appointed thereafter. The incumbency of the Managing Director was held as follows:—

1) 12-3-1965 to 25-1-1966

2) 25-1-1966 to 25-1-1969

(3) 25-1-1969 to 21-11-1972

14.3. After 21st November, 1972, no regular appointment to the post of Managing Director was made; instead a Joint Secretary of the Ministry discharged the duties of the Chairman-*cum*-Managing Director up to 3rd July, 1973, with effect from 4th July, 1973, a regular Chairman and Managing Director had been appointed by Government.

14.4. The Committee asked about the reasons for frequent changes in the incumbency of the Managing Director between November, 1972 and July, 1973. The Ministry stated in reply as under:—

> "The Cement Corporation of India was established in January, 1965. Shri H. V. Narayana Rao, was appointed at its first Managing Director with effect from 12th March, 1965. He was nominated by the Union Public Service Commission, for the post Member, Central water and Power Commission, and he resigned the post of Managing Director, Cement Corporation with effect from 25th January, 1966 to join the new post.

On the same day, Shri H. D. Singh joined as the Managing Director and he was in position till 25th January, 1969. He had attained the age of 61 on 17th November, 1968 and had completed his three years term, and no extension could be given to him. Shri K. N. Misra was appointed as Managing Director and he took charge on 25th January, 1969. As he attained the age of 58, he was re-employed upto 21st November, 1972. In the meanwhile the Action Committee on Public Enterprises in its report on Cement Corporation of India recommended the appointment of a full-time Chairman-*cum*-Managing Director, and this recommendation was accepted by the Government. Steps were taken to select a suitable to this post. As an interim arrangement, pending the selection of a regular incumbent, Shri C. Balasubramanihian the then Joint Secretary in this Ministry was appointed as Chairman-cum-Managing Director, in addition to his duties as Joint Secretary. Even though, offer of appointment was issued to Shri B. V. Raju in April, 1973 he was able to join the Corporation on 4th July, 1973 only.

It will be seen that there were no frequent changes and that the Corporation was never without a Chief Executive."

14.5. At the units, Works Manager is the over-all-incharge

14.6. The Action Committee on public enterprises headed by Shri M. S. Pathak, Member Planning Commission examined, among other things the structure of the Corporation's Headquarters office and the Mandhar and Kurkunta Plants. That Committee recommended structural reorganisation of the Headquarters as follows:—

(i) In addition to the Chairman and Managing Director and the Finance and Personnel Directors, there should be a Director of Projects and another Director of Operations.

(ii) Under the Director of Operations, there should be General Managers in charge of operating plants as well as those under construction.

(ii) The Director of Projects would provide the necessary technical consultancy services directly or through an outside consultant under his supervision and he would be in charge of the geological surveys, designing-*cum*-engineering of the projects and for procurement, erection and commissioning of the projects. For each project, there would be a Project Manager with overall responsibility for the construction of the Project.

(iv) In addition to the whole-time Directors, there should be 3 part-time Directors, two of them representing the Administrative and Finance Ministries and the third an eminent specialist from the Industry.

14.7. As recommended by the Action Committee, the posts of Director (Projects), Director (Finance) and Director (Operations) have been filled up and the post of Director (Personnel) is in the process of being filled up. Appointment to this post was also made but the selected candidate had not joined. The strengthening of the headquarters staff by recruitment of other technical personnel was in process and action was being taken to fill up these posts.

14.8. As regards Mandhar Plant, the Action Committee recommended:

"The existing structure suffered from a number of weaknesses, *viz.*, as many as 11 people reported directly to the Works Manager, direct responsibility for production was shared between the Regional Resident Engineer and Production Superintendent, the former being responsible for the crasher and mills and the latter for the kilns. The chain of command and line of communication particularly in respect of staff assistance to operating Management were not rational. Adequate specialised service support to production department seemed to be lacking. A revised organisational structure aimed at removing these defects and providing for creating well defined areas of responsibility was, therefore, recommended for implementation."

14.9. The Management stated (March, 1974) that the revised organisational structure was being considered for implementation.

14.10. It has been stated by the Management that the organisational structure for the plants has been revised to a limited extent depending on the requirements of the individual units. While the plants have not been put in chage of General Manager and the Works Managers continue to be incharge of the plants most of the other functional officers are in existence though with different designations. The posts such as Industrial Engineer which were not there originally are being created and filled up. A separate maintenance section has been/is being established.

For a small unit of 2 lakh tonnes capacity with single production unit, the post of a General Manager has not been considered necessary. As and when the capacities of the plants expand, the appointment of General Manager will be considered with the consequent necessary changes.

As per the recommendations of the Action Committee, posts of Project Managers have been/are being filled up for each project under construction from the initial stages.

14.11. The Management has informed that the final report of the Action Committee regarding Kurkunta Project has not been received.

14.12. The organisational set up of the Corporation at the Headquarters and for Kurkunta as existing is indicated in Appendices VI and VII respectively. The organisation set up for Mandhar is stated to be more or less similar to that of Kurkunta.

14.13. The Committee note that in response to the recommendations made by the Action Committee on Public Enterprises headed by Shri M. S. Pathak which examined the structure of Corporation's headquarters office and the Mandhar and Kurkunta Plants, a Director (Projects) and a Director (Operations) has been appointed but no action appears to have been taken on that part of their recommendation which related to the appointment of 3 part-time Directors, two of them representing the Administrative and Finance Ministries and the third an eminent specialist from the Industry. The Committee recommend that an early decision may be taken, particularly, in regard to the appointment of an eminent specialist from the Industry as a part-time Director on the Board.

14.14. The Committee also note that the Action Taken Committee recommended that there should be General Managers incharge of operating plants as well as those under construction. The Action Taken Committee pointed out that the existing structure at Mandhar Plant suffered from a number of weaknesses, viz., as many as 11 people reported directly to the Works Manager, direct responsibility for production was shared between Resident Engineer and Production Superintendent the chain of command and line of communication was not rational and adequate specialised service support to production department seemed to be lacking. The Committee are informed that the Corporation does not consider the post of General Manager necessary because of the small size of the units at present and the appointment of General Manager will be considered as and when the capacities of the plant expand. The plants are at present under the charge of Works Managers who are assisted by other functional officers in the running of the plants. The Committee note that posts of Project Manager have been/are

being filled up for each project under construction from initial stages, as recommended by the Action Committee. The Committee would like that Government/Corporation should rationalise the chain of command and line of communication and build up a scientific management information system. The Committee recommend that the organisation structure at the plant level may be suitably reframed keeping in view the recommendation of Action Committee after carefully considering the financial implication thereof with a view to removing the defects and deficiencies in the set-up and providing well defined areas of responsibility for attaining maximum production coupled with economy.

B. Man Power Analysis

(i) *Head-quarters Office*

14.15. The table below indicates the staff actually in position as at the end of each of the years from 1964-65 on-wards:—

As on 31st March

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Technical .	1	14	26	27	25	23	30	41	47	156
Non-Technical .	10	52	63	66	72	82	83	97	108	
TOTAL :	11	66	89	93	97	105	113	138	155	156

14.16. At the request of the Corporation, the staff Inspection Unit of the Ministry of Finance conducted a work study in April, 1972. According to the report submitted by it in November, 1972, 16 personnel (including 6 officers) were surplus.

14.17. In this connection, the Management stated (November, 1973) as follows:—

> "In view of Government's having recently sanctioned finally two projects and taking into account the increased activities of the Corporation arising out of advanced action to be taken for the Fifth Five Year Plan Projects, implementation of the recommendations of S.I.U. is not possible."

(ii) *Mandhar Plant*

(a) *Staff Strength*

14.18. The table below indicates the requirement of the personnel for operating the plant as per Detailed Project Report and the per-

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sonnel actually in position as on 31st March, 1971, 1972, 1973 and 1974:—

	D.P.R. Provision	As on 31-3-71 (including Muster Roll Workers)	As on 31-3-72 (including muster Roll Workers)	As on 31-3-73 (including muster Roll Workers)	As on 31-3-74 (including muster Roll Workers
(i) Staff	131	121	144	144	629
(ii) Labour	380	573	525	523	
	511	694	669	667	629

14.19. It will be seen from the above table that the actual strength in position as at the end of March, 1971, 1972, 1973 and 1974 was much in excess of the provision made in the Detailed Project Report.

14.20. At the request of the Corporation, the Staff Inspection Unit of the Ministry of Finance visited the plant in June/July, 1971 and made a study of all the departments except (i) Quarry Department, (ii) Accounts Department and (iii) Drawing Office. In its Report submitted in January, 1972, the Unit recommended 481 personnel for the departments covered by it. The Works Manager was, however, reluctant to agree to the recommendation and the Industrial Engineer of the Corporation was asked to conduct a study. We recommended a permanent strength of 581 personnel for the whole plant and 499 for the departments covered by the Staff Inspection Unit.

14.21. The whole matter was placed before the Board in May, 1973. Since the staff Inspection Unit had not taken into consideration the provision of staff for preventive maintenance for which 7 persons were considered essential, the Board approved the permanent strength of 488 for the departments covered by the Unit. The Board also decided that employment of persons on mustar roll should be resorted to only sparingly and for short periods only. The Management stated (November, 1973) that the assessment of the Industrial Engineering Department for the plant as a whole was under examination.

14.22. In this connection, the Ministry stated (June, 1974) as follows:—

"The Board in its 63rd meeting sanctioned the staff strength of 89 covering the Accounts, Drawing, Quarry Departments in addition to the 488 approved earlier for other departments. As against the total sanctioned strength of

577 the staff in position as on 31-3-74 was 629. It will thus be seen that no fresh appointments are being made and the surplus staff is being adjusted against the vacancies arising from time to time."

14.23. On being asked about the reasons for engaging staff in excess of that provided in the Detailed Project Report of Mandhar Plant, the Management stated that the Detailed Project Report prepared in 1966 provided minimum requirements on the basis of average conditions in Cement Factories of this size prevailing at that time. This, however, did not take into consideration the exact lay-out of the plant supplier later. The permanent staff strength had however, been assessed later as per SIU's recommendations and Industrial Engineering study and a total strength had been sanctioned at 577. The excess staff was being adjusted against the permanent strength in the vacancies arising from time to time.

(b) **Productivity**

14.24. In March, 1971, the Board of Directors desired the Chief Project and Development Officer to compare the productivity (man-hour|tonne) and cost of salaries and wages per tonne in the Corporation factories with those in other Cement factories in India and also with what was indicated in the Detailed Project Reports of the Corporation factories. The Board also desired that a report in this regard should be put up to it.

14.25. In this connection, the Management stated (March, 1974) as follows:—

(i) As it was not possible to collect data regarding productivity (man-hour/tonne), cost of salaries and wages per tonne, etc. other cement factories, the Board dropped the proposal of comparative study in its meeting held on 27th November, 1973.

(ii) The productivity for the Mandhar Plant works out to 6.5 man-hour per tonne which compares favourably with 3 cement factories having an average of 7 man-hour per tonne.

14.26. When asked whether the productivity study (in terms of man-hour per tonne) in respect of Mandhar and Kurkunta Plants with the plants of similar capacity in the private sector, had been conducted, the Management stated that:

'as already mentioned, it was not possible to collect such data regarding productivity (man-hour per tonne) of other cement factories in the private sector. However, an attempt was made to compare the productivity with the data available for 3 cement factories and the productivity of the Mandhar factory compared favourably with that of these factories. But these factories are exactly not indentical with the Mandhar Plant.'

14.27. In this connection during evidence the representative of Ministry stated as follows:—

"The Ministry has not conducted any such study. Actually to get data from private sector is extremely difficult".

14.28. When asked whether it was not possible to get it from the Tariff Commission, the witness stated:

"We compared it in this manner as to what has been the composite utilisation and it gets reflection in the cost per tonne. That comparison we are making".

(iii) *Kurkunta Plant*

14.29. The following table indicates the requirements of personnel at Kurkunta Plant as per Detailed Project Report, as per norms fixed by the Management and those actually in position as on 31st March, 1972, 1973 and 1974:—

	As per D.P.R.	As per norms Fixed by the Management	As on 31st March 1972	As on 31st March 1973	As on 31st March 1974
(i) Staff .	131	Details not available	77	96	573
(ii) Labour .	380		324	414	
TOTAL	511	488	401	510	573

14.30. The Board in its meeting held in November, 1974 approved the permanent staff strength of Kurkunta as 574 personnel and temporary additional strength of 27 personnel.

14.31. When asked about the reasons for the increase in the permanent staff strength over the limit of 511 personnel mentioned in the D.P.R., the Management stated that "the Detailed Project Report for the Kurkunta Project prepared in 1966 provided minimum requirements on the basis of average conditions in cement factories of this size prevailing at that time. This, however, did not take into consideration the exact lay-out of the plant, which was to be given by plant supplier later. The permanent staff strength sanctioned by the Board in its meeting held in 5th November, 1974 was, however, as per actual Industrial Engineering Study."

14.32. The Committee note that in 1972 when the staff strength was 138, the Staff Inspection Unit of the Ministry of Finance had conducted a work study of the Headquarters of the Corporation and found that 16 persons (including 6 officers) were surplus. The Management stated (November, 1973) that in view of the two new projects sanctioned by Government and the increased activities of the Corporation arising out of the advance action to be taken for Fifth Five Year Plan projects, the implementation of the recommendations of the Staff Inspection Unit was not possible. The staff strength as on 31st March, 1974 has risen to 156. The Committee have already found that on account of the excessive staff in Headquarters which was stated to have been based on the original anticipation of 5 million tonnes capacity the overheads on the individual projects have been very high. The Committee would like to caution the Corporation that if the staff strength at the Headquarters is not kept under strict control and if the man-power is allowed to increase unrelated to the volume of work, the surplus manpower will become a permanent liability which will have an adverse affect on the profitability of the Corporation.

14.33. The Committee also note that as against the strength of 511, provided in the DPR, for Mandhar Plant, the personnel in position as at the end of March of 1971, 1972 and 1973 were 694, 669 and 667 respectively. The strength of the personnel in position as on 31-3-1974 came down to 629. The Staff Inspection Unit of the Ministry of Finance recommended a strength of 481 for all the departments except (i) Quarry Department, (ii) Accounts Department and (iii) Drawing Office. On the basis of the Staff Inspection Unit's recommendations the Board approved the permanent strength of 488 (481 recommended by the Inspection Unit and 7 for preventive maintenance for which no provision had been made by the Inspection Unit) for the departments covered by the Unit. The Board subsequently sanctioned a strength of 89 for Accounts, Drawing and Quarry Departments which were not covered by the Inspection Unit, thus sanctioning a total strength of 577 for the entire Mandhar Plant as against the actual staff strength of 629 as on 31-3-1974. The Committee note that no fresh appointments are being made by the Corporation and the surplus staff is being adjusted against the vacancies arising from time to time. They hope that the Corporation will continue efforts to bring the actual staff strength down to the level of sanctioned strength.

14.34. The Committee note that as against the strength of 511 indicated in the DPR of Kurkunta Plant the actual strength on 31-3-74 is 573. The Committee are informed that, as against the provision of 511 personnel in DPR, the Board in November, 1974 approved the permanent staff strength of 574 personnel and temporary additional strength of 27 personnel. Explaining the increase over the strength provided in DPR, it has been stated that the DPR provided the minimum requirements on the basis of average conditions prevailing at that time (1966) but it did not take into consideration the exact lay-out of the plant which was given by the plant supplier later. The permanent staff strength sanctioned by the Board in 1974 is stated to be as per Industrial Engineering Study. The Committee see no justification for sanctioning temporary strength of 27 over and above the permanent strength fixed as per the Industrial Engineering Study when the Plant is already carrying a large surplus. They would like the Corporation to regulate the staff strength in the light of the Industrial Engineering Study and avoid carrying surplus as surplus staff will have an adverse effect on the cost of production and the profitability.

14.35. The Committee note that it has not been possible for the Corporation to make a comparative study of the productivity (man-hour/tonne) and cost of salaries and wages per tonne etc. in Mandhar Plant and other cement factories due to non-availability of relevant data in respect of factories in private sector. The productivity for the Mandhar Plant works out to 6.5 man-hour per tonne which is stated to be comparing favourably with 3 cement factories (names not disclosed) having an average of 7 man-hour per tonne. As the 3 factories referred to above are admittedly not exactly identical with the Mandhar Plant, the Committee feel that the comparison is of no relevance. The Committee would like the Corporation to work out the norms of productivity in respect of each of its plants in operation and appraise the performance of each plant with reference to the norms from year to year.

C. Delegation of Powers

14.36. As per the provisions of Articles 117(26) and (27) of the Articles of Association, the Directors of the Corporation are empowered to delegate the powers, authorities and discretions vested in them. Under these Articles, the delegation of powers to the Managing Director was made by the subscriber Directors in their first meeting held on 16th March, 1965; the same delegation was still in force (June, 1974).

14.37. The delegation empowers the Managing Director to delegate his powers to any of his officer/officers under intimation to the

Board. Accordingly, the Managing Director has been delegating the powers to the various officers working under him. It was, however, noticed that no powers had been delegated to the Deputy Chief Engineer, Senior Engineer (C), Purchase Officer, etc. at Headquarters. Delegation in favour of the Financial Adviser and Chief Accounts Officer was made in December, 1970 only.

14.38. The Bureau of Public Enterprises had emphasised, *vide* their instructions issued in September, 1970, that the system of delegation of powers throughout the managerial hierarchy upto the lowest level of each enterprise should be reviewed on a comprehensive basis in order to ensure that, at all levels, the centres of responsibility corresponded exactly to the centres of powers. In pursuance of this, the Board of Directors of the Corporation in the meeting held on 25th September, 1970 desired that the present delegation, made more than 5 years ago, should be reviewed and a detailed note submitted to the Board as early as possible. No such review was conducted.

14.39. The order of March, 1965 delegating powers to the Managing Director provided that "all proposals having financial bearing and requiring approval of the Board will be shown to Finance". There was, however, no mention about the treatment to be accorded to cases having financial bearing which did not require submission to the Board. Similarly there was no procedure in vogue for reporting the instances to the Board where Financial Adviser and Chief Accounts Officer was overruled by the Managing Director. No record of such instances was also kept by the Management.

14.40. In May, 1969 the Government of India, Bureau of Public Enterprises had issued broad guidelines defining the main functions, responsibilities and powers of the Financial Adviser. It was also mentioned in the guidelines that the Board of Directors should lay down the detailed powers and functions of the Financial Adviser, particularly in regard to matters which should be reserved:

(i) for concurrence of the Financial Adviser; and

(ii) for consultation with the Financial Adviser; and

(iii) those on which Financial Adviser need not be consulted.

No such demarcation has been made by the Corporation so far. In reply to an audit query, the Management stated (February, 1973) that the matter was under consideration.

In this connection, the Management further stated (November, 1973) as follows:—

(a) "………the Action Committee headed by Shri M. S. Pathak has made some recommendations regarding reorganisation of the organisational set up of the Corporation on which a decision has to be taken".

(b) "There was no permanent Managing Director for a period of about 8 months from November, 1972 to July, 1973".

(c) "In the above circumstances matters relating to the points raised in the 'para' could not be considered and finalised so far. Now that a permanent Chairman and Managing Director has been appointed, the matters referred to in the para will be considered and finalised as early as possible."

14.41. The Ministry stated (June, 1974) as follows:—

"The revised delegation of powers to Chairman and Managing Director, Functional Directors and Heads of Departments have been drafted and are under consideration. These would be finalised early. The delegation of powers to subordinate officers will be reviewed and revised after the proposed revision mentioned above is finalised."

14.42. The Committee enquired about the circumstances for not revising/reviewing the delegation of powers made in March, 1965 upto November, 1973. The Management in reply stated that till the middle of 1970 the Corporation had no running plant under production. The first plant came into production in July, 1970 and the second one in October, 1972. In view of the fact that the work only in respect of two units was going on till the beginning of 1972 the necessity for reviewing the delegation of powers made in 1965 was no felt. Even though some efforts were made to draw out the delegation of powers in consultation with B.P.E., the work could not be completed. In the meantime the report of the Action Committee on the organisation set up was under discussion. In view of the impending changes in the organisational structure the work of delegation of powers was deferred. More, there was no permanent Managing Director for a period of about 8 months from November, 1972 to July, 1973.

14.43. On being asked whether the revised delegation of powers to the Chairman and Managing Director, Functional Directors and

Heads of Departments had since been finalised, the Management stated as under:—

> "The draft delegation of powers to the Chairman-*cum*-Managing Director, functional directors and heads of departments were submitted by M/s. Thakur Vaidyanath Iyer and Co. and they have been requested to revise the same, in the context of the new organisational structures which has been more or less implemented now. The revised delegation powers is being finalised currently".

14.44. It was further stated that the revised draft delegation of powers take into consideration the guidelines issued by the Bureau of Public Enterprises in May, 1969 defining the main functions, responsibilities and powers of the Financial Adviser.

14.45. The Committee note that under Articles 117(26) and (27) of the Articles of Association, the Directors of the Corporation delegated certain powers to the Managing Director in 1965 and the same delegation is still in force. The Bureau of Public Enterprises had emphasised in September, 1970 that the system of delegation of powers throughout the managerial hierarchy upto the lowest level of each enterprise should be reviewed on a comprehensive basis in order to ensure that, at all levels, the centres of responsibility corresponded exactly to the centres of powers but no such review was done till November, 1973 nor was the demarcation of the detailed powers and functions of the Financial Adviser made as required under the guidelines issued by the Bureau in May, 1969. They are informed that the draft delegation of powers to the Chairman-*cum*-Managing Director, Functional Directors and Heads of Departments was prepared but it was considered necessary to revise it in the context of changes recommended in the organisational structure by the Action Taken Committee headed by Shri M. S. Pathak and the revised delegation of powers is being finalised currently. The Committee do not, however, see any justification for handing over this work to a firm of Chartered Accountants when this function is for the management to finalise. As the matter has already been delayed for too long, the Committee would like the Corporation to finalise without any further delay the delegation of powers not only to the Managing Director, Functional Directors and Heads of Departments but also to subordinate officers throughout the hierarchy in the light of the recommendations made by the Bureau of Public Enterprises in May, 1969 and September, 1970 and the Action Taken Committee and implement the same as soon as possible.

XV

CONCLUSION

15.1 The Cement Corporation of India Ltd. was set up on 18th January, 1965 as a Government Company with the following principal functions:—

(i) intensive prospecting and proving of limestone deposits, lack of which had retarded the development of cement industry in India in recent years. (In this capacity, the Company had to act as the store-house of information on the cement grade limestone deposits in the country for the expansion of capacity in the public as well as private sector); and (ii) setting up of capacity for cement manufacture so as to help achieve the cement production targets in the Fourth Five Year Plan.

15.2. Government of India also issued a set of directives in May, 1965 requiring CCI (i) to set up target of cement manufacturing capacity to the extent of 1.5 million tonnes by 1968-69 and an additional 3.5 million tonnes by 1970-71, thus creating a total capacity of 5 million tonnes by the end of Fourth Plan Period; (ii) to set up two large Cement Plants, each of approximately one million tonnes per annum capacity; (iii) to establish about six plants of smaller capacity; (iv) to extend technical assistance to State Governments proposing to establish new cement plants in the Fourth Plan and (v) to build up its strength of technical personnel.

15.3 The Corporation has so far established two cement plants having a capacity of 2 lakhs tonnes per annum each at Mandhar (M.P.) and Kurkunta (Karnataka) which went into production in July, 1970 and October, 1972 respectively. In addition, 2 projects of the capacity of 2 lakhs tonnes each at Bokajan (Assam) and Paonta (Himachal Pradesh) are under construction and expansion of the capacity of Mandhar Plant by 1.8 million tonnes is under implementation.

15.4 The Committee find that by the end of December, 1972 the cement manufacturing capacity in the country increased to 19.37 million tonnes (17.08 million tonnes in the private sector and 2.29 million tonnes in the public sector). According to Fifth Plan Projections, the overall capacity of cement manufacture in the country is envisaged at 33 per cent million tonnes. Out of this, 24.6 million tonnes will be in the private sector and 8.5 million tonnes in the Public Sector. The share of CCI in the Public Sector will be about 3.6 million tonnes. The share of the Corporation in the overall capacity of cement manufacture in the country worked out to 2.1 per cent upto December, 1972 and is expected to increase to 10.9 per cent by 1978-79.

15.5 During the course of examination of Cement Corporation of India Ltd., the Committee have found that:—

(i) The Corporation has started manufacturing fly ash pozzolana cement at its Kurkunta Plant from February, 1974 using fly ash which is an industrial waste obtainable from the thermal power plants in different parts of the country.

(ii) In order to eliminate the delays in setting up cement plants in future, advance action has been taken by the Corporation to procure critical equipments, components and machinery which are long delivery items in respect of new projects and a system of PERT has been introduced to work out the responsibility of the corporation and that of the Government.

(iii) A Monitoring and Evaluation Cell has been set up at the headquarters of the Corporation to coordinate and monitor all activities connected with the implementation of the new projects to avoid delays in the completion of the projects as per schedule.

(iv) Government have set up a panel under NCST programme to evaluate the possibility of setting up cement plants of higher capacities *i.e.* 2000 tonnes per day capacity and to that extent to develop the facilities of technical know-how in the country to manufacture such plants and also to undertake feasibility study of indigenous production like larger castings, larger gear boxes and also transport problems of ODC components connected with 2000 tonnes per day capacity.

(v) The Corporation has terminated the agreements with Regional distributors and stockists with effect from 1-12-1973 and appointed stockists afresh under its direct control, thereby avoiding payment of selling agency commission at the rate of Rs. 1.25 per tonne to the distributors and also saved expenditure on the maintenance of branch offices. The Corporation is also trying to distribute cement as evenly as possible to all the stockists and is making surveys and checking the stockists' record etc. to keep a watch over the possible malpractices.

(vi) Cement Corporation of India Ltd. has now been developing its own consultancy services and is already acting as consultant for Royal Government of Bhutan Undertaking for their cement project.

15.6 The Committee have, however, found that:—

(i) The Cement Corporation of India Ltd. has not so far formulated its statement of objectives/obligations inspite of the fact that the Bureau of Public Enterprises had asked all the Public Undertakings as far back as November, 1970 to formulate a statement of their objectives/obligations clearly and communicate the same to the Government.

(ii) In the short span of time between 1965 and 1972, the policy of the Government in regard to the role of CCI has changed frequently with the result that no time bound programme for setting up of capacity with complete details could be laid down and acted upon by the Corporation.

(iii) Government scaled down the target of the CCI from 5 million tonnes to be achieved during the 4th Plan period, to 1.6 million tonnes and reduced it further to 1.2 million tonnes. Against the reduced target of 1.2 million tonnes, CCI could install a capacity of 0.4 million tonnes only by March, 1974 and no other project was scheduled to be commissioned by the end of the Fourth Plan. Thus not only the Corporation was far behind the revised projection of 1.2 million tonnes envisaged in the Fourth Plan, it also could not realise its own expectation of December, 1969 of attaining production level of 4 lakh tonnes by March, 1971 and 6 lakh tonnes by March, 1974.

(iv) As a result of delay in setting up of cement plants by the Corporation, there have been substantial increases in the capital outlays. In the case of Mandhar, the increase in cost was from Rs. 3.78 crores in March, 1966 to Rs. 4.65 crores in January, 1967, in the case of Kurkunta, the increase was from Rs. 3.78 crores in March, 1966 to Rs. 4.69 crores in January, 1967; in the case of Bokajan, the cost increase was from Rs. 8.32 crores in January, 1968 to Rs. 11.26 crores in October, 1969 and in the case of Paonta, the increase was from Rs. 6.08 crores in August, 1968 to Rs. 7.61 crores in February, 1970.

(v) Though a plant with indigenous castings normally takes 4½ to 5 years time for being set up after the approval of the DPR and financial sanction, the Corporation has taken 75 months for completion of the Kurkunta Project and there was cost over-run due to late delivery of plant and machinery and prolonged teething trouble.

(vi) Although the need to put up cement factories in the deficit area was considered to be urgent even as early as July, 1967, no plants in the deficit area have come up so far. Bokajan in the Eastern Region and Paonta in the Northern region are still under construction/erection.

(vii) Out of the 14 sites investigated and proved by the Limestone Investigation Division of CCI for its own projects, cement plants have been set up or are proposed to be set up at 8 sites and the remaining 6 sites on which a total expenditure of Rs. 34.66 lakhs had been incurred, are not being taken up for setting up cement plants due to certain difficulties such as transport difficulties, lack of infra-structure, quality of limestone, distance from rail-head, etc.

(viii) Though a decision was taken in November, 1973 to revive the limestone Investigation Division which was wound up in March, 1970, for carrying out prospecting operations for the Corporation both for the projects under construction and for new projects to be taken up in the Sixth and subsequent plans the Ministry are still thinking in terms of Cement demand in the Sixth Plan and in which region the Cement plants should be established. Though the broad projections are there, no sites for locating the plants in the Sixth Plan have been finalised.

(ix) The Corporation has deferred execution of the Baruwala Project (a deficit area) in Dehra Dun, in respect of which prospecting work was taken up in November, 1967 and an expenditure of Rs. 10.56 lakhs was incurred, due to certain difficulties which could have been foreseen before taking up the project.

(x) There has been delay ranging from one month to eleven months in the completion of civil works at Mandhar by the contractor with reference to the item-wise schedule for completion finalised in May, 1967. Even though in a number of cases, the progress of completion was much below the mark, no liquidated damages were imposed on the contractor for delays. On the contrary the contractor filed with the Arbitrator a claim amounting to Rs. 23.29 lakhs (Rs. 15.62 lakhs on account of prolonged period of execution of work and Rs. 7.67 lakhs for additional items of work and other reasons and the Arbitrator awarded an amount of Rs. 2.46 lakhs in favour of the contractor. Similarly, the supply of plant and machinery which was first required to be made by December, 1967 and then by May, 1968 was actually completed by November, 1970. There has also been delay ranging from 1 month to 12 months in the completion of erection work. The Corporation did not levy any liquidated damages.

(xi) Physico-chemical characteristics of the limestone deposits at Mandhar which were tested by the plant suppliers before designing the plant, were not taken care of by the Corporation at the time of preparation of DPR and by the suppliers at the time of designing the plant. While placing orders for the plant, the Corporation had no proper facilities to determine the physico-chemical characteristics of the raw materials.

(xii) There was delay in the commencement of mechanical operations at Mandhar resulting in non-utilisation of certain equipment upto December, 1970. Even after commencement of mechanical operations, there was under-utilisation of the capacity of equipment in 1972-73.

(xiii) The existing equipment was considered inadequate to raise the required quantity of limestone on account of erratic disposition of the limestone deposit and accordingly additional equipment was considered necessary. As the limestone deposit was found to be distributed in a very erratic manner, manual mining was considered necessary along with mechanical mining in the ratio of 33:66. In view of this constraint, the procurement of additional equipment called for a review. It was further noticed that the specification of certain equipment provided for in the DPR was not laid down after taking into account all the technical considerations.

(xiv) Though the performance efficiency of all the units of Mandhar Plant had not been established by the plant suppliers, the plant was taken over by the Corporation on 12th September, 1970. After take over, certain defects came to the notice of the Management in the various sections of the plant. Particularly, the performance of kiln was unsatisfactory on account of dust catching arrangement being inadequate and the dust refeeding system being unsatisfactory.

(xv) The capacity utilisation in Mandhar Plant has been 76½ per cent in 1973-74 as compared to 82 per cent in 1971-72 and 90 per cent in 1972-73. The actual working hours of the different plants of the project have always been less than the available working hours during the period 1970-71 to 1973-74.

(xvi) The Mandhar Plant incurred losses of Rs. 0.64 lakh in 1972-73 and Rs. 25.86 lakhs in 1973-74 when capacity utilisation was 90 per cent and 76.5 per cent respectively.

(xvii) Though the Project Estimates of Mandhar Expansion and Paonta did not provide for any consultancy services, the Corporation has incurred an expenditure of Rs. 25 lakhs on consultancy work without obtaining prior approval of Government.

(xviii) There have been delays ranging from 10 to 21 months on the part of contractors in the completion of civil works in the various departments of Kurkunta Project. In spite of the extension of time for completion of the work and the facility of use of hydraulic shuttering, the contractor could not complete the work within stipulated time. The Management have not even verified the reasonableness of the rates before allowing the contractor to undertake hydraulic shuttering. No periodical progress reports were obtained by the Corporation from the contactor nor any action was taken against the contractor for these delays.

(xix) Though the crane gantry of Kurkunta Project was completed by the civil contractors in August, 1970 at a cost of Rs. 13 lakhs, some defects in the gantry came to notice in September, 1971. Because of the failure of the civil consultants of the Kurkunta Project, a defective crane gantry was accepted which has involved in extra expenditure of Rs. 5 lakhs to the Corporation. While the defects in the gantry came to notice in 1971, the decision to fix responsibility for the lapses was taken after a delay of 2 years and ultimately fixation of responsibility was not considered possible by the Board.

(xx) Though the DPR envisaged mechanical operation of the quarry at Kurkunta and accordingly equipments worth Rs. 17.70 lakhs were purchased during the period June, 1969 to August, 1971, the initial development of the quarry was taken up in February, 1971 through the agency of piece-rate contractors and the mechanical operations commenced w.e.f. November, 1971 only with the result that the equipment purchased as early as June, 1969 was kept idle till November, 1971.

(xxi) The per tonne cost of raising and transportation of limestone in 1972-73 and 1973-74 at Kurkunta Project quarry has been higher than the standard cost prepared in March, 1974. There has been no synchronisation in the completion of railway track, purchase of wagons and locomotives and the registration of the boilers, for the transportation of limestone from quarry to factory at the Kurkunta Project with the result that the rolling stock remained idle for a number of months.

(xxii) The trial runs revealed a number of defects|deficiencies in the equipment supplied by the plant suppliers for the Kurkunta Unit. These defects are yet to be fully rectified and performance guarantee tests for certain units of the plant are still to be given by the plant suppliers. Despite these defects and deficiencies and non-fulfilment of performance guarantee tests, the plant was deemed to have gone into commercial production with effect from 1st October, 1972.

(xxiii) As against the rated capacity of one lakh tonne the actual production of cement at Kurkunta from 1st October, 1972 to 31st March, 1973 was 43,443 tonnes. During 1973-74, against the target of 1.25 lakh tonnes, the production was only 1.10 lakh tonnes or 55 per cent of the installed capacity of 2 lakh tonnes per annum.

(xxiv) Government took more than a year to accord approval to the feasibility Report submitted by the Corporation for setting up a 600 tonnes per day Plant at Bokajan (Assam) and they took over 18 months to approve the Detailed Project Report.

(xxv) Though according to the letter of intent signed with the suppliers M|s. A.C.C., the delivery of the Plant and Machinery for Bokajan Project should have commenced from May, 1971 and completed by February, 1972, M/s. A.C.C. commenced supply of Plant and Machinery only in February, 1972 and have not completed supplies so far, thus causing a delay of over 4 years in all and some of the reasons for delay do not appear to be entirely unavoidable.

(xxvi) There has been an inordinate delay on the part of the Corporation to prepare the DPR for setting up of a 600 tonnes per day dry process cement plant at Rajban (Paonta) and on the part of Government in according approval to the Project. It took a period of 4½ years from the date of completion of limestone investigation to clear (xxiii) the project for implementation. It was shocking to observe that a public sector Corporation should have thought of resorting to the strategem of opening Branch Offices which aimed at depriving the exchequer of Central Sales Tax amounting to Rs. 6.52 lakhs (approximately) during the period 1970-71 to 1973-74. The Corporation also suffered a loss of Rs. 77,666 during this period in the bargain.

(xxvii) The Corporation has not made systematic review of the stocks nor fixed norms for all the items of inventory or brought down the levels of various items of stores, spares etc. Physical verification of the inventory of the Limestone Investigation Division lying at Delhi, Kurkunta, Mandhar, and Bokajan had not been conduced between March, 1969 and February, 1974. However, as a result of physical verification done in 1974, a net shortage of limestone boulders from inception to 31st March, 1974 of 38,726 tonnes valued at Rs. 4.96 lakhs has been discovered.

(xxviii) In 1973-74 the actual cost of production (including interest on loans) per tonne of cement at Mandhar, Plant increased to Rs. 154.42 as against the average sales realisation of Rs. 141.74 and during 1974-75 the gap has further widened.

15.7. In conclusion the Committee feel that the broad objectives for which the Cement Corporation of India was set up, namely, creating capacity for meeting the gap between the demand and supply of cement and for setting up cement factories in deficit areas have not been fulfilled. In fact, they find that the Government had been changing the objectives from time to time indicating lack of planning and consistency in approach. In their opinion not only the production of cement should be stepped up immediately in public sector but Government should also ensure that the plants licensed in private sector do come up in time and go into production according to schedule. Needless to emphasise that the distribution of cement should also be given adequate attention so that it is available to the consumers without any difficulty in an unadulterated form and in proper quantity at a reasonable price. The success of Cement Corporation of India will be judged not merely by what they produce but how they distribute and satisfy the needs of the consumers.

NEW DELHI.
July 17, 1975
Asadha 26, 1897 (*S*).

NAWAL KISHORE SHARMA,
Chairman,
Committee on Public Undertakings.

APPENDIX I

(Referred to in Para 2.63)

DEMAND AND AVAILABILITY OF CEMENT

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-8.
1	2	3	4	5	6	7	8	9
North Zone				(In million tonnes)				
Capacity	3·438	3·690	3·690	3·690	4·558	5·158	5·158	5·158
Estimated demand	6·370	6·880	7·430	8·024	8·666	9·359	10·108	10·917
Estimated availability	2·920	2·952	3·069	3·134	3·430	4·075	4·382	4·382
Deficit (—)	—3·450	—3·928	—4·361	—4·890	—5·236	—5·284	—5·726	—6·535
Surplus (+)								
East Zone								
Capacity	3·289	3·589	4·089	4·089	4·289	4·289	4·289	4·289
Estimated demand	3·320	3·586	3·873	4·183	4·518	4·879	5·269	5·690
Estimated availability	2·800	2·838	3·152	3·428	3·580	3·650	3·650	3·650
Deficit(—) Surplus (+)	—0·520	—0·748	—0·721	—0·755	—0·938	—1·229	—1·619	—2·040

1		2	3	4	5	6	7	8	9
West Zone									
Capacity	. . . .	5·610	5·910	6·210	6·210	6·990	6·990	7·390	7·390
Estimated demand	. . . . . .	4·670	5·044	5·448	5·884	6·355	6·863	7·412	8·005
Estimated availability	. . . . .	4·770	4·808	5·097	5·280	5·460	5·803	6·076	6·170
Deficit(—)	. . . .								
Surplus(+)	. . . .	(—)0·100	—0·236	—0·351	—0·604	—0·895	—1·060	—1·336	—1·835
South Zone									
Capacity	. . . .	7·423	7·523	7·733	7·733	7·733	9·263	9·263	9·263
Estimated demand	. . . .	4·640	5·011	5·412	5·845	6·313	6·818	7·363	7·95[illegible]
EsMimated availability	. . . . . .	6·310	6·348	6·492	6·574	6·574	7·056	7·666	7·86[illegible]
Deficit(—) Surplus(+)	. . . .	(+)1·670	(+)1·337	(+)1·080	+0·729	+0·261	+0·238	+0·303	+0·087

APPENDIX II

(Referred to in para 3.7)

Statement showing the name of sites, dates of commencement/completion of investigation, lime-stone deposits proved and indicated and expenditure incurred thereon upto 31st March, 1973 by the Cement Corporation of India Limited.

Sl. No.	Site	Investigation		Quantity		Amount
		Commencement	Completion	Proved	Indicated	incurred in lakhs of Rupees.
				(in million tonnes)		
1.	Katni (M.P.) . . .	4/65	7/66	21	..	7·44
2.	Jagdalpur (M.P.) . .	6/65	7/66	120	46	7·44
3.	Sadam (Karnataka) . .	7/65	7/66	97	..	3·19
4.	Gokak (Karnataka) . .	7/65	6/66	23	..	2·41
5.	Mandhar (M.P.) . .	1/66	6/66	21	6	2·85
6.	Neemuch (M.P.) . .	2/66	4/67	130	..	2·26
7.	Yerraguntala (A.P.) . .	8/66	3/67	153	99	4·10
8.	Tandur (A.P.) . . .	8/66	3/67	140	..	3·23
9.	Alampur (A.P.) . .	3/67	7/67	46	..	3·02
10.	Chittorgarh (Raj.) . .	4/67	9/67	39	25	3·50
11.	Adilabad (A.P.) . .	9/67	6/68	36	..	3·88
12	Bokajan (Assam) . .	11/67	4/68	17·86	11·43	3·85
13	Dehradun (U.P.) . .	11/67	7/69	26·00	20·00	10·00
14	Paonta (H.P.) . . .	1/66	8/67	46·33		6·89*
15.	Nimbahera (Raj). . .	May/ June, 1967		62·00	..	0·74**
	TOTAL . . .			978·19	207·43	69·60

*Investigated by G.S.I.

**For J.K. Synthetics

APPENDIX III

Referred to in Para 5·169.

Analysis of Performance of the various sections of the Mandhar Plant with reference to total available time, actual operating time and time lost due to various factors

Serial No.	Name of the Seciton of Plant	No. of shifts	Total available working days	Total available working hours	Available operating days	Available operating hours	Actual working hours	Stoppages due to (in hours): Mech. & Elect. defects	Power out shortage	Labour strike trouble	shortage of wagons	Shortage of raw materials, -air, water, coal, etc.	brick lining charging of G.M. replacement plates & hammers	other Misc. constraints	Running not required	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
			1970-71									1970-71				
1	Crusher 19-7-70	1	256	2048	215	1720	464·40	99·30	2·25	..		0·20	114·20	158·15	880·30	1355·20
2	Raw Mill	3	365	8760	365	8760	3723·55	459·10	61·40			36·20	137·35	1365·30	2975·50	5036·05
3.	Kiln	3	365	8760	365	8760	4694·00	179·00	47·40		..	0·15	858·05	1513·30	1467·30	4066·00
4	Cement Mill	3	256	6144	256	6144	3329·40	368·20	53·30		15·40	30·00	494·25	1518·45	333·40	2814·20
5	Packing Plant	3			Informatiion is not available								Information is not available.			
			1971-72									1971-72				
1	Crusher	2	365	5840	313	5000	1974·55	464·30	36·35			..	298·55	457·45	1767·20	3025·05
2	Raw Mill	3	365	8760	365	8760	7127·35	713·45	113·55			1·30	231·05	572·10	..	1632·35
3	Kiln	3	365	8760	365	8760	7496·15	223·45	59·00		..	..	790·15	190·45	..	1263·45
4	Cement Mill	3	365	8760	365	8760	6585·00	510·05	187·30		346·35	41·10	280·55	802·25	..	2175·00
5	Packing Plant	3	365	8760	365	8760	3619·00	440·05	90·45		237·40	793·05	..	1198·50	2380·35	5141·00
			1972-73									1972-73				
1	Crusher	2	365	5840	313	5000	1670·50	200·30	31·10	240·00	..	1·30	99·35	404·05	2352·20	3329·10
2	Raw Mill	3	365	8760	365	8760	5840·20	996·25	90·15	360·00	..	3·10	132·00	1337·50	..	2919·40
3	Kiln	3	365	8760	365	8760	6468·05	324·00	57·40	360·00	..	167·50	1037·00	345·25		2291·55
4	Cement Mill	3	365	8760	365	8760	6570·55	853·50	90·55	360·00	35·35	11·25	272·20	575·00	..	2189·05
5	Packing Plant	3	365	8760	365	8760	3547·10	981·40	12·55	360·00	153·20	264·30		1166·30	2273·55	5212·50
			1973-74									1973-74				
1	Crusher	2	365	5840	313	5000	1203·20	144·50	64·55	..		..	137·50	1347·40	2074·25	3796·40
2	Raw Mill	3	365	8760	365	8760	5244·10	676·10	140·05			81·05	526·55	2091·35		3515·50
3	Kiln	3	365	8760	365	8760	6266·45	949·05	76·35			292·15	984·05	191·15		2443·15
4	Cement Mill	3	365	8760	365	8760	5924·05	1545·30	172·45		..	35·55	372·00	709·45	..	2835·55
5	Packing Plant	3	365	8760	365	8760	3589·25	1014·33	76·00	..	271·00	241·25	..	1305·30	2462·05	5370·35

NOTE.—In respect of Crusher, available operating time is less than the total available time owing weekly off day.

APPENDIX IV

(Referred to in Para 8.59)

Note submitted by the Managing Director regarding tenders for residential and other buildings for the Bokajan Project

Brief for the 41st meeting of Board of Directors

ITEM NO. 27

Sub: Tenders for Residential and other Buildings for the Bokajan Plant.

The tenders township and other buildings works for the Bokajan Cement Plant were invited in May, 1970 for the first time in the expectation that the detailed project report for this plant would be sanctioned by the time the tenders are scrutinised and the Corporation was in a position to issue acceptance order. This was intentionally done in order to cut down the time normally spent in completing these formalities so as to compensate for the delay which was occuring in the sanction of the detailed project report for this plant.

At the time seven tenders were sold to various parties but only 3 tenders were received on the date of opening i.e. 1st July, 1970. The lowest tender was that of M/s. Wig Bros. who have carried out Civil Engineering works for our Mandhar Cement Plant. Their tender was approximately 6.7 per cent above the provisions made in the detailed project report. The tenders were scrutinised and they were kept in abeyance for want of Government's sanction to the D.P.R. The tender validity period of 90 days expired on 30th September, 1970 but the tenders could not be accepted as the Government sanction had not been received by this date. When it was apparent in October, 1970, that the D.P.R. of Bokajan factory would not be sanctioned in the near future, these tenders were rejected and earnest money of the contractors was refunded to them.

Tenders for this work were again invited in November, 1970 and opened on 30th December, 1970. This time 9 tenders were sold to various parties out of which only 4 parties have submitted their tenders. The interesting feature this time is that out of these 4 parties 3 parties are new and have not submitted tenders earlier for this job. Only one party viz., M/s. Gangoomal and Brothers submitted tenders earlier as well as this time. The total cost of tender M/s. Gangoomal Brothers is approx. 100 per cent above that the lowest tenderer. None of the other parties who tendered earlier have submitted their tender this time.

The lowest tenderer this time is Shri Sohan Singh of Dimapur who has executed works in that area with N.E.S. The amount of the lowest tender is within the provisions made in the project report which is very fortunate for the Corporation keeping in view the remoteness of Bokajan area, its vicinity to Nagaland, high cost of labour, materials, transport, and the fact that there has been general increase in the market prices of all articles since the tenders were invited earlier and none of the parties except one, who quoted their rates earlier turned up this time.

Due to restricted working season, it is necessary that the collection of materials required for construction work is done before April and works brought above ground level before the onset of monsoons so that the entire working season is not lost otherwise the work can only be started after rains in January, 1972, after collection of materials is done from October to December, 1971. In order, therefore, to utilize the current working season and to compensate to some extent the delay which has already occured in the starting of these works, it is necessary that these tenders are accepted without any delay. Construction of township and ancillary buildings connected with the plant has to be completed earlier so that the supervising staff and the erection staff etc. is housed there since no other accommodation is available in Bokajan area. This work has therefore, to be executed in advance of execution of the plant works.

In view of the facts stated above and also the fact that the lowest tender of Shri Sohan Singh is fortunately within the provisions made in the D.P.R. and the tenderer has experience of carrying out similar jobs in the vicinity of Bokajan area it would be very much in the interest of the Corporation to accept the lowest tender without any delay and at least ask him to make preliminary arrangements and start collection of construction materials. This is, therefore, submitted for the consideration of the Board for taking a suitable decision so that the opportunity offered to the Corporation is not lost and the current working season is utilised to the extent possible.

Sd/-

K. N. MISRA

Managing Director

ANNEXURE I

(Referred to in Para 8.57)

EXTRACT OF MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS HELD ON 23RD JANUARY, 1971 AND 25TH JANUARY, 1971.

* * * *

Tenders for residential and other buildings in the Bokajan Plant

The Board noted the information and decided that if the Government approves the Detailed Project Report for the Bokajan Plant or approves awarding of construction work in anticipation of the sanction of D.P.R. the Corporation may accept the lowest tender of Sardar Sohan Singh for construction of the residential and other buildings.

Extract of Minutes of the meeting of the Board of Directors held on 15th March, 1971.

Confirmation of the Minutes of the Previous Meeting

The Board confirmed the minutes of the previous meeting held on 23rd January, 1971 and 25th January, 1971. In this connection it was confirmed that the brief on the subject 'tenders for residential and other buildings for the Bokajan Plant' submitted to the 41st meeting of the Board had the concurrence of F.A. and C.A.O., though the same had not been specifically indicated in the brief.

EXTRACT OF THE MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS HELD ON 16TH JUNE, 1971.

* * * *

Confirmation of the minutes of the previous meeting

The Minutes of the last meeting were confirmed.

In the first para of the minutes of the last meeting, the Managing Director wanted the Board to replace the words "had the concurrence of FA & CAO" by "had been prepared after taking into a consideration the comments recorded by FA & CAO on the relevant file". He explained that in the last Board meeting, when he mentioned that the brief placed before the Board regarding tenders for the township at Bokajan, had concurrence of FA & CAO all the tenders had been examined by the financial wing of the Corporation and the note of FA & CAO had been considered by him before putting up recommendation to the Board.

Shri Saha objected to the procedure adopted by the Managing Director, ia presenting the brief to the Board, upon which Managing Director explained that the Financial Adviser was on leave at that time and he had returned from tour only on 22nd of January. The Board meeting was scheduled to be held on January 23, and since the foundation stone of Bokajan plant had been laid on January 17, 1971, he felt that the tenders should be accepted so that work could be taken in hand as soon as sanction to the project was received. He also informed the Board that as per decision of the Board, he had accepted the tenders on receipt of sanction of the project and according to the recommendations of the Civil Engineering Adviser.

Shri Saha suggested cancellation of the tender, because the contractor was in the opinion of FA & CAO not capable of undertaking a work of this magnitude. It was, however, explained by the Managing Director that although the Civil Engineering Adviser, and hehimself was fully satisfied that the contractor would be able to do the work, even then he had taken precautions and asked the contractor to undertake only 50 per cent of the work in the first instance, so that if the contractor's progress was not satisfactory, his contract could be terminated. In regard to the suggestion that the tender may be cancelled, the Chairman took consensus of the opinion of the members of the Board and it was that tenders should not be cancelled. The Board thereupon approved the action taken by the Managing Director with the provision that the contractor shall not be awarded execution of contract beyond the first phase of the work, unless and until the Board was satisfied with his performance and the progress of the execution of the project.

Extract of the Minutes of the meeting of the Board of Director held on 4th September, 1971.

* * * *

Confirmation of the Minutes of the previous meeting

The minutes of the previous meeting held on 16th June, 1971 were confirmed subject to the following modifications:

For the words "Shri Saha objected to the procedure.....which" in the first sentence of para 3 of item 1 of the minutes the following be substituted:

"The Board objected to the procedure followed by the Managing Director on the following counts:

1. The brief put up to the 41st meeting of the Board of Directors did not contain a comparative statement giving merits of various tenderers and especially why the lowest tender was the best acceptable in all respects. No mention was also made whether the brief had the concurrence of FA & CAO.

2. In the 42nd meeting the confirmation given by the M.D. that the brief put up in the 41st meeting had the concurrence of FA & CAO was not again borne out by the statement made by him in the 43rd meeting. The circumstances under which the objections of FA & CAO were not brought to the notice of 41st Board meeting were not clarified.

3. In accordance with the procedure laid down, the views of the FA & CAO that he had certain reservations in regard to the competence of the lowest tenderer were also not brought to the notice of Board either in the 41st or in the 42nd meeting.

4. The objections of the FA & CAO in regard to the financial capability of the tenderer Sardar Sohan Singh were got investigated by the Civil Engineering Adviser and on the basis of the note submitted by C.E.A. on 4th June, 1971 the tender was accepted by the M.D. on the same date without consulting the F.A. & CAO further.

5. The Board felt that the tender should not have been accepted on 4th June, 1971 i.e. twelve days before 43rd meeting of the Board which was scheduled to meet on 16th June, 1971."

For the portion "Shri Saha suggested cancellation......explained by the Managing Director that" in para 4 of item I of the minutes the following be substituted:

"Shri J. R. Saha suggested that in view of the above and especially because the contract was for an amount of Rs. 60 lakhs approximately, whether it could not be cancelled at this stage. The Managing Director explained that there would be not only legal but also financial implications if the tender already accepted was cancelled. The Managing Director also stated that the tenderer Shri Sohan Singh had been instructed to collect certain materials in view of the heavy monsoon in the area where Bokajan is situated. It was further explained by the Managing Director that the comments of the Financial Adviser were considered and".

APPENDIX V

(Referred to in Para 12.35)

Cost per tonne of cement production at 90 per cent capacity utilisation with reference to prices of inputs and wages prevailing in December, 1974

		Mandhar	Kurkunta
		Rs.	Rs.
1.	Limestone, Laterite etc.	13·40	15·20
2.	Gypsum.	6·50	5·80
3.	Coal	23·76	32·30*
4.	Power.	21·25	17·50
5.	Stores and Spares.	11·00	11·00
6.	Salaries and Wages.	24·33	21·55
7.	Selling & Distribution expenses, including H. O., Marketing Wing overheads.	1·70	1·70
8.	H.O. Overheads	2·60	2·60
9.	Misc. Expenses.	4·00	4·00
10.	Depreciation.	14·00	17·00
	Cost per tonne before interest charges.	127·62	128·65
11.	Selling Price including selling and Distribution	142·15	142·15
12.	Margin of profit before intrerest charges.	14·53	13·50
13.	Interest on loans and working capital	9·50	10·00
14.	Margin of Profit after Interest charges.	5·03	3·50

*NOTE : With effect from 1-1-75, M/s. Singareni Colleries, suppliers of ccal Kurkunta Plant, have increased the pit-head price of ccal by 66%. This w further increase the cost of production by Rs. 15·31 per tonne at Kurkun If M/s. Coal Mines Authority, who are supplying coal to the other facto Mandhar also increase the pit-head price of their coal by same percentag the per tonne cost of cement at Mandhar also will increase by Rs. 11·20.

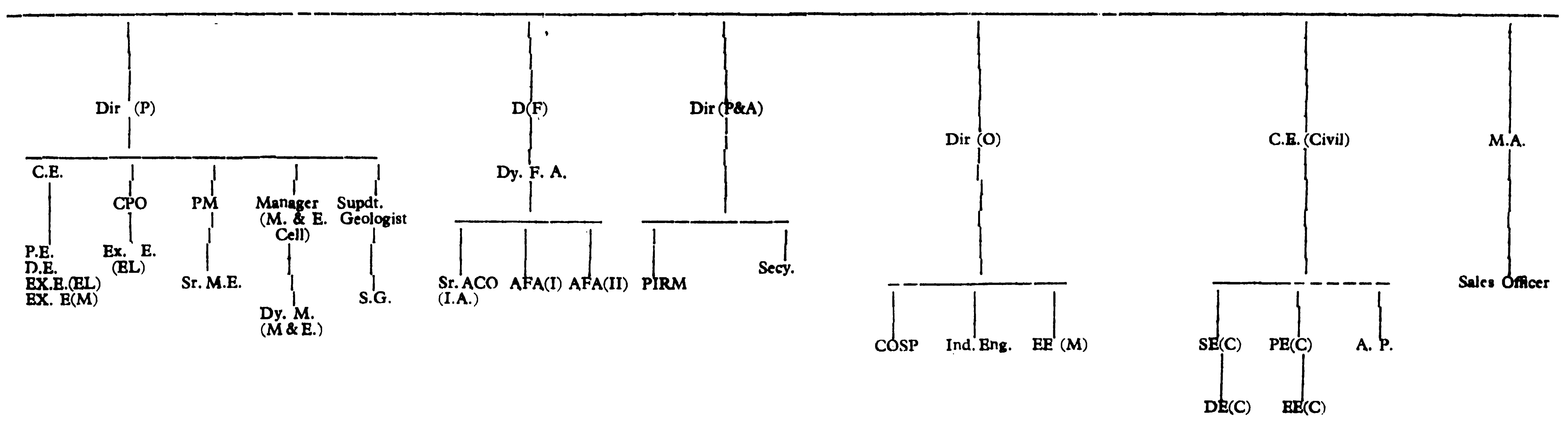
APPENDIX VI

(Referred to in Para 14·12)

CEMENT CORPORATION OF INDIA LIMITED

ORGANISATION CHART (H. O.)

C. & M. D.



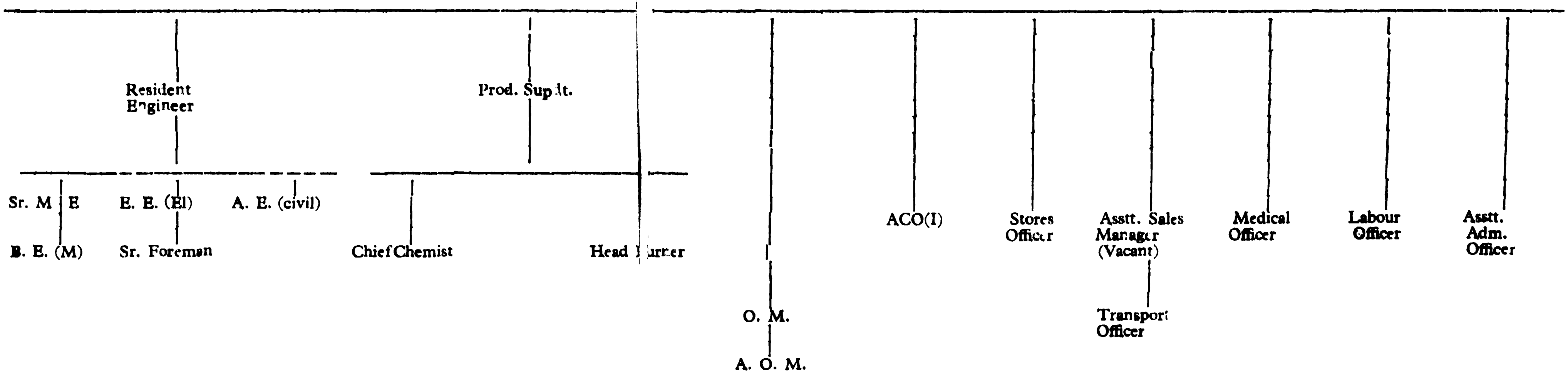
APPENDIX VII

(Referred to in Para 14·12)

CEMENT CORPORATION OF INDIA LIMITED

ORGANISATION CHART

WORKS MANAGER (K)



APPENDIX VIII

Summary of conclusions/recommendations of the Committee on Public Undertakings contained in the Report

S. No.	Reference to Paragraph No. in the Report	Summary of Conculstions/Recommendations
(1)	(2)	(3)
1	1.8	The Committee regret to note that even though the Bureau of Public Enterprises had asked all the Public Undertakings as far back as November, 1970 to formulate a statement of their objectives|obligations clearly and communicate the same to the Government and even though the need for formulating such a statement was reiterated in the 40th Report (5th Lok Sabha) of the Committee on Public Undertakings on Role and Achievements of Public Undertakings, the CCI has not so far formulated its statement of objectives|obligations, except that it has only taken action to define the scope of work of the Corporation. The Committee recommend that the Corporation|Ministry should finalise the statement of objectives|obligations of CCI without any further delay and place it before Parliament.
2	2.19	The Committee note that the Cement Corporation of India (CCI) was set up in 1965 to create cement manufacturing capacity of 5 million tonnes by the end of 4th Plan by setting up two very large cement plants of one million tonne capacity each and the remaining plants of smaller capacity. Just when the Corporation was taking preparatory steps towards the attainment of the capacity, Government decontrolled cement w.e.f. 1st January, 1966 and extended certain fiscal reliefs to the industry and later on delicensed the cement industry

(1)	(2)	(3)
		w.e.f. May, 1966. In the anticipation that the private sector would, in the changed circumstances, put up additional capacity in a big way, the target set for the CCI was scaled down from 5 million tonnes to 1.6 million tonnes in the first instance and then to 1.2 million tonnes and an outlay of Rs. 23 crores was earmarked for the CCI for the purpose. Subsequently in July, 1967 Government asked the CCI to set up cement plants in the deficit areas only as the private sector was not expected to give its full co-operation in this regard; but in June, 1972 the restriction laid down for the CCI to invest only in the deficit areas was removed as it was found that the private sector was not coming up as expected and there was acute shortage of cement in the country. After clearing two projects, *viz.*, Mandhar and Kurkunta, each with a capacity of 2 lakh tonnes, the Corporation was advised by the Government to go slow with its projects. The Committee find that in the short span of time between 1965 and 1972 the policy of the Government in regard to the role of CCI changed rather frequently with the result that no time bound programme for setting up of capacity with complete details could be laid down and acted upon by the Corporation. The Committee are unhappy at the lack of planning and the inconsistency displayed by the Government this respect and feel that the role and tar set for a public sector organisation should be worked out after great thought and care taking into account the demand of the product, availability of technical and financial resources etc. and once these are worked out and communicated to the undertaking, frequent changes therein should be avoided to enable it to concentrate its energies on the fulfilment of its role

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		and to formulate concrete time bound schemes to achieve the targets.
3	2.20	The Committee regret to note that the Government delicensed the cement industry with effect from May, 1966 in the anticipation that the private sector would put up additional capacity in a big way, and scaled down the target of the CCI from 5 million tonnes to 1.6 million tonnes and reduced it further to 1.2 million tonnes. The Committee are also surprised at the decision of the Government in July, 1967 to restrict the CCI to set up cement plants only in the deficit areas and allowing the private sector to have the benefit of developing the industry in the more profitable areas. The Committee regret that it took five years for Government to remove this restriction.
4	2.21	The Committee feel that even when a decision was taken in February, 1970 to bring the cement industry under the purview of the licensing provisions of the Industries (Development and Regulation) Act, the Government had an opportunity of reviewing their earlier decision restricting the activities of CCI to deficit areas and could have rectified the position and gone ahead with the implementation of their schemes. But it took more than two years for Government to remedy the situation and withdraw their earlier order. As admitted by the representative of the Ministry, 'at that point of time it might have been a wrong decision on the part of Government.'
		The Committee also feel that it should not have been difficult for Government to foresee that with only two projects in the deficit areas and the capacity already taken up, the maxi-

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		mum capacity that could be developed would only be 8 lakhs tonnes against the target of 1.2 million tonnes.
5	2.22	Even against the reduced target of 1.2 million tonnes, a capacity of 0.4 million tonnes only could be installed by March, 1974 and no other project was scheduled to be commissioned by the end of Fourth Plan. The Corporation was thus far behind the revised projection of 1.2 miliion tonnes envisaged in the Fourth Plan nor could it realise its own expectation of December, 1969 of attaining production level of 4 lakh tonnes by March, 1971 and 6 lakh tonnes by March, 1974. The Committee have given separate recommendation in regard to non-attainment of the capacity elsewhere in the Report.
6	2.23	The Committee regret to observe that because of frequent changes in the decisions, and placing of the restrictions, for an unduly long period, on the Cement Corporation for putting up Cement Plants only in the deficit areas, valuable time was lost in deevloping the cement capacity in the Public Sector in the country with the result that shortage of cement persist.
7	2.32 to 2.35	The Committee note that due to delay in setting up of cement plants by the Corporation, there has been a substantial increase in the capital outlay. In the case of Mandhar, while according to the feasibility report of March, 1966, the cost was Rs. 3.78 crores, in the Detailed Project Report of January, 1967, the cost was estimated at Rs. 4.65 crores, i.e., an increase of Rs. 0.87 crore. Similarly, in the case of Kurkunta, the increase in cost was from

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		Rs. 3.78 crores in March, 1966 to Rs. 4.69 crores in January, 1967 almost a crore of rupees. In the case of Bokajan, the cost increase was from Rs. 8.32 crores in January, 1968 to Rs. 11.26 crores in October, 1969. In the case of Paonta, the increase was from Rs. 6.08 crores in August, 1968 to Rs. 7.61 crores in February, 1970.
		The Committee understand that a plant with indigenous castings normally takes 4½ to 5 years time for being set up after the approval of the Detailed Project Report and financial sanction. The time could, however, be reduced only if certain critical parts and equipments are allowed to be imported.
		The Committee were informed that while the Mandhar plant had taken normal lead time of 48 months, in the case of Kurkunta, the lead time was more than the normal lead time by over one year and there was cast over-run due to late delivery of plant and machinery and prolonged teething trouble. In the case of Bokajan, there have been delays due to transport bottlenecks, delay in receipt of castings, power shortage etc. In the case of Paonta and Mandhar Expansion, it was stated that the position could not be indicated at this stage. Lack of experience was also stated to be as one of the reasons for the delay. The Committee were assured that the delays in future will be eliminated or kept to the minimum through a monitoring organisation. The Committee were also informed that advance action has been taken to procure critical equipments, components and machinery which are long delivery items in respect of new projects and a system of PERT has already been introduced to work out the responsibility of the Corporation and that of the Government.

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		The Committee feel that it should be possible for Government/Corporation to reduce the lead time for setting up the plant after approval of the DPR and financial sanction by proper planning procurement of equipment and adherence to schedules which should be monitored through a system of PERT/critical path and other management techniques. The Committee would also like Government to investigate the causes for the abnormal increase in the lead time in regard to Kurkunta and Bokajan plants so that suitable action to arrest the delays is taken. The Committee recommend that Government should draw lessons from their experience so that they may guard against such delays in the future plants being set-up.
8	2.43 to 2.44	The Committee are informed that the Northern and Eastern Regions had been deficit for the last 15 years and there are not many known favourable sites in these regions where cement plants could be set up. The Corporation is therefore proposing to revive the Limestone Investigation Division to locate beneficial sites in the deficit northern and eastern regions to be taken up in the Sixth and subsequent Plans. Since limestone deposits are not uniform, Government propose to tackle this problem by utilising the slag coming out of the steel plants. Although the need to put up cement factories in the deficit areas was considered to be urgent even as early as July, 1967 no plants in the deficit area have come up so far. Bokajan in the eastern region and Paonta in the northern region are still under erection/construction.
		The Committee regret to observe the absence of an advance action in the matter of

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		planning project in the deficit areas, where necessary, by linking these with the slag from the steel plants. The Committee also feel that the Limestone Investigation Division should have been utilised much earlier to locate limestone deposits in these regions. The Committee expect that at least now Government should view this with concern and take serious immediate and definite steps to set up cement capacities in the deficit areas of northern and eastern regions.
9	2.45	The Committee also note that the western region is also becoming deficit and according to the projections of the Fifth Plan, the deficit would be of the order of 1 million tonnes by 1978-79, 1.3 million tonnes in 1979-80 and 1.8 million tonnes by 1980-81. The Committee recommend that Corporation should lose no time to take advance action for locating the areas and setting up the capacities in the western region also so that it may not face the same situation as in the northern and in the eastern regions.
10	2.52 and 2.53	The Committee note that the Government had issued a directive in 1965 that the Corporation should take steps to set up two very large cement plants each of one million tonne capacity per annum. They were informed that there were certain practical difficulties in the setting up of such large size plants and in view of these difficulties the Corporation decided to go in for setting up a number of standard size plants of smaller capacity. The Committee are surprised to note that the Government chose to issue a directive which turned out to be impracticable and which had to be modified later on in view of certain constraints of which

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		Government ought to have been aware at the time of issuing the directive.
		The Committee were informed that, as against the maximum capacity of 1200 tonnes per day designed so far by the CCI for its plants, a plant in a private sector has already been established with a capacity of 1500 tonnes per day. They would like the CCI to study as to how the private sector plants of such a high capacity could be set up in the face of constraints which are stated to have been standing in the way of CCI going in for plants of a capacity higher than 1200 tonnes per day and draw lessons therefrom.
11	2.54	Cement industry being one of the oldest industries, the Committee feel that Government should have standardised their cement plants according to economy of scale and utilised the capacity available in the country for machinery manufacture to produce equipment required for cement plants in the public sector. In this context, Government should have also examined the feasibility of utilising the unutilised capacity of MAMC, HMT and HEC for the manufacture of cement plants.
12	2.55	The Committee find that the Government have already set up a panel under NCST programme to evaluate the possibility of setting up of cement plants of 2,000 tonnes per day capacity and to that extent to develop the facilities of technical know-how in the country to manufacture such plants and also to undertake feasibility study of indigenous production like larger castings, larger gear boxes and also transport problems of ODC components connected with 2000 tonnes per day capacity plant.

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		It has been stated that the report of the NCST is awaited. The Committee recommend that as soon as the report is received, Government should work out the economics of setting up plants of 2000 tonnes per day capacity vis-a-vis plants of 1000 to 1200 tonnes per day now proposed by CCI and take a decision about standardising the capacities of the plants and machinery required therefor.
13	2.65	The Committee note that the Task Force set up by the Government of India identified that 12 million tonnes of cement capacity was to be added in the Fifth Plan period. As a sequel to this, in May, 1973 after the discussion with the Ministry of Industrial Development and Planning Commission, an exercise was made on bringing up projects under crash programme during the Fifth Five Year Plan. According to the revised proposal, the Corporation is to put up six new projects—Akaltara, Yarraguntala, Neemuch, Tandur, Adilabad and Kurkunta Expansion with a total capacity of 26 lakhs tonnes at an estimated cost of Rs. 98 crores. Thus, the total capacity set up and to be set up by the Corporation at the end of the Fifth Plan will be 35.8 lakhs tonnes. Of these, project estimates of four plants (*viz.*, Tandur, Yerranguntala, Akaltara and Adilabad) have already been approved and those of Neemuch are under the consideration of the Government. The preparation of detailed project report in respect of the Sixth Plant (*viz.*, Kurkunta Expansion) has not been taken for the present in view of the power shortage in Karnataka State which is considered likely to continue during the 5th Plan period. The Committee feel that the estimates for all the projects which are to be implemented in the Fifth Plan should have been ready after the economic viability of the projects had been examined by Government.

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		The Committee feel that, on the assumption of power shortage in Karnataka State, the postponement of Kurkunta expansion project is unfortunate. They would like the Corporation/Government to take up the question of supply of power for their Kurkunta expansion project with the State Government at a high level with a view to finding out a solution thereto and go ahead with the Kurkunta expansion programme.
14	2.66	The Committee expect that the estimates in respect of the sixth project Kurkunta expansion would also be approved by Government soon and be available for operation before the project is taken up for implementation. The postponement of Kurkunta Expansion Project will have effect of scaling down the targets set for the Fifth Plan. The Committee recommend that this should be avoided to prevent the gap between the demand and supply of cement becoming wider to the detriment of construction activity.
15	2.67	The Committee note that while the dates of completion have been proposed only in the case of three of the five plants, the dates in respect of Tandur and Adilabad have not yet been indicated. The Committee are not clear as why the target dates for the completion of these two projects have not been finalised especially as project estimates for these projects have already been approved by Government. The Committee expect that the Government/Corporation should work out the realistic target dates for the completion of the projects and ensure that these dates are adhered to so that the targets set for the 5th Plan may be realised. The Committee also note that, out of the five projects which have been approved, the Corporation had placed orders for the main plant and machinery for three projects and the question of placing orders for the re-

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		maining two is stated to be under consideration in consultation with the Ministry of Finance. The Committee recommend that the progress in respect of the supplies of the machinery for these projects should be monitored to ensure that there is no slippage in the schedule of supplies resulting in delay in the completion of the projects.
16	3.24 to 3.26	The Committee note that the Limestone Investigation Division (LID) of the Corporation was set up in April 1965 by taking over the Limestone Investigation Division of the Hindustan Steel Limited to carry out investigations at 6 sites simultaneously. In view of the delicencing of cement industry in 1966, the Corporation decided to reduce the site investigation work from 6 sites to 3 sites at a time after March, 1967 by which time the limestone investigation programme for the Fourth Five Year Plan had been nearly completed. By November, 1967, the Corporation had prospected for cement grade limestone at 12 sites (including one site investigated by the Geological Survey of India) and the investigation work at 3 other sites was on hand. As a result of investigation of 12 sites, a total reserve of 1074.33 million tonnes (898.33 million tonnes proved reserve' and 176 million tonnes indicated reserve) was established. As the Corporation could at best set up 5 or 6 plants capable of producing one million tonne of cement during Fourth Five Year Plan with the funds placed at its disposal, for which the company would require proved deposits of about 75 million tonnes of limestone as against proved deposits of 898.33 million tonnes already investigated, Government directed the Corporation in January 1968 to maintain a skeleton Investigation Division capable of conducting investigation at the rate of one site a year. The investigation of the 3 sites already in hand was completed by July, 1969 and the Limestone Investigation Division was wound up by 31st

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		March, 1970. The Committee note that after the direction of Government was received in January, 1968, the Corporation selected only one site in Madhya Pradesh for detailed prospecting in July, 1968. The Committee regret to note that after incurring an expenditure of Rs. 11747 the prospecting work done on this site was abandoned in February, 1973 because of heavy over-burden and low percentage of lime. In November, 1973, the Ministry of Industrial Development approved the proposal of the Corporation for the revival of the L.I.D. The Committee were informed that of the 14 sites proved by the CCI, cement plants were set up or are proposed to be set up at 8 sites and the remaining 6 sites (Alampur, Baruwala, Jagdalpur, Gokak, Katni and Chittorgarh) on which a total expenditure of Rs. 34.66 lakhs had been incurred are not suitable for setting up cement plants due to certain inherent difficulties, such as transport difficulties, lack of infrastructure, quality of limestone, distance from railhead etc. It was therefore necessary to revive the LID as there were not many limestone deposits in the country which could be exploited in the Sixth Five Year Plan and subsequently, particularly in the deficit Northern and Eastern Regions. The Committee cannot understand why the so-called 'inherent difficulties' which are now stated to be standing in the way of setting up cement plants at these 6 sites could not be visualised before starting investigation work there. They would like the Government to look into the so-called 'inherent difficulties' and independently examine the feasibility of utilising these sites for the purpose of setting up cement plants in public sector. They would also like that Government should investigate how these sites were at all selected for investigation with a view to fixing responsibility

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		They would also like the Corporation to make sure before taking up any new site for lime-stone investigation work, that the facilities and infrastructure necessary for setting up a cement plant at that site the available or will definitely become available in due course at that site if ultimately adequate deposits of lime-stone happen to be located there. The Committee recommend that before taking up investigation the Corporation should ensure that selection of sites for investigation should as far as possible be related to the prospects of establishing cement manufacturing capacity.
17	3.27	The Committee also note that besides Lime-stone Investigation Division, Geological Survey of India and Mineral Development Corporation are also working in the field of survey and investigation of lime-stone deposits. They were informed that the Geological Survey of India do not normaly give detailed indication of the availability of the various raw materials throughout the country and it does not normally carry out detailed investigation about the total quantum or availability, quality and other characteristics of the lime-stone and because of these limitations of the Geological Survey of India, it was considered necessary to have a separate Lime-stone Investigation Division of the Corporation. The Corporation also thought it necessary to have a separate Lime-stone Investigation Division as each cement factory should and does have such a division, big or small, and as it has to investigate sufficient quantities of lime-stone deposits not only to meet the immediate needs of the existing plants but also for the next 50 years. The Committee are not quite convinced of the reasons advanced in support of a separate Lime-stone Investigation Division. They would like the Government to examine before reviving the Lime-stone Investigation Division of the Corporation

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		whether the role of the already existing organisations (viz. Geological Survey of India and Mineral Development Corporation) cannot be suitably enlarged to cover the functions which the proposed Lime-stone Investigation Division of the Corporation is expected to perform or whether the working of all these organisations cannot be integrated in the interest of economy, co-ordination and better results. While undertaking the proposed examination, Government should also keep in view the recommendation of the Estimates Committee made in paragraph 4.24 of its Sixtieth Report (1973-74).
18	3.28	The Committee note that in November, 1973 the Ministry approved the proposal of the Corporation for the revival of the Lime-stone Investigation Division. The Committee also note that the revival is mainly for carrying out prospecting operations for the Corporation both for projects under construction and for new projects to be taken up in the Sixth and subsequent Plans, particularly in the deficit areas. The Corporation may also take up work for private agencies on payment basis or undertake exploration work abroad. The Committee are, however, informed that the Ministry are still thinking in terms of cement demand in the Sixth Plan and in which region the Government should go for establishing cement plants so that transport costs are reduced. Though the broad projections are there, no location for the Sixth Plan had been finalised. The Corporation is also stated to be in touch with the G.S.I. and other Corporations. The Committee are surprised that how in the absence of any information about the demand in the Sixth Plan or about the location of the plants, the Ministry have approved the proposal of the Corporation for the revival of the L.I.D. The Committee suggest that before the Division is actually revived, Government should assess the usefulness

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		of the Division especially in the context of the sites already prospected and utilised.
19	3.36 to 3.39	The Committee note that one of the functions of the Corporation is to act as the store house of information on the cement grade lime-stone deposits in the country for the expansion of capacity in the public as well as private sectors. The Corporation has been receiving enquiries from private parties and submitting quotations in reply to the enquiries but only one site (Nimbahera—Rajasthan) has been investigated by the Corporation for a private party so far, for a fee of Rs. 1.98 lahks. The Committee are informed that M/s. Associated Cement Co. a private sector organisation, which also has a Lime-stone Investigation Division, had been doing work for the private parties. Further, the parties had set up plants in very good areas where deposits were already known. The Committee were also informed that when L.I.D. was started there were not much known deposits and the Croporation had to work on the basis of a 5 million tonnes capacity of cement. The Committee recommend that Government should critically analyse the reasons as to why it has not been possible for the Corporation to secure work from private parties, so that suitable remedial action may be taken. In view of the past experience the Committee however suggest that Government/Corporation should consider whether the L.I.D. on revival should at all undertake work on behalf of private parties.
20	3.46 to 3.47	The Committee note that in November, 1967 the Corporation took up prosecuting work near Baruwala in Dehra Dun which was a deficit area and after proving lime-stone deposits, prepared a project report for setting up standard size plant

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		of 600 tonne per day capacity. Since the consultants suggested a higher capacity plant for achieving economy in scale, the project report was re-cast and the revised project report envisaged installation of a ropeway which had to go down a very steep slope. The Corporation was therefore studying the problems. In the meantime, the execution of the project stood deferred.
		The Committee are informed that the study of the alignment of the ropeway has been entrusted to an expert who had surveyed the area and the project could be taken up only after this work is over. The Committee are also informed that the execution of this project could not be taken up because the Railways are not inclined to provide any siding facilities at the nearest rail-heads. The Committee regret to point out that the Corporation should have foreseen the necessity for the installation of the aerial ropeway even at the time of the feasibility study of the Project and should have tied its arrangements with the Railways before taking up the project and incurring an expenditure of Rs. 10.56 lakhs and ultimately deferring the Project. The Committee would like Government to investigate as to why these aspects were not considered before the execution of this project in the deficit area was taken up responsibility fixed and Committee informed of the action taken.
		The Committee would also like the Government to press upon the Railways for providing siding facilities at the nearest rail-heads in view of the cement shortage in the region.
21	3.50	The Committee regret to note that, while selecting the sites and employing the parties for investigation work, no estimate of cost was framed for any of the sites nor the scope of work mentioned. It was stated that, the organisation being in initial stage, estimates could not be pre-

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		pared and they would be prepared in future. The Committee need hardly stress that estimates of cost are essential for the purpose of control of cost and assessing the performance. The Committee, therefore, recommend that the Corporation should take steps to see that, before taking up the work, estimates of cost are prepared with complete details so that the investigating parties know in advance the parameters of work and the ceiling of expenditure within which they have to operate.
22	4.13	The Committee note that the cement plants are of two types—dry process plants and wet process plants. In a dry process plant there is a saving of about 30 per cent in coal consumption and the requirement of water is also less, as compared to wet process—but power consumpton is 10 to 15 per cent more in the dry process plant than in the wet process plant. On comparison, the dry process plant is stated to be more economical. At the time when Mandhar and Kurkunta Plants were set up wet process plants were more in vogue in India. All the plants envisaged by the Corporation to be undertaken during 5th Five Year Plan are dry process plants and 95 per cent of the new letters of intent which have been issued in the last two years are also for dry process plants. Even if the dry process plants are stated to have advantages over wet process plants, the Committee cannot but take note of the acute shortage of power experienced almost all over the country. They hope that the Corporation too is not oblivious of this phenomenon. The Committee also understand that there are two main constraints in the dry process *viz.*, the minor mineral content (alkali and chlbride content) in the raw material and the calcium carbonate content of the lime-stone in India being just marginal. Introduction of high ash coal may, therefore, depress some of the

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		minerals which give rise to early strength and hence may have an effect on the quality of cement. The Committee would like that Government should review the economics of each one of the projects approved in the Fifth Plan after taking into account the availability of power and keeping in view the constraints of the dry process. The Committee would like to be informed of the results.
23	4.14	The Committee also note that the Action Committee on Public Sector Undertakings headed by Shri M. S. Pathak, Member, Planning Commission, had made a suggestion that for long term improvement of operation of Mandhar Plant, converting the existing wet process to a dry process system in the plant should be taken in hand but the Board of Directors decided that in view of the present financial position it may not be possible to undertake this work on immediate basis. They would like the Government to give a serious thought to the considerations and the objectives underlying the recommendations made by the Action Committee and see whether the decision taken by the Board of Directors of the Corporation is in the interest of the Corporation in the long run.
24	4.21	The Committee note that the Corporation has started manufacturing fly-ash pozzolana cement at its Kurkunta Plant from February, 1974. The results of the test are stated to have proved that the fly-ash pozzolana cement is even better than the prescribed Indian standard specifications of ordinary portland cement in certain respects. Fly-ash is an industrial waste obtainable from the thermal power plants in different parts of the country. According to the Cement Research Institute, the manufacture of portland fly-ash cement using fly-ash from the Delhi-Badarpur-Faridabad complex of thermal power stations will be technically and economically a

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		feasible proposition. The Institute has also completed a feasibility report for manufacture of cement from fly-ash from Nellore thermal power plant in Andhra Pradesh for a cement manufacturer and is now engaged on the question of utilising fly-ash from Panki thermal power plant in Uttar Pradesh for another cement manufacturer. The Committee would urge the Corporation to examine the economics of this new process and see how it can make use of this process to set up new cement factories in areas particularly in the deficit Northern and Eastern regions, wherever the fly-ash is available in plenty.
25	4.28	The Committee note that under the Cement (Quality Control) Order, 1962, manufacture and sale of cement not conforming to the prescribed standards is prohibited. The Corporation has a Quality Control Organisation to ensure quality control upto the point of despatch but it has no organisational set up to check the quality of cement at consumers' end. They feel that the Corporation is responsible not only for manufacturing cement of the prescribed standard but also for ensuring that the cement being sold by the dealers authorised by it under its trade name conforms to those standards. The Corporation should not merely wait for complaints from consumers but should also conduct surprise checks on the quality of cement stocked with the dealers. In this connection they would wish to draw the attention of the Corporation to the recommendation made by the Estimates Committee of Lok Sabha in paragraph 6.32 of their 60th Report (Fifth Lok Sabha—April, 1974) on availability and distribution of Cement and reiterate that suitable measures should be taken by the Corporation in respect of the cement manufactured by it and sold by its authorised dealers to

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		ensure that cement of requisite quality is supplied to the ultimate consumers.
26	5.24 to 5.27	The Committee note that though the State Government granted the mining lease for 404 acres of land in April, 1967 which included 332 acres of private land and the lease agreement was executed in October, 1967, there was a delay of 16 months in the Corporation taking action for acquisition of the private land and only 236 acres were acquired through negotiations upto November, 1972 for Rs. 4.73 lakhs. Negotiations for the balance are still stated to be in progress. The Committee are informed that as the proceedings for acquisition were pending with Government till 1969, the Corporation sought permission for direct negotiation.
		It has also been stated that in the absence of acquisition of the entire land, there had been difficulties regarding disposal of overburden and heavy blasting operations.
		On an application of the Corporation in December, 1971, for an additional area of 198 acres of which 98 acres was private land a mining lease of 195 acres of which 92 acres was private land, was given by State Government in January, 1973 after one year. It has been stated even now the acquisition proceedings were still in progress and a small piece of land was left to be acquired from the private owners.
		The Committee see no reason why the Corporation should not have felt the sense of urgency and taken up the matter through the Ministry with the State Government and why it should have waited till November, 1969 to seek the permission. The Committee recommend that this matter should be settled without further delay and the Committee informed.

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27	5.28 to 5.29	The Committee also note that the increase in the estimates for Mandhar Plant sanctioned in July, 1972 for Rs. 490 lakhs over those included in the Detailed Project Report and sanctioned by Government in June, 1969 for Rs. 451 lakhs was mainly under Establishment expenditure during construction (Rs. 14.35 lakhs), civil works (Rs. 7.47 lakhs), electrical installation (Rs. 4.63 lakhs) and headquarters overheads (Rs. 16.23 lakhs). The actual expenditure on erection cost including establishment expenditure during construction amounted to Rs. 29.64 lakhs against the provision of Rs. 16.50 lakhs in the project report. It was stated that the erection of the plant and machinery was originally proposed to be done departmentally and it was anticipated by the Management that the provision of Rs. 16.50 lakhs made in the approved estimates would be adequate to cover the expenses of the staff employed during construction period as well as staff employed for erection purposes though no break-up of the provision under the two heads was indicated. Subsequently, the Management decided to get the erection work done through the suppliers (M/s. K. C. P. Ltd., Madras) of the plant and machinery so as to avoid the problem of surplus labour and also the complaints from suppliers. The contract for erection and technical know-how for erection absorbed Rs. 15.29 lakhs and after meeting the expenditure on the maintenance of establishment during construction, the total actual expenditure on this account exceeded the sanctioned estimate by Rs. 13.14 lakhs, thus registering an increase over the provision in the revised estimate by 80 per cent. In the opinion of the Committee, such an excess is too high and indicative of the original estimates not being realistic. The Committee are informed that the excess expenditure on erection and establishment expenditure during construction was contemplated to be met out of the provision of

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		Rs. 18.69 lakhs under contingencies. Though the inadequacy of the provision was brought to the notice of Government before sanction of the DPR, Government had not chosen to revise the provision on the basis of known factors but reduced the provision under contingencies. In the opinion of the Committee, meeting the expenditure on establishment during construction out of the provision for contingencies is irregular and the erection cost should have been broken up so as to indicate the provision for establishment during construction separately so that control of costs over establishment was possible.
		The Committee recommend that the Government/Corporation should ensure that estimates of the project are realistic and not so wide off the mark as otherwise the very purpose of having the estimates is likely to be defeated.
28	5.30 to 5.31	The Committee also note that there was an over-all increase of Rs. 13.39 lakhs in the actual expenditure under civil works over the provision in the DPR after absorbing the savings under water supply and sewage disposal and residential buildings. The excess has been attributed to an extra expenditure of Rs. 25 lakhs on factory buildings, foundations and welfare buildings due to increase in the quantities of work as compared with the provision made in the DPR and deeper foundation as a result of change in the design of the crusher plant. The original design of the crusher plant had to be altered as the quality of lime-stone was found (1968) to be harder than originally assessed (1966) by the plant suppliers, thereby leading not only to a more powerful crusher and conveyor but also to deeper foundations. As a result, not only was there an extra expenditure of Rs. 8 lakhs under civil works on account of deeper

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		foundation but the plant suppliers had also to be paid an extra amount of Rs. 1.5 lakhs because of the change in the design of the crusher necessitated in the light of analysis of the raw materials etc. The Committee were informed that in terms of letter of intent dated 29th June, 1965 sample of raw material was to be collected by the plant suppliers in association with the undertaking and tested before commencement of manufacture of machinery. There was no mention in the letter of intent for varying the quoted price of Rs. 137.58 lakhs.
		The agreement with the suppliers also mentioned that in the light of the test conducted by the supplier, the party agreed for change in the specification of the crusher unit. There was no mention about price escalation on this account. Actually when contract was concluded subsequently, the price was changed and various adjustments not only on account of the Crusher Plant (in which extra amount of Rs. 1.5 lakhs was involved) but on account of some other equipments also were made. As a result of these adjustments, the over-all price of Rs. 137.58 lakhs was reduced to Rs. 137.08 lakhs.
		The Chairman and Managing Director of the Corporation informed the Committee that they were not in a position to say under what circumstances the adjustment upwards was agreed to and that this matter was not approved by the Board at that time. The Committee were informed that as a result of adjustments upwards in some cases and downwards in other cases, the ultimate contract price is stated to have been reduced from Rs. 137.58 lakhs to Rs. 137.08 lakhs. The Committee need hardly stress that letters of intent formed the basis

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		of contracts and there should not be any change in the provisions stipulated in the letters of intent. The Committee are also not happy that such changes should have been made without the approval of the Board although the overall effect of the changes is a reduction in the total value of the contractual amount. The Committee recommend that Government should closely examine the justification for such changes which have led to an extra contractual obligation. The Committee may be informed of the results.
29	5.40	The Committee note that the Headquarters overheads which were estimated to be Rs. 5.20 lakhs and approved at that level by Government in 1969 rose to Rs. 20.43 lakhs registering an increase of almost 300 per cent which is stated to be due to less number of cement projects having been taken up than earlier anticipated and due to the longer time taken in the implementation of the project. They also note that the fact that Headquarters overhead was likely to increase due to less number of projects sanctioned was brought to the notice of Government but the Government were not agreeable to increase the provision under this head. In spite of this, the Committee are surprised that Government had not taken any action to reduce the overhead expenses by pruning the establishment to the extent necessary. The Committee find that the staff strength increased from 97 in 1969 to 155 in 1973. It was stated by the Management that the staff strength was always realistic to meet immediate needs. The Committee recommend that Government should examine the justification for such huge expenditure on Headquarters which has caused the increased allocation of overheads to the individual projects and fix the strength on a realistic basis.

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30	5.41	The Committee note that the M.P. Government Tariff indicated that H.T. power can be made available at 33/11 K.V. While formulating the project report, an estimate was prepared for supply of power by Madhya Pradesh State Electricity Board at 11 K.V. and in the body of the report it was mentioned at 33 K.V. power supply. The M.P. Government having regretted to supply power at 11 K. Y., an extra transformer had to be installed by the Corporation for stepping down the supply of power from 33 K.V. to 11 K.V., for which no provision existed in the D.P.R. The Committee would like that this matter may be investigated with a view to pin-point responsibility for this costly lapse. The Committee may be kept informed of the results.
31	5.52 to 5.53	The Committee note that the contract for civil works was awarded to one M/s. Wig Bros. in July, 1967 and the work was to be completed in a period of 12 months. The item-wise schedule for completion of civil works was finalised in May, 1967 and envisaged completion of various items between October, 1968 and February, 1969. There was, however, delay ranging from one month to eleven months in the completion of civil works by the contractor. It has been stated that keeping in view the magnitude of the work and the circumstances prevailing the date of completion was etxended from time to time till 30th April, 1970. Even though in a number of cases the progress was much below the mark, no liquidated damages were imposed on the contractor. On the contrary, the contractor filed with the Arbitrator a claim amounting to Rs. 23.29 lakhs (Rs. 15.62 lakhs on account of prolonged period of execution of work

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		and Rs. 7.67 lakhs for additional items of work and other reasons) and the Arbitrator awarded an amount of Rs. 2.46 lakhs in favour of the contractor. The Committee are unhappy to find that not only the Corporation failed to make out a case for imposing liquidated damages on the contractor for delays but also it was held liable to pay an additional sum of Rs. 2.46 lakhs to the contractor.
		The Committee further note that the supply of plant and machinery which was first required to be made by December, 1967 and then by May, 1968 was actually completed by November, 1970. Similarly, there was delay ranging from 1 month to 12 months in the completion of erection work. Taking into account all the facts and as the delay on the part of the contractor and the Corporation was 11 months, the Corporation did not levy any liquidated damages which amounted to Rs. 16,000 as per terms of contract. The delay in delivery of plant and machinery and in erection is stated to have delayed the implementation of the project by 2/3 months which in a project of this size was not considered to be a serious lapse. Though the Corporation withheld Rs. 7.49 lakhs from the payments due to the firm, the question of defects and delays in supply of plant and machinery was considered by the Board which ultimately decided to condone the delay and release the payment after adjustment/recovery of certain amounts to the extent of Rs. 2.5 lakhs. In effect the Corporation has lost the claim for liquidated damages to the extent of Rs. 16,000. The Committee feel that in both the contracts relating to construction of civil works and supply and erection of plant and machinery, because of the delays on the part of the Corporation, it could not sustain its claims against the contractor. The Committee recommend that

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		the Corporation should learn a lesson from this experience and avoid such delays in future.
32	5.54	The Committee are informed that a Monitoring and Evaluation Cell has now been set up to coordinate and monitor all activities connected with the implementation of the new projects. They hope that at least now such delays will be avoided and the new projects will be completed as per schedule.
33	5.72 to 5.73	The Committee regret to note that though the guarantee performance runs for the individual units commenced from 21st March, 1970 and continued upto 24th December, 1970, and performance efficiency of all the units of the plant as stipulated in the agreement was not established, the plant was taken over by the Corporation on 12th September, 1970. It was stated that the performance test in the case of Crushing Plant, Raw Grinding Mill, Coal Mill and Cement Mill was given subsequently. The Committee are surprised at the statement of the Ministry that "there is no irregularity. Only when we run it we will come to know the defects". The Committee have given their comments separately in regard to the defects noticed in the plants.
		The Committee note that as against the guaranteed output of 200 tonnes per hour the crushing plant had been giving only 160 tonnes per hour because of the defective positioning of the push feeder and hopper with respect to wagon tippler which necessitated employment of extra labour at a cost of Rs. 15000 per year to push the blocked boulders manually. The plant was not capable of running continuously and producing the required quantity of 1032 tonnes in one shift as originally contemplated with the result that it had to be run in two shifts necessi-

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		tating employment of extra staff costing about Rs. 30,000 per year. The plant supplier had fulfilled the guarantee test with an output of 200 tonnes per hour, but the granulometry of lime-stone was little short for which the plant supplier had paid the penalty. The spread over of operation to second shift was necessary because the sequence connected with the winning of the lime-stone, transport of lime-stone by means of dumpers into wagons and thereafter by tipping mechanism into the hopper could not be maintained at 200 tonnes per hour. The Committee are informed that so far as crushers are concerned there was no difficulty. It is only in the design of the hopper that there is a defect because of which the material does not flow smoothly. The machinery supplier and civil engineering consultants were responsible for the defective design of the hopper. Though the Corporation was able to maintain the output or capacity, the loss was to the extent of the wages of the labourer. The Committee are also informed that though in the initial stage, there was the problem of keeping the sequence of supply of lime-stone, the problem was solved by employment of extra labour. However, the main problem of maintaining continuity of trains still remained. The operation in one shift was posing problem due to (a) transportation because the N.G. locomotives purchased from Railways were very old; (b) raising of limestone partly manually and partly mechanically; and (c) synchronisation in winning, transportation and tipping being a time consuming factor. The Committee are also informed that normally test performance in crushing plant was given for 8 hours to 24 hours and it was usually for 24 hours. The Managing Director stated during evidence "as per records we find that they have given test for crushing plant for 8 hours. During that 8 hours,

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		it was fulfilled subsequently, we find that we get an output of 160 tonnes per hour instead of 200 tonnes per hour. The Committee fail to understand as to why the Corporation had not insisted on a guaranteed performance of integrated working of the plant with all its operations for the usual period of 24 hours according to the agreement. The Committee are distressed to note that no action was taken against the civil engineering contractors and supplier of plant and machinery who are responsible for the defective positioning of feeder and hopper which had resulted in employment of extra labour with a recurring expenditure of Rs. 15,000 per year. The Committee recommend that this matter should be investigated with a view to fixing responsibility and the Committee informed of the results. The Committee would also like the Corporation to study the problem of maintaining continuity of trains and maintenance of locos with a view to evolving a solution in the interest of better utilisation of the capacity and avoid second shift operation which entailed an expenditure of Rs. 30,000 per year. The Committee would also like the Corporation/Government to study the economics of raising lime-stone partly by manual and partly by mechanical operations in the context of maintaining continuity of supply.
34	5.81	The Committee note that the guaranteed output of 50 tonnes per hour of the Raw Grinding Mill on dry basis was obtained at the time of guarantee test by working the mill below 80 per cent of the full load and even at this low load the flexible coupling towards Mill end and the pinion and girth gear of the Mill were seen wearing out fast, possibly because of wrong specifications and defective materials used by the suppliers. As the period of six months from the date of commissioning during which free

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		replacement of the equipment could be obtained had passed, the suppliers refused to own any responsibility for these defects. The Mill is not running to the guaranteed output and many of the components have worn out in course of operations and they have to be replaced. The Committee cannot understand why the guarantee test was done by working below 80 per cent of the full load and not with full load. The Committee are not sure whether the guaranteed performance was established after 24 hours of working as stipulated in the agreement. They would lie the Government to examine the matter and determine whether the initial lapse of not conducting the guarantee test with full load had not resulted in the wrong specifications and defective material remaining undetected within the guarantee period causing recurring loss to the undertaking, and if so, who was responsible for the lapse.
35	5.82 to 5.83	The Committee also note that though guaranteed output of the coal mill was obtained during the guaranteed performance test, the outlet flange bolts failed and the mill went out of alignment after one and a half years of working resulting in small pieces of grinding media and coal powder coming out and contaminating the lubricants and damaging the girth gear pinion. Though these defects have been set right, the Committee are informed that both the raw grinding mill and coal mill are not running to the guaranteed output as guaranteed out-put depends on the replenishment of many parts. The Committee are also informed that performance guarantee for Raw Mill was for 24 hours and the Corporation has recently introduced a guarantee for a sustained production for 7 days continuously. At the time of agreement, as there was no such element of sustained production,

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		the Committee feel that this factor should have been taken into account and suitable clauses stipulated in the agreement.
		The Committee hope that the Corporation/Government will learn a lesson from the experience and ensure that clauses for guarantee performance in agreements should provide for a sustained production for a continuous period with deterrent penalty for failure. The Committee would like the Government to issue suitable instructions in this regard for the guidance of all the public undertakings.
36	5.105 to 5.107	The Committee note that although the performance guarantee of Kiln gave an output higher than that envisaged on the agreement, the operation of the kiln revealed that the dust catching arrangement was inadequate, dust feeding system was unsatisfactory the dust loss was abnormally high and the clinker temperature at the outlet of the cooler was persistently high. It was reported that the physico-chemical characteristics of the slurry made from limestone available at Mandhar without any argillaceous materials and having no binding material in it were prone to breaking due to low strength of nodules, thereby causing excessive dust formation. The Committee see no reason why these physico-chemical characteristics of the lime-stone deposits at Mandhar which were also tested by M/s. K.C.P. Ltd. before designing the plant, could not have been taken care of by the Corporation at the time of preparation of D.P.R. and by the suppliers at the time of designing the plant. The Committee are informed that while placing orders for the plant, CCI had no proper facilities to determine the physico-chemical characteristics of the raw materials and plant suppliers have supplied a standard plant with conventional dust

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		arresting system. The Committee are informed that the raw materials were tested only for chemical composition to determine whether lime-stone was cement grade or not, and on that basis orders were placed for wet process plant with standard dust arresting system. After opening of quarry, the lime-stone available was found to be erratic in nature. The Managing Director admitted that "when we take a decision to go ahead with the Project, we supply the material to the party to get the raw material best evaluated in all respect, to get the required data for the designing and sizing on the various equipments and other auxilliary equipments". The Committee are surprised that in spite of this, this information was not supplied to M/s. KCP.
		The Managing Director admitted that a representative sample of 300 tonnes could have been sent before placing the orders for plant and machinery instead of sending it after placing the orders. Due to these lapses on the part of the Corporation, the plant supplier supplied a standard plant for Mandhar with a conventional dust arresting system which proved to be inadequate to cope with the excessive dust formation in the process of breaking of the lime-stone which turned out to be of higher hardness than expected. The result of all this is that dust losses in the plant were high and in 1972-73 alone, the value of dust loss over and above the normal loss was estimated to be Rs. 0.78 lakh. The Managing Director admitted during evidence that if the machinery could have been properly designed that much loss would not have been there. Even though a sum of Rs. 25,000 representing about 80 per cent of the cost of equipment supplied by M/s. K.C.P. for dust recovery system has been recovered from the plant supplier due to the faulty performance of equipment, the Committee

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		cannot but express their unhappiness at the routine and casual manner in which the DPR appears to have been prepared and the order for plant were placed. The Committee recommend that Government should investigate the whole matter with a view to fixing responsibility and draw lessons in the future.
37	5.108	The Committee note that a scheme for modifications to be made in the dust collecting system and arresting the dust losses, etc. had been approved by Government as early as October, 1972 and this scheme has not been implemented so far. The Ministry have admitted that 'there is delay in implementing this small scheme which is costing over Rs. 32 lakhs and we are now expecting that this will be completed in another six months' time, by the third quarter of 1975'. The Committee recommend that this work should be completed without further delay in the interest of arresting dust losses.
38	5.115	The Committee note that though the guaranteed output of Cement Mill was achieved during the guarantee performance test, due to certain defects developing later on, the Mill had to be run at a low load resulting in lower output varying between 67-70 per cent of the rated capacity. Besides, the major breakdown of torsion shaft and certain other breakdowns due to faulty designs and defective materials caused stoppage of the Mill for nearly 600 hours in January, 1972 resulting in loss of production of 21,000 tonnes. The breakdowns had occurred after 2 years of the working of the Cement Mill and the Corporation did not find it possible to fix responsibility on machinery suppliers who were also the erection contractors. The defects have since been attended to and the Mill is now stated to be running satisfactorily. It appears that under the present

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		scheme of things it is not normally possible to hold the plant supplier responsible for any defect in the working of the machinery after guarantee period. But if after the guarantee period, any plant breaks down not due to design defect, but due to the material, of which it is made being of inferior or defective quality how the plant supplier can escape responsibility therefor is a matter which requires to be gone into critically. The Committee would like the Government to examine this matter from legal angle and if necessary, consider whether the responsibility of the plant supplier for using defective material, even if the defective material is detected after the guarantee period, cannot be explicitly incorporated in the agreement for supply of plant and machinery.
39	5.120	The Committee note that the Corporation procured a packing plant at a cost of Rs. 8.36 lakhs and though the guaranteed output of 60 tonnes per hour of each packing machine was achieved during the guarantee performance test, certain automatic devices of the Packing Plant had not been functioning since installation with the result that the Corporation had to get the work done manually. The Committee were informed that the Packing Plant was an imported one and due to environmental conditions of heavy dust which prevailed in the Plant, these automatic devices did not work after some time and to the knowledge of the management these were not working in other units also. If these automatic devices do not work satisfactorily in cement plants in general, the Committee fail to understand as to why such automatic equipments be procured at all for Packing Plant particularly when the plants are imported after spending scarce foreign exchange. The Committee would like the Government and the Corporation to examine the desirability of procuring such automatic

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		devices for packing purposes in cement units and decide whether it is at all prudent to go in for such automatic devices when these cannot and do not function smoothly.
40	5.121	The Committee note that the automatic devices have started functioning from November, 1973. In spite of the mobile bag conveyors functioning now, manual labour has to be engaged for lifting the bags from the mobile bag conveyors and proper stacking of the same in wagons|trucks. The Committee recommend that the Corporation should in the interest of fuller utilisation of the mobile bag conveyor consider elimination of manual labour and avoid the expenditure thereon.
41	5.129	The Committee note that all the defects noticed in the plant and machinery supplied by M|s K. C. P. for Mandhar Unit were discussed at a meeting convened by the Ministry of Industrial Development at which the technical experts of the Government and representatives of the Corporation and the plant supplier were present and after considering pros and cons of all the matters, recoveries aggregating to Rs. 2,50,448.58 in terms of the contract were made from the plant supplier. Even if the amount of penalty realised from plant supplier for the defective machinery may be reasonable in terms of the contract as stated by the Ministry, how far this amount is an adequate compensation for the low production and under-utilisation of the plant is a point which the Committee would like the Government to consider while assessing the overall performance of the plant supplier and derive lessons therefrom.
42	5.137	The Committee regret to note that though the Corporation procured machinery worth Rs. 18.47 lakhs during February, 1969 and August, 1969 for quarry operations, the mechanical opera-

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		tions in the quarry were commenced in December, 1970. As a result, certain equipment of the value of Rs. 18.17 lakhs could not be put to any use upto December, 1970. Besides, the Corporation had to resort to raising of limestone w.e.f. September, 1969 through the agency of contractors. Even after December, 1970, the mechanical operation had to be suspended during May, 1971 to October, 1971 as the machinery was diverted to rehandling of accumulated stock of limestone. The Committee were informed that out of 9.25 lakhs tonnes of limestone raised from September, 1969 to March, 1973, a quantity of 8.38 lakh tonnes was raised through contractors and the balance through departmental machinery. It has been stated that because of low utilisation of the machinery, the cost of raising limestone through departmental machinery is almost double the cost of the contractor which has got an effect on the cost of production of cement. The Committee were informed that delay in the commencement of the mechanical operation was due to delay in the acquisition of the land. In the opinion of the Committee, this could have been avoided by proper planning and the machinery put to effective use. The Committee would like the Government to investigate the reasons for delay in the commencement of the mechanical operations and examine why the cost of raising limestone through departmental machinery is almost double the cost of doing this work through a contractor and draw lessons therefrom.
43	5.150	The Committee note that the DPR envisaged mechanical operations in the quarry to meet the factory's requirement of 30,000 tonnes of limestone per month. Three dumpers, one shovel and other equipment valued at Rs. 18.47 lakhs were purchased for the purpose. The Cost Auditor in his report for 1972-73 stated that the existing capacity for raising limestone through mechanical

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		operations was 15,000 tonnes per month i.e. 1,80,000 tonnes annually, but, against this, the Corporation raised only 86,000 tonnes of limestone (including over burden—25464 tonnes) in 1972-73. They regret to note the under-utilisation of the mechanical equipment deployed for raising limestone.
		The Committee note that the initial expectation on the basis of prospecting work done was that a single face of the quarry could be developed to raise the required quality and quantity of limestone but as the limestone deposit was erratic in disposition, it was found necessary to develop a number of faces. The existing three dumpers and one shovel were, therefore, considered inadequate and additional equipment (one additional shovel and 2 dumpers) costing Rs. 10.64 lakhs have been/are being procured to raise the entire requirement of 30,000 tonnes of limestone per month. They were informed that limestone at Mandhar being just of marginal quality, it would be difficult to maintain the required quality of limestone if cent per cent mining was done by mechanical means. It was considered necessary to blend the mechanically raised limestone with manually raised limestone in the ratio of 66:33. On this basis, mechanised raising of limestone to meet the daily requirement of 1,000 tonnes per day would be 650 tonnes per day, while the capacity of the additional equipment procedure/being procured is to raise 1,000 tonnes per day. The Committee would like the Corporation to review the quantum of additional equipment being procured and make sure that only the minimum number of additional items are procured so that none of them has to be kept idle and the cost of unnecessary items does not increase the capital cost of the project.
44	5.152	The Committee note that during 1973-74, 97,133 M.T. of limestone were raised by mechani-

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		cal mining and 71000 M.T. by manual mining. The costs per tonne of raising limestone mechanically and manually were Rs. 16.10 and Rs. 10.39 per M.T. respectively. The effect of this was that the incidence of cost of limestone in the cost of production is Rs. 18.68 in 1973-74 against the rate of Rs. 7.70 assumed in DPR. The Committee were informed that out of 3,25,000 M.T. of limestone required per year for Mandhar Plant, about two-third, i.e. over 2,00;000 M.T. would be raised by mechanical means, and this will bring down the cost of mechanical operations. It was however stated that it was not feasible to raise the full quantity of 3,25,000 M.T. of limestone per annum mechanically only and as such recourse to manual mining could not be avoided. The Committee regret to note that the mechanical equipment deployed for raising limestone had not been fully utilised. They would like the Government to go into the reasons for under-utilisation of equipment with a view to fixing responsibility.
		The Committee are distressed to note that the cost of raising limestone mechanically is much more than that of manual raising. They would like the Corporation either to reduce the cost of mechanical operations within a stipulated period or leave the idea of mechanisation and avail of the manual labour for the purpose which is easily available. They would also like the Government/ Corporation to take adequate precautions in future while importing such machines in the light of their experience and examine the advisability of importing machines which either cannot be utilised fully or which are likely to prove costlier than the manual labour in actual practice.
45	5.153	The Committee note that as already stated the Corporation purchased 1 shovel of 1½ c.yd. and dumpers of 10 tonnes each in March, 1969 and August, 1969 respectively against the 2½ c.

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		yd. shovel and 16 tonne dumper provided for in the DPR. It had been clarified by the Management that at the time of placing orders for dumpers and shovels, it was technically held that dumper of 16 tonne capacity would not be able to withstand the impact and shock stock loading of 2½ c. yd. capacity shovel. Besides, the dumper capacity had to be matched with capacity (10 tonnes) of narrow gauge wagons. The Committee do not understand how, in spite of these, the DPR provided for procurement of shovel of 2½ c.yd. and dumper of 16 tonne capacity without taking into account all relevant factors. The Committee had been repeatedly pointing out that the DPR should be prepared taking into account all known factors. The Committee reiterate that the DPR should be prepared realistically taking all known factors into account.
46	5.173 to 5.174	The Committee note that as against the installed capacity of 2 lakh tonnes, the target of production for Mandhar Plant in 1973-74 was 1.68 lakh tonnes and the actual production was 1.53 lakh tonnes. The Committee were informed that the Task Force on cement industry had assessed the attainable capacity at a figure of 85 per cent utilisation of capacity which worked out to 1.70 lakh tonnes and due to expected short supply of wagons for the movement of cement, the target was fixed at 1.68 lakh tonnes in 1973-74. The Committee see no reason why the target for 1973-74 should be fixed at 1.68 lakh tonnes less than the attainable capacity. When the plant attained 90 per cent utilisation in 1972-73, the Corporation, considering the shortage of wagon supply, reduced it further to 1.68 lakh tonnes. The Committee note that the actual working hours of the different plants of the project have always been less than the available working

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		hours during the period 1970-71 to 1973-74. The total number of stoppages in the working of crusher increased from 1255 hours in 1970-71 to 3796 hrs. in 1973-74. Similarly, in the case of Packing Plant, the total number of hours stopped increased from 2814 hours in 1970-71 to 5370 in 1973-74. The stoppages were mainly caused by mechanical and electrical defects, power cuts and other "miscellaneous constraints". To obviate the stoppages on account of mechanical and electrical defects, systematic preventive maintenance is stated to be in vogue but from the large number, of hours lost on this account, the Committee recommend that there should be regular and periodical preventive maintenance to all the points so that stoppages due to mechanical troubles could be reduced, if not eliminated.
47	5.175	The Committee also note that the Mandhar Plant has a rated capacity of 2 lakh tonnes per year and its capacity utilisation has been 74 per cent in 1970-71, 82 per cent in 1971-72, 90 per cent in 1972-73 and 76½ per cent in 1973-74. The setback in the utilisation of capacity in 1973-74 is stated to be due to power shortage, abnormal repairs of equipment, railway strike and inadequate supply of wagons. The Corporation stated that the power interruptions were still there and the question of wagon supply was being pursued with authorities concerned from time to time and there had been no improvement in the quality of coal supplied even though the matter had been taken up with Linkage Committee. As against this, the representative of the Ministry stated that the coal supply had improved tremendously and so also the wagon supply. The Committee would like Government to study the

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		difficulties of the Corporation in depth and do all that is in their power to resolve them to enable the plant authorities to increase production.
48	5.176	The Committee also note that the utilisation of capacity in Mandhar Plant during the years 1971-72, 1972-73 and 1973-74 was comparatively better than the average percentage of utilisation of capacity achieved by the cement industry as a whole. It achieved the maximum utilisation of capacity (*i.e.*, 90 per cent) in 1972-73 as compared to the maximum of 80 per cent achieved by the industry in 1972. But what is disappointing is that after achieving 90 per cent utilisation of capacity in 1972-73, it slumped to 76½ per cent in the following year (1973-74). The Committee find that the various sections of the plants actually worked between 300 days (5840 hours) and 343 days (7946 hours) in 1971-72 and 1972-73. The Committee find that, except for Kiln, all other sections of the Mandhar plant have sufficient built-in capacity to achieve a rate of production of cement higher than that of 2 lakh tonnes. Even in the case of Kiln, the capacity is more than what is required to produce 2 lakh tonnes of cement in a year. The Committee feel that the Mandhar Plant is capable of producing more than 2 lakh tonnes of cement per annum and utilisation of even 90 per cent of the capacity should not lead to any sense of complacency in any quarter. The Committee urge that the Corporation should determine the attainable capacity of the Mandhar Plant as a whole taking into account the available in-built capacity and make all out effort to operate each section of the Mandhar Plant to the maximum level and compare its performance with reference to the attainable capacity and not with reference to the capacity of 2 lakh tonnes as originally envisaged.

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49	5.189	The Committee note that the DPR prepared in January, 1967 envisaged a return of 8.3 per cent on the capital investment of Rs. 465.48 lakhs after making provision for depreciation, interest on working capital/loans and development rebate. According to the revised profitability projections worked out in June, 1971, it was anticipated that the plant would be incurring losses unless production and despatch of cement was at 80 per cent of the installed capacity and even with the attainment of 90 per cent capacity utilisation the return on equity would be only 3 per cent before making any provision for tax. The plant earned a net profit of Rs. 2.56 lakhs in 1971-72 when capacity utilisation was 82 per cent and there were losses of Rs. 0.64 lakh in 1972-73 and Rs. 25.86 lakhs in 1973-74 when capacity utilisation was 90 per cent and 76.5 per cent respectively. Due to continued control of cement price and continuous increase in the cost of production, the profitability in the cement industry as a whole is stated to have been adversely affected. With a view to bring down the cost of production, action is stated to have been taken to procure additional quarry equipment for maximising mechanical mining and to lay down standards for consumption of stores and spares but more than this the fixing of realistic retention price is considered imperative for the economic viability of the plant. The Committee note that the Government revised the retention price once in 1973 and twice in 1974. They feel that it will be wrong for the Corporation to depend entirely on the increase in retention price to achieve economic viability. So long as the Corporation does not maximise production of each section of the plant, make the mechanical mining economical, keep stores, spares, and staff strength under strict control and take other measures to cut cost of production all around,

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		small increases in retention prices, which might ultimately be neutralised by rise in costs of wages and inputs are not going to contribute much towards the achievement of economic viability. They would like the Corporation to work out the efficiency ratio at which each section of the plant should be operated to achieve the objective of 8.3 per cent return on capital investment as envisaged in the DPR, identify the problems that stand in the way of achieving the desired efficiency ratio and then concentrate all efforts on solving these problems.
50	5.190	The Committee would also like the Corporation to work out fresh profitability projections with reference to the current prices and wages and assess the performance to see how far the efforts made have improved the profitability with reference to such profitability indices.
51	6.11	The Committee note that HSL had a proposal of setting up cement plant of ist own for using the slag available at the Bhilai Steel Plant. Although it was decided as early as July, 1965 that this work could be advantageously taken up by the Cement Corporation of India, no action was taken on the proposal till January, 1969. The Committee note that in May, 1969, the H.S.L. informed the Ministry that it would be in a position to meet the requirement of the granulated slag of the Cement Corporation of India to the extent of 1.8 to 2 lakh tonnes per annum at the price which was being paid by M/s. A.C.C. for slag supplied to them and accordingly they intimated the price in August, 1969 to the Corporation. Even then it was only in Novembr, 1970 that the Corporation prepared the project report for expansion of Mandhar Project on the basis of granulated slag and after approval by the Board. it was sent to the Ministry in February, 1971. The approval of the Ministry was accorded in March,

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		1972. The Committee regret to observe that the Corporation lost more than four years of valuable time in initiating action to prepare the project report. There was also a delay of over one year on the part of the Ministry in according the approval to the project estimates. The Committee are informed that the time taken by the Corporation in fulfilling the preliminaries in connection with this project was necessary to evaluate the mineralogical composition of the clinker at Mandhar to determine the maximum quantity of slag that could be exploited to manufacture cement. The Committee are not at all convinced with this explanation. They are not happy at the leisurely way in which the entire proposal was processed both by the Corporation and by the Ministry. The Committee recommend that in view of the terms and conditions stipulated by HSL and the escalation in prices during the period, Government should review the proposal and its effect on the cost of production and economics of the project and bring the details to the notice of the Parliament.
52	6.22 to 6.24	The Committee note that in response to the tenders for plant and machinery invited in January, 1972 in anticipation of Government sanction to project estimates, quotations were received in May, 1972 from only two out of the six firms on the approved list. The offer of M|s. ACC was for Rs. 238 lakhs with bought-out items and that of M/s. I.S.G.E.C. Ltd. for Rs. 197 lakhs, both the offers being valid upto 31st July, 1972. As the Corporation could not finalise examination of tenders by this date, the firms were asked to extend the period of validity upto 30th September, 1972. In view of the substantial increase in price, the ACC did not agree to extend the validity of the earlier tender but sent a revised offer in August, 1972 (Rs. 264 lakhs) which was valid upto 30th September, 1972. This offer was again

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		revised to Rs. 267 lakhs on the 2nd October, 1972. Since the I.S.G.E.C. Ltd. had not supplied any cement plant in India therefore it was not considered and the tender of M/s. ACC was also not accepted. Fresh tenders were invited in October, 1972 to be submitted by February, 1973 and subsequently extended to April, 1973. The Committee were informed that the Corporation could not finalise the tender as they were awaiting the sanction of the revised estimates sent to Government in September, 1972 as the cost of plant and machinery had doubled. The Committee regret to observe that in view of the delay in the finalisation of the tenders by the Corporation, the cost of plant and machinery had escalated, resulting in increased capital investment on plant and machinery by the Corporation.
		The Committee are informed that the fresh tenders invited in October, 1972 were finalised and orders for packing plant were placed in November, 1973 and for the slag drawer and cement mill in March, 1974. It was stated that the prices quoted in the tender of ACC in May, 1972 were inclusive of bought-out items while the orders placed were *exclusive* of bought-out items. Further, the capacities of the 2 slag cement grinding mills offered in May. 1972 were of 19 tonnes per hour whereas the order placed was for a single mill of 50 tonnes per hour.
		The Committee fail to understand why the requirements were not correctly assessed earlier in 1972 and the tenders invited at that time for the exact specifications and requirements. The Committee are also informed that even the itemwise break-up of rates given in May, 1972 were not available. The Committee are not sure how in the absence of the break-up, the reasonableness of the rates was asessed. The Committee would like that the entire matter should be thoroughly

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		examined by Government and the Committee informed of the results.
53	6.36 to 6.37	The Committee note that though the Corporation invited tenders for civil works and the amount of tender was well within the provision in the project estimates, the Corporation did not accept the tender on the ground that the DPR was being revised in view of the overall increased cost of the project. Moreover, it was stated that early acceptance of the tender would not have resulted in any advantage, as the execution drawings could be supplied only when the civil engineering designs based on machinery suppliers layout drawings and load data were prepared and the details thereof were not available due to non-finalisation of supply order for plant and machinery.
		The Committee regret to note that the delay in finalisation of the order for plant and machinery *inter alia* led to the non-acceptance of the tender for civil works even though the tender was well within the sanctioned estimates. The Committee hope that such situations would be avoided in future so that the Corporation is not burdened with extra-expenditure which usually results from such delay.
54	6.38 to 6.39	The Committee regret to note that the Corporation invited tenders for residential welfare and other buildings in July, 1972 and even after negotiations were conducted, the lowest tenderer was requested to extend the date of validity. No response was, however, received from the tenderer till February, 1973. The Committee were informed that as the tenders were high, action was being taken to make fresh arrangements. Subsequently, the provision of residential welfare and other buildings was not considered necessary in

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		view of construction of quarters under the scheme for subsidised Industrial Housing by Madhya Pradesh Housing Board. Besides, there was a ban by the Government for the construction of residential and other non-functional buildings.
		The Committee feel that the Corporation should have first taken a decision in regard to provision of buildings under the Madhya Pradesh Housing Board Scheme or otherwise before the invitation of tenders.
55	6.40 to 6.41	The Committee also find that on the plea of want of sanction to revised project estimate as a whole, the cases where even the original project provision was not exceeded, had not been considered. The Committee feel that the Corporation should be clear about its requirements before they act, so that the labour may not become infructuous. The Committee also find that because of the delays in construction for one reason or other, there had been an upward revision of the capital cost of the project which has ultimately brought down the estimated return on capital from 14 per cent to 7.8 per cent. The Committee recommend that planned concerted and co-ordinated measures should be taken to ensure that such delays are avoided.
		The Committee also feel that as such situations are not uncommon in other public undertakings, Government should consider issuing suitable guidelines to all public undertakings to avoid such delays as they have the effect of pushing up the capital cost and affecting the profitability of the project.
56	6.66	The Committee note that the Corporation has appointed M/s. Holtec Private Limited (who are in collaboration with M/s. Mike Holder Bank

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		of Canada) as consultants for its Paonta and Mandhar Expansion projects on a fee of Rs. 25 lakhs (Rs. 16.4 lakhs for Paonta and Rs. 8.6 lakhs for Mandhar Expansion). The consultants will, among other things, ensure that there is no delay in the commissioning of the project after installation of all machines and the performance guarantee of the plant as a whole would also be their responsibility. The Committee are informed that no firm of consultants other than M/s. Holtec was considered for this appointment as no other firm was known to the Corporation in this field and therefore no offers were invited for the purpose. Although according to Ministry, A.C.C. was there in the field, they are also producing cement manufacturing equipment, and as such there would be problem in selecting them. Apart from the fact that M/s. Holtec had done consultancy work for private parties, one other consideration in their favour was stated to be that theirs was an independent consultancy firm and they had no direct interest in the manufacture of cement equipment. The Committee were informed that M/s. Holtec's offer was considered reasonable with reference to an earlier quotation of M/s. A.C.C. for the Mandhar Expansion project. The Committee do not appreciate the procedure followed by the Corporation in selecting the consultancy firm. They do not think it is prudent to select consultants on the basis of personal knowledge of the Management or of some individual officers and without inviting open offers. This procedure also does not enable the Corporation either to select the most competent of the parties available in the field or to assess whether fee demanded by the favoured firm is reasonable or not. The Committee feel that the Corporation should have made an independent assessment of the reasonableness of the cost with reference to its own estimates and not

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		depended only on the offer of another firm. The Committee would like the Government to issue suitable guidelines to all the undertakings in this regard.
57	6.67	The Committee regret to note that though the Board of Management decided on 1st May, 1973 that legal opinion should be taken and a formal contract with M/s. Holtec entered into under other normal terms and conditions applicable to such contracts, so far as formal contract has not been entered into with them. The Committee find that one of the terms of appointment of M/s. Holtec was that they would inspect various plants and machines, draw specifications for bought out items etc. The Committee feel that since orders for plant and machinery for the Paonta Project had already been placed in November, 1973 directly by the Corporation, even before the appointment of the consultants, a suitable reduction in fee should have been secured from M/s. Holtec, in this regard. Moreover since M/s. Holtec would be responsible for the performance guarantee of the plant as a whole and a penalty would be levied in the event of delay in the commissioning of the project after installation of machinery, the Committee are doubtful whether the Corporation would be able to enforce such a condition when the supplies of machinery are dependent on another firm who are responsible for performance guarantee also. The Committee recommend that these aspects should be kept in view before a formal contract is concluded with M/s. Holtec. The Committee also find that the terms include payment of penalty by the consultants if there is delay in the commissioning of the project after installation of machines and/or if performance of the whole plant for a sustained period of 7 days is not fulfilled. As this is a vital provision having financial implications and it verges on imprudence not to

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		incorporate them in a legal document, the Committee would like the Corporation not to lose any more time to execute a formal contract with the consultants in which their responsibilities and liabilities should be clearly mentioned.
58	6.68	The Committee also note that one of the directives issued by the Government was that the Corporation should develop its expertise and build up its own strength of technical persons for the growth of cement industry in the country. In the meeting held on the 16th April, 1973 with the Special Secretary of the Ministry of Industrial Development, while the engagement of a consultant was considered to be in the interest of the Corporation, it was also felt that in the context of the Corporation's large programme of setting up additional capacity in the Fifth Plan and the likely pre-occupation of the existing consultants with various plants coming up in the private sector, "It would be worthwhile for the Cement Corporation to consider seriously the development of a consultancy organisation of their own". The Committee note that according to the Corporation the overheads would be exhorbitant, if it had developed its expertise on the basis of the capacity indicated by Government in the initial stages on the limited number of projects approved by them during the period 1965—71. In the opinion of the Committee, this aspect should have been brought to the notice of Government to consider whether any change in this directive is necessary. However, the Committee find that CCI has now been developing its own consultancy services and is already acting as consultant for Royal Government of Bhutan Undertaking for their cement project and the private consultant for it's own Paonta and Mandhar Expansion projects were appointed by the Corporation in order to cope with the crash programme of development of cement industry

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		as it was considered difficult to recruit good experts whithin a short time available and also to keep the overheads low. Even though in view of the critical importance of cement in the present context of economic development, the Planning Commission has also approved the idea of employment of competent and well experience firm of consultants to design and construct the cement plants, the Committee feel that the need for private consultants would not have arisen if the Corporation had made a small beginning in the early years of its existence for the development of its own expertise. The Committee would, however, like Government to examine the question of the Corporation developing a consultancy organisation of its own after taking into account, the existence of other consultancy organisations like NIDC, Engineers India Ltd., etc.
50	6.69	The Committee find that the Project Estimates of Mandhar Expansion and Paonta did not provide for any consultancy services and extra expenditure of Rs. 25 lakhs on the private consultants required approval of Government. They were informed that the consultancy work was awarded after consultation with Government and the Planning Commission and as the expenditure on this work would be met from within the savings from these two projects, specific Government approval was not considered necessary. During evidence, the Secretary of the Ministry admitted that "it was quite valid that the Corporation should have sought Government's sanction. Strictly technically the sanction should have been accorded prior to incurring the expenditure."
		The Committee need hardly stress that as this item was not already covered by the estimates originally sanctioned and was in material devia-

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		tion of the same, the specific approval of Government should have been obtained before the expenditure was incurred. The Committee therefore recommend that at least now Government should consider and accord the necessary sanction.
60	7.15	The Committee note that the Detailed Project Report envisaging a capital investment of Rs. 469.49 lakhs for setting up cement plant at Kurkunta with a capacity of 2 lakh tonnes per annum was submitted by the Corporation directly to the Government in January 1967 without obtaining the approval of the Board and was sanctioned by the Government at a cost of Rs. 442.79 lakhs in June, 1969. The Management have admitted that "it has not been possible to locate as to how the lapse occurred." The Committee are surprised at the omission. As the actual outlay exceeded the amount approved by Government and the project was in the last stages of construction, the Corporation submitted the revised estimates of Rs. 514.77 lakhs in February, 1971. The revised estimates were examined by the Ministry in consultation with the Ministry of Finance which agreed to sanction the estimates at Rs. 510.27 lakhs but before the formal sanction was issued, the Corporation informed the Ministry in March, 1972 that due to delay in the commissioning of the plant and certain additional works, the total cost of the project was expected to exceed the revised project estimates and that the Corporation was reassessing the total capital cost and second revised estimates would be submitted to the Government for consideration. Meanwhile, the actual outlay had exceeded the revised project estimates of Rs. 514.77 lakhs. The Corporation was able to submit the second revised estimates of Rs. 617.08 lakhs only in June, 1974. As regards the reasons for delay in submitting

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		the revised estimates the Committee were informed that after the plant was commissioned, various defects and deficiencies in the performance of the plant started coming to light from time to time and it was, therefore, considered that the revised estimates might be prepared only after the decisions were taken on the various items of work that were to be taken up including those suggested by the Action Committee for removing the defects and deficiencies in the operation of the plant. The Committee are distressed to note that the Government have taken more than 2 years to approve the original project estimates. The Committee regret to observe that the Corporation was allowed to continue to incur expenditure in excess of the sanctioned estimate without an appropriate sanction of Government.
61	7.16	The Committee need hardly stress that revised estimate should not be treated as a mere routine exercise but as an instrument of financial control.
62	7.17	The Committee regret to note that the sanction to the first revised estimates of Rs. 510.27 lakhs, though agreed to by the Ministry of Finance, was not issued just because the Corporation was in the meantime reported to be re-assessing the total capital cost and thinking of submitting the second revised estimates to the Government for approval. They feel that estimates should be considered by Government as soon as these are received from the Corporation and the whole exercise should be taken to the logical and by issuing a formal sanction so that no one remains in suspense about the expenditure actually authorised and the Corporation is not held liable for spending in excess of the sanctioned amount.

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63	7.18	The Committee also note that it was within the knowledge of the Ministry that the expenditure on Kurkunta Project had exceeded the approved estimates by the permissible limit of 10 per cent. They were informed that the facts of excess expenditure and first upward revision of project estimates had been duly brought to the notice of Parliament, through the Supplementary Demands for Grants. The Committee are constrained to observe that in spite of the excess the Government have not brought to the notice of Parliament the effect of the excess on the cost of production and on the economics of the Project. The Committee expect Government to bring these to the notice of Parliament without any further delay.
64	7.27	The Committee note that as against a provision of Rs. 16.50 lakhs in the original sanction towards erection cost the actual expenditure upto 31st March, 1973 amounted to Rs. 55.58 lakhs of which Rs. 16.40 lakhs was the expenditure on erection work got done on contract basis though originally it was proposed to be done departmentally and erection knowhow and Rs. 39.18 lakhs was spent on maintenance of establishment during construction. The Committee also note that the DPR included a consolidated provision of Rs. 16.50 lakhs under erection cost and Government have also given their sanction accordingly. The revised estimates of February, 1971 however provided Rs. 16.50 lakhs for erection cost and a sum of Rs. 22.86 lakhs for establishment expenditure during construction. According to the Corporation, the provision in the DPR was grossly inadequate and excess over this sub-head would be met from the provision under "contingency". The Committee are of the opinion that this procedure is not regular. The Committee are not

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		happy that even after the decision to get the work done through contractor, the establishment expenditure during construction has increased abnormally. The Committee would like Government to critically analyse the reasons for the excess over the provision made in the originally sanctioned estimates to see how far it is justified.
65	7.28	The Committee are also informed that the allocation of Head Office overheads was based on the assumption that 5 plants would be set up by the Corporation while the actual number was less. The Committee fail to understand as to why the provision was not reduced when the capacity to be set up by CCI had been curtailed considerably and the cost of establishment was not regulated accordingly. The Committee also note that the actual expenditure under 'civil works' upto 31st March, 1973 had exceeded the revised estimates of Rs. 177.68 lakhs by about 12 per cent. It has been stated that the increase is due to increase in actual quantity of civil engineering works, etc, as the quantity indicated in the tender was *ad hoc*. The Committee are surprised as to how in the absence of detailed drawings and schedule of quantities and technical estimates for the works could tenders be invited and contract finalised. The Committee would like that the reasons for the excesses should be examined critically to see how far the excess was justified, its effect on the cost of production and economics of the project should also be brought to the notice of Parliament.
66	7.48 to 7.49	The Committee regret to note that though the contract for the construction of factory buildings and conected civil engineering works was awarded to M/s. Mysore Construction Company in November, 1967, and the work was

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		to be completed within a period of 12 months, no detailed schedule for the completion of civil works of the various departments was laid down in the contract. The Committee were informed that it would not be possible to lay down the schedule because at the time of invitation of tenders for civil works the machinery lay-out drawings and load data were not available. The priorities for supply of machinery and erection thereof were also not known.
		It is surprising that the Corporation has not even been able to fix realistic target dates for completion of the work on the ground that the quantum of work actually involved and erection hold ups etc. for the cement industry were not correctly known at the time of invitation of tenders. The Committee are at a loss to understand as to how without the basic details of drawings, design quantities etc, the Corporation went about invitation of tenders and on what basis agreement with contractor was entered into.
67	7.50 to 7.51	The Committee regret to note that there had been delays ranging from 10 to 21 months in the completion of civil works in the various departments. Although the Corporation extended time for completion of the work up to 30th November, 1969, subject to recovery of liquidated damages, no drastic action was taken against the contractor in view of unsatisfactory position of supply of plant and machinery. It was felt that any forcible termination of the contract would have resulted in litigation and brought all the civil works to a stand-stil. The Committee however find that at the close of 1969, the suppliers for plant and machinery accelerated the pace of delivery of the machinery with the result that the contractor was very much behind schedule. The Management, therefore, decided that the contractor should be permitted to use hydraulic shutter-

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		ing in the construction of cement silos and chimney, subject to the condition that he would complete the work by September, 1970 failing which he would be allowed rates only for ordinary shuttering and a bank guarantee for Rs. 6 lakhs would be furnished for the civil works not completed according to the schedule. The Committee find that this proposal involved an additional expenditure of Rs. 6.16 lakhs. In spite of the extension of time and facility of hydraulic shuttering, the Committee regret to observe that the contractor was not able to complete the work by 30th September, 1970 although the management claimed that he had achieved the overall target for the completion of the work except in the case of chimneys, mill hoppers, coal and gypsum hopper and inter floors in Raw and Cement Mill. There were also difficulties in the supply of steel and unprecedented heavy rains when the contractor was not allowed to start concreting. The contractor was allowed because of his difficulties, hypothecation of his machinery of the market value of Rs. 5.4 lakhs in lieu of the bank guarantee though this proposal was not put up before the Board for their approval. The Committee are also informed that the plant could not have been commissioned earlier up to clinkering stage even if the civil engineering work could have been completed before September, 1970. The contractor was therefore granted extension up to 30th September, 1971. It is regrettable that no periodical progress reports were obtained from the contractor. It was also stated that the use of steel sliding shuttering was approved by Board without any proposal from the unit backed by technical considerations. It is surprising that, in spite of these delays, no action was taken against the contractor and the contractor was allowed to hypothecate his machinery worth Rs. 5.4 lakhs. The Management have admitted that the matter was not placed before the Board and their prior

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		approval was not obtained. It was also stated during evidence in this connection that 'at this stage it is difficult to clarify that point.' It is also surprising that the management had not even verified the reasonableness of the rates before allowing the contractor to undertake hydraulic shuttering. It has been admitted by the management that 'from the records it appears that no separate exercise was made to verify its reasonableness.'
		The Committee take serious view of these lapses. They would like that the matter should be thoroughly investigated, responsibility fixed and the Committee informed.
68	7.61 to 7.62	The Committee regret to note that, though the crane gantry structure was completed by the civil contractors on 12th August, 1970 at a cost of Rs. 13 lakhs, during the operation of the stock yard gantry in September, 1971, vibrations were observed and difficulty was experienced in the operation of the crane. The rail alignment was also found to be incorrect and the crane wheels were rubbing against the rails at a number of places. According to the civil consultants who inspected the structure, the vibrations were on account of crane gantry having been designed for a maximum wheel load of 26 tonnes, whereas the actual wheel load was much more. Moreover, the crane rails were not properly aligned by the suppliers of plant and machinery. In the absence of any data regarding surge and longitudinal forces of the crane from the crane manufacturer's side, the structure was designed on the basis of I.S. Code. In actual operations, the figures were much higher.
		The Committee are surprised as to how in the face of these defects the work done by the

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		civil contractors was accepted at all by M/s. Master Sathe and Kothari, the civil consultants who were to supervise the work. The Committee are not sure whether any performance guarantee of the crane was insisted upon before it was taken over. The Committee would like that this matter may be investigated and a report furnished.
69	7.63 to 7.66	The Committee also note that the matter was referred to the National Industrial Development Corporation for suggesting measures for reducing the vibrations. According to the National Industrial Development Corporation, extra structural wheel work involving a cost of about Rs. 5 lakhs would be required for carrying about the stiffening measures. The N.I.D.C. quoted a lumpsum of Rs. 97,000 for carrying out the remedial measures. When the matter was referred to the Board, it was decided that civil consultants of Kurkunta project should be entrusted with the work of preparing detailed designs and drawings for the strengthening work and they should undertake the work on priority basis free of cost and furnish a guarantee for due performance of the crane gantry. The Board also decided that the question of fixing responsbility for the existing defects in the crane gantry should be duly examined by the C.P.D.O. and the Civil Engineering Adviser and a joint report furnished to the Board. The Committee were informed that while most of the strengthening work was completed, the erection of some of the structural steel which had been fabricated could not be done due to stacking of material against the columns and it could be taken up as and when conditions permitted without causing interruptions to the running of the plant

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		It was also stated that the Joint report of the Civil Engineering Adviser and the Chief Project Development Officer could not be prepared as the Civil Engineering Adviser was repatriated to his parent department. The Committee fail to understand how the Civil Engineering Adviser was permitted to go back to his parent deparment without his having completed the enquiry.
		It is also surprising as to how in the absence of the report, the Board, which considered the matter, decided that it should not be possible to fix responsibility for under-designing the stock yard gantry.
		The Committee are also surprised that while the defects in the gantry came to notice in 1971, the decision to fix responsibility was taken after a delay of almost two years. The Committee feel that because of the failure of the consultants, a defective crane gantry had to be accepted which has involved an extra expenditure of Rs. 5 lakhs to the Corporation. The Committee would therefore like that the entire matter should be thoroughly investigated with a view to pin-point the responsibility for the lapses and th Committee informed of the action taken.
70	7.75	The Committee regret to note that there were delays ranging from 10 months to 20 months in the supply of various items of plant and equipment by the plant suppliers. Though the contract provided for payment of liquidated damages in case of delays by the plant suppliers no liquidated damages were leviable in case, among other things, the late delivery of a particular machine etc., did not delay the Corporation's erection programme. The Committee learn that the erection work in a number of

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		cases was delayed due to delay in the supply of machinery but no liquidated damages have been levied against the plant suppliers (who were also given the erection contract) for delayed supply of equipment even in those cases though the Corporation has not settled the final bills of the plant suppliers amounting to Rs. 12.29 lakhs. Besides, an additional sum of Rs. 7.67 lakhs payable to machinery suppliers has also been withheld by the Corporation. The Committee find that erection work was delayed by the plant suppliers in certain cases due to non-completion of civil foundations by the Corporation itself. However, no clear record of the dates on which erection work of the various units of the plant was actually completed was kept. The Committee recommend that each case of delay in supply of plant and equipment and completion of civil foundations and erection work should be critically analysed so as to allocate the responsibility in the matter between the Plant suppliers and the contractor for civil works. The Committee also recommend that Government/Corporation should make sure that the withheld amount of Rs. 12.29 lakhs would be adequate to cover damages recoverable on account of delays in supply of equipment, deficiencies in the manufacture of crane gantry structure and non-fulfilment of performance guarantee.
71.	7.83 to 7.84	The Committee regret to note that apart from the delays in civil construction the trial runs of the plant and equipment revealed a number of defects and deficiencies in the equipment supplied by the plant suppliers which were attributed by the Works Manager of the project to "sub-standard quality of machinery supplied and design failure".

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		The Committee were informed that on 6th March, 1972, the plant supplier had agreed to remove the defects/deficiencies within a period of 6 months, but as the suppliers failed to carry out the work as promised, the Corporation gave a period of 2 months from 10th October, 1972 to the firm to complete the rectification work failing which, the supplier was told, that the work would be got done through other agencies at his cost and risk. Even though the suppliers had agreed to complete the rectification work within 3 months from 16th October, 1972, the work had not been completed till April, 1974 and many of the defects are reported to be still un-rectified. Consequently, the performance guarantee tests, as stipulated in the agreement, are yet to be obtained. The Committee are further informed that the plant suppliers have given performance tests for the cement mill, coal mill and packing plant but they have yet to give the performance tests for the crusher, kiln and power and fuel consumption. The Corporation is stated to have withheld an amount of about Rs. 19 lakhs due to the suppliers on various accounts and has stated that the question of imposing penalty on the plant suppliers for defective plant and machinery would be considered by the Corporation in terms of the contract after the suppliers have given the performance test for all the units. The Committee find that the Corporation had not so far assessed the loss of production due to the defective supplies and the delays. The Committee recommend that the entire matter regarding supply of machinery, their erection, performance guarantee etc. should be thoroughly investigated with a view to fixing responsibility and Committee informed of the action.
72.	7.85	The Committee were informed that the Action Committee on public enterprises appointed by the Government of India scrutinised the working

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		of the plants of the Corporation at Kurkunta and as the defects and deficiencies pointed out by the Action Committee have been rectified/are being rectified either by the Corporation or by the plant suppliers, it had not been considered necessary to appoint another Technical Committee to investigate the working of the plant. The Committee feel that the purpose of the Action Committee was not to decide whether the plant supplied was of sub-standard quality and of bad design or not but to remove the defects and help the Corporation achieve higher production in the plant. In their opinion, an investigation is still called for to determine whether the plant and equipment supplied by the plant suppliers were of sub-standard quality and poor design and, if so, what action should be taken against the plant suppliers in this regard. In the circumstances, the Committee do not agree that no investigation is called for. The Committee recommend that Government should appoint a Technical Committee to go into the working of the plant with a view to identifying its deficiencies.
73.	7.103.	The Committee regret to note that though the DPR envisaged mechanical operation of the quarry and accordingly equipments worth Rs. 17.70 lakhs were purchased during the period June, 69 to August, 71, the initial development of the quarry was taken up in February, 1971 through the agency of piece-rate contractors and the mechanical operations commenced w.e.f. November, 1971. They are constrained to remark that the equipment purchased as early as June, 1969 was kept idle till November, 1971. They cannot but express their displeasure at this lack of coordination and planning in the development of the quarry, purchase of equipment and commencement of mechanical operation and hope that lessons will be learnt from this in future.

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74.	7.104.	The Committee also not that although in 1971-72 the cost of raising limestone through mechanical operations was higher, the Corporation has since examined the economics of quarry operations and has come to the conclusion that under the present labour-wage structure and the cost of inputs, mechanical operations will be economical. They, however, regret to note that the per tonne cost of raising and transportation of limestone in 1972-73 (Rs. 8.86) and 1973-74 (Rs. 8.48) was higher than the standard cost prepared in March, 1974 (Rs. 8.08). The Committee would like the Corporation to identify the deficiencies and defects in the mechanical operations which account for higher cost of raising and transportation of limestone and take suitable remedial steps to bring the cost of mechanical operation at least to the level of standard cost.
75	7.105	The Committee note that the DPR envisaged transportation of limestone from quarry to factory through 3.5 kms. long narrowgauge track and a sum of Rs. 1 lakh was deposited with Railways for supply of rails. Since Railways could supply rails worth Rs. 25,564 till July, 1970 and thereafter further supplies were stopped through a court order the Corporation decided in February, 1971 to award the work to the Railways and deposited Rs. 4 lakhs with Railways in June, 1971. Although the work was completed in February, 1972, the final bill from Railways is still awaited. The Committee feel that the long delay of over 4 years could have been avoided if the work had been entrusted to Railways from the beginning.
76	7.106	The Committee also note that the wagons for the transportation of limestone were received during the period from January to October, 1970 and a locomotive was purchased in February, 1972. But the wagons and the locomotive

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		could not be put to use till November, 1972, due to the time taken in the completion of the narrow gauge track and thereafter on account of the non-registration of the boiler. Another loco was purchased on 15th December, 1972 but it was registered on 23rd April, 1973. The Committee regret to note that there was no synchronisation in the completion of railway track, purchase of wagons and locomotives and the registration of the boilers with the result that the rolling stock had to remain idle for a number of months. They would have liked the Corporation not to have proceeded with the construction of the railway track and the procurement of the various items of rolling stock in such a haphazard and un-coordinated manner.
77	7.107	The Committee find that pending the completion of the narrow gauge track the Corporation took up in January, 1971 the construction of a service road and completed it at a cost of Rs. 1.25 lakhs in July, 1972. Even after completion it was found unsuitable for plying dumpers for transportation of limestone boulders. Though a decision was taken in September, 1972 to black top the surface and work was to be completed by November, 1972, the work has not so far been completed. The Committee regret to observe that when the crusher was put to trial run in May, 1971, neither the Railway Track nor the Service Road was ready by that time. Since Service Road was not found suitable on completion, the transportation of limestone was done by the contractors through private lands. As a result, the Corporation had to forego the rebate in rates offered by two contractors and had to allow an extra rate to the 3rd contractor. The Committee fail to understand why the Management could not implement the decision to black top the surface. As a result, the service road had not served its purpose and extra expenditure to the tune of Rs. 53986 had to be incurred

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		for transportation of lime stone through the third contractor. The Committee suggest that the matter may be investigated and responsibility for the lapses fixed.
78	7.120	The Committee note that the project was scheduled to be completed and commissioned by August, 1969. However, due to delay in completion of civil works, supply of plant and machinery and erection thereof, the individual units were put to trial runs between May, 1971 and April, 1972. A number of defects and deficiencies were noticed during trial runs. The Plant was deemed to have gone into commercial production from 1st October, 1972. The Committee regret to note that even after this, the performance was very unsatisfactory. As against the rated capacity of 1 lakh tonnes, the actual production from 1st October, 1972 to 31st March, 1973 was 43,443 tonnes. During 1973-74, against the target of 1.25 lakh tonnes, the production was only 1.10 lakh tonnes or 55 per cent of the installed capacity. The plant was expected to achieve 70 per cent of capacity during 1974-75. The non-achievement of capacity was stated to be due to— (a) the gap between primary crusher outlet and belt conveyor resulting in severe damage to the belt and lower output; (b) performance of EOT crane being unsatisfactory due to weak gantry; (c) total failure of slurry mixer basin drive mechanism due to defective design and faulty equipment; (d) the chain system in the kiln being defective; (e) inadequacy of cooling arrangements for clinker;

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		(f) defective clinker transport system through drag chain conveyor; and (g) frequent break-down of high pressure fine coal fan. As a result of these defects the actual output of the various sections has been less than the guaranteed output. There were also frequent stoppages due to mechanical defects and other reasons. The Committee are informed that though rectification of some defects had been done, the slurry mixer basin and chain system have not been rectified by the suppliers. Though, according to foreign collaborator of the Plant suppliers the chain system was in order, the CCI feels that this is not up to the mark. It has also been stated that the plant suppliers are yet to give performance guarantee for Crusher, Ram Mill, Kiln, Power and Fuel Consumption and the Corporation is with-holding more than Rs. 12 lakhs, and the suppliers are bound to rectify the defects. The Committee are distressed to find that there was already a delay of about 2 years in commissioning the plant and even after 2½ years of the plant going into commercial production, the plant is not able to attain its rated capacity due mostly to mechanical defects. Although the Committee are assured that the suppliers of plant and machinery are yet to give performance guarantee and the Corporation is with-holding more than Rs. 12 lakhs, the fact remains that 5 years of valuable time has been lost and even then there has been under-utilisation of capacity and consequential loss in production. The Committee recommend that an expert Committee should go into the working of Kurkunta Plant, diagnose the ills and demarcate the responsibilities of the suppliers so that Corporation may be in a position to improve its performance and maximise production.

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79	7.121	The Committee note that the management expects to achieve 85 per cent capacity utilisation at Kurkunta as has been fixed by the Task Force of Government of India on Cement Industry provide power restrictions imposed by the Karnataka Electricity Board are completely withdrawn and the Railways supply wagons for inward movement of coal and gypsum and for outward movement of cement and the natural calamities like floods and drought do not hamper cement production. They feel that the availability of adequate number of wagons for the plant should not be very difficult if the Corporation and the Department of Industry maintain a close and constant liaison with the railway authorities at the centre and in the region. The Committee would also like the Central Government to take up the question of adequate power supply to Kurkunta plant with the State Government authorities and persuade them to find out ways and means of meeting the power requirement of the plant. They would urge the Corporation to make all out concerted efforts to achieve the target of 85 per cent utilisation of capacity in the current year.
80	8.11	The Committee note that a Feasibility Report for setting up a 600 tonnes per day plant at Bokajan (Assam) was prepared and submitted by the Corporation to Government in January, 1968. Pending approval of the Feasibility Report, the Corporation proposed to the Government on 13th March, 1969 that it might be allowed to take up further preliminary surveys so as to be in a position to take up the preparation of Detailed Project Report (DPR) immediately on receipt of Government's approval for the project, thus cutting short the time for the completion of the project. On 19th March, 1969, the Government accepted the proposal and in April 1969 they conveyed the approval for the setting

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		up of the Plant. In October, 1969 the Corporation submitted the Detailed Project Report to the Government which was approved by the latter in May, 1971. The Committee regret to note that the Government took more than a year to accord its approval to the Feasibility Report submitted by the Corporation and they took more than 18 months to approve the DPR. They feel that the time taken by the Government in either case was too long especially in view of the keenness of Planning Commission and the State Government to have another plant in uppar Assam, in the deficit area. The Committee would like the Government to look into the whole system of according approval to feasibility report/DPR which was delayed in this case and which has also been delayed in many other cases that have come to Committee's notice and take remedial measures to ensure that such delays are avoided in the interest of the expeditious execution of the projects.
87	8.12	The Committee find that the DPR envisaged an investment of Rs. 1125.91 lakhs but the Government approved the project in May, 1971 for a capital outlay of Rs. 1097.91 lakhs. The Committee find that the actual expenditure on headquarters over-heads has already exceeded the provision made in the project report—and the sanctioned estimates by more than 10 per cent and the increase is reported to be due to lesser number of projects being under implementation as compared to the number originally envisaged. The Committee were also informed that the commitment against the aerial ropeway had also exceeded the amount envisaged in the DPR and this fact had been brought to the notice of the Government which had asked the Corporation to submit revised estimates for their

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		approval indicating the exact amount for which Government sanction was required. As the implications of the escalation clause are still not definitely known pending installation and commissioning of the ropeway, the Corporation has not so far intimated the Government the exact expenditure on this account. The Committee would like the Corporation to apprise the Government of the probable/actual excess both under Aerial Ropeway and on Headquarters overheads also and get the approval of Government thereto. They feel that the revised estimates as required by the Government ought to have been prepared as early as possible and got approved by the Government before the actual expenditure exceeds the amounts sanctioned by the Government under various heads.
82	8.13	The Committee also note that the project was scheduled to be completed by May 1975, but this scheduled date is not likely to be adhered to and there has been delay reportedly due to the dislocation in the movement of machinery prior to and after the liberation movement in Bangladesh. Besides, another transport difficulty had arisen inasmuch as the meter gauge railway in that part of the country could not carry the large size machinery for the 600 tonnes per day plant. Because of this constraint of transport through railways, the Corporation is now reported to be putting up two smaller units of 300 tonnes per day each, one of which is expected to be completed by August, 1975 and the other by February 1976. The Committee are surprised to note that this difficulty of transport of machinery because of meter gauge railway in Assam was not visualised at the time of the preparation of DPR. They are constrained to remark that this was a lapse which could have been avoided if all the factors had been borne in mind while preparing the DPR. The Committee would

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		like Government to look into the causes of the failure of the Corporation to visualise the difficulties of transport at the time of preparation of DPR when it was already known that there was a meter gauge railway in that part of the country which could not carry large size machinery." They hope that such lapses will not recur in future and the DPRs will be prepared after taking into account all the known factors which may have a bearing on the execution of projects. The Committee strongly recommend that Government/Corporation should take serious and concerted measures to ensure that the projects come up by scheduled dates and are not further delayed.
83	8.24 to 8.25	The Committee note that the tenders for the supply of plant and machinery were received in September, 1969 and a Committee to negotiate with the tenderers had been appointed by the Board earlier (July, 1969). The Director General, Technical Development, who was earlier a member of the negotiating Committee was subsequently replaced by Senior Industrial Advisor of DGTD's office. After considering the tenders the negotiating Committee came to the conclusion that the choice for the placing of orders should be between M/s. K.C.P. Limited (For Rs. 1,95,50,000) and M/s. A.C.C. (For Rs. 2,04,50,602). The final decision depended on the comparative suitability from the stand point of over all economy, ease of operation and the location etc. of two pre-heaters, namely, Humbolt offered by M/s. A.C.C. and Skoda offered by M/s. K.C.P. Under the directions of the Board the matter was referred to the DGTD in December, 1969 but he regretted his inability to give advice on the matter due to certain administrative restrictions. The Engineers India Limited, who were then approached, stated that they had no specialised knowledge in cement in-

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		dustry. After considering the pros and cons of the offers the Board decided to place the order with M/s. A.C.C. after the Managing Director negotiated a reduction of the price quoted by them. The Committee are unable to understand as to what was the need to refer the matter to DGTD for technical advice on the comparative suitability of the two pre-heaters, when the Senior Industrial Adviser of DGTD's office was already on the negotiating Committee. They do not see the utility of appointing such technical experts on the negotiating Committee if they cannot give positive advice to the Corporation on such technical matters. What has distressed the Committee more is the fact that the DGTD should have regretted his inability to give advice on the matter due to "certain administrative restrictions." The Committee are not able to appreciate the so called administrative restrictions which prevented DGTD to give his views. The Committee would like that this may be investigated by the Government and results intimated.
84	8.26	The Committee were informed that though according to the letter of intent signed with M/s. A.C.C. the delivery of the plant and machinery should have commenced from May 5, 1971 and completed by February, 1972 M/s. A.C.C. commenced supply of plant and machinery only w.e.f. February, 1972 and have not completed supplies so far. It has been stated that so far 90 per cent of the plant and machinery has been supplied and the balance of the machinery is expected to be supplied by February-March, 1976. The delay in supply is attributed to the lock-out in the works of the sub-contractors of M/s. A.C.C., restriction on the movement of goods in the Eastern sector during war and de-

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		lays in constructing railway siding for receiving the heavy consignments, delay supply of large size casting by HEC and availability of the M.S. Steel from Hindustan Steel Limited. The delay is also reported to have been due to severe power cuts, wagon shortage and strike in the suppliers works at Shahbad. The Committee regret to note that the supply of plant and machinery would be delayed by over 4 years in all and some of the reasons for delay do not appear to be entirely unavoidable. The Committee cannot see any justification for delaying the construction of the railway siding till 1972. They also feel that the question of supply of M.S. Steel from HSL and the supply of large size casting by HEC should have been pursued more vigorously at the Ministry level and as the casting have yet not been supplied, the matter may at least now be taken up with HEC at the highest level. They would like the Government to investigate the reasons for the delay in the supply of large size castings by HEC as such delays in supply have a bearing on the cost of the project apart from the delays in erection and commissioning. The Committee are not sure whether the Corporation has taken action to review the conditions of contract in the context of these delays and modify them suitably to provide for guaranteed performance.
85	8.27	The Committee understand that M/s. ACC have a contractual liability for delay in the supply of plant and machinery subject to *force majeure* condition and the delay due to *force majeure* condition is being assessed by the Corporation. The Committee would like the Corporation to complete the assessment of delay due to *force majeure* condition quickly and consider the question and quantum of penalty to be levied on M/s A.C.C.. for the delay which is not due to *force majeure* condition, before settling their bills.

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86	8.41 to 8.42	The Committee regret to note that for erection and commissioning of plant and machinery, though M/s. Associated Cement Companies (A.C.C.) had submitted in September, 1969 their tender for Rs. 22.28 lakhs which amount was reduced to Rs. 21 lakhs in November, 1969 after negotiations, no action was taken by the Corporation to finalise the erection contract with M/s. A.C.C. along with that of supply of plant and machinery. In September, 1972, the Corporation approached M/s A.C.C. for undertaking the erection work but they declined to accept the work unless a revised price of Rs. 40 lakhs was accepted. The Corporation did not accept the revised price. The Committee were informed that M/s. A.C.C.'s original offer for erection at Rs. 21.00 lakhs was accepted by the Corporation and in that connection it had sent the draft agreement also. The Corporation wanted to club both the supply and erection together due to difficulties of sales tax etc. but, later on M/s. A.C.C. did not want to accept the erection contract and is reported to have adopted delay tactics and avoided taking up the erection job. The Committee have not been able to understand why M/s. A.C.C after tendering for the erection work and negotiating a reduced price of Rs. 21 lakhs in November, 1969, backed out and if actually they had backed out in 1969, why the Corporation waited till 1972 and approached them again in 1972.
		The Committee note that the Corporation on further invitation of tenders and negotiation with M/s. Western India Erectors had finalised on 15th November, 1973, a contract for erection for Rs. 25 lakhs. In addition on 17th March, 1974, the A.C.C. was engaged for supervision of the erection work being undertaken by M/s. Western India Erectors. The incidence of the cost as estimated by the management is stated

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		to be of the order of Rs. 3.06 lakhs. It has been stated that a suitable provision would be made in the contract with Western India Erectors to provide for supervision of the erection by A.C.C. The Committee are informed that this arrangement was necessary to bind the A.C.C. to give the performance guarantee of different sections of the plant under the agreement with them and the incidence of such a provision would be borne by the Corporation. Although the Corporation estimated the incidence of supervision at rupees 3.06 lakhs based on certain terms and conditions, it has been stated that the expenditure is likely to increase as the conditions have changed. The Committee are not sure whether the dual system of supply and erection by two different agencies would serve the best interest of the Corporation and will not result in any delay. The Committee feel that it would have been advantageous for the Corporation to have the supply and erection of the plant and machinery done through the same contractor in the overall interest of coordination and fixing of responsibility for the entire work instead of through the different contractors. The Committee regret to observe that because of the initial failure on the part of the Corporation to finalise the erection contract in November, 1969 it had to go in for this dual arrangement which has resulted in an extra expenditure of Rs. 4 lakhs with an additional uncertain liability for supervision charges. The Committee would like Government to investigate the matter and communicate their findings.
87	8.53	The Committee note as against the provision of Rs. 200 lakhs in the DPR for installation of an aerial ropeway the Corporation invited tenders in August, 1969 for a turn-key project. Although eight tenders were received in October, 1969, all of them had been rejected for one reason

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		or the other. Tenders were therefore re-invited and revised offers were received in October, 1971. The negotiating committee recommended the offer of M/s. Usha Breco which was Rs. 207 lakhs with DGS&D escalation clause or a fixed price of Rs. 219.5 lakhs. The Government to whom the matter was referred in December, 1971 decided on 23rd February, 1972 that the order may be placed on M/s. Jessops at a cost of Rs. 227.70 lakhs with escalation. It has been stated that the Corporation placed the order in March, 1972 for Rs. 227.70 lakhs on M/s. Jessops. Although the Committee appreciate the idea of placing the order of M/s. Jessops, which is now a Government Company, the Committee cannot but express their regret that there had been a delay of about 3 years in placing the order. The Committee are not sure about the financial implications of the escalation before the advantage of placing the order with M/s. Jessops could be assessed as *prima facie* there has been an extra cost of Rs. 8 lakhs over the firm offer of M|s. Usha Breco and the excess will be more if the effect of escalation clause is taken into account.
88	8.57	The Committee note that though the lowest offer of M/s. Gannon Dunkerley and Company for the construction of plant structure was for Rs. 161.20 lakhs the value of the contract as finalised in August, 1971 was Rs. 162.33 lakhs. The Committee do not understand as to why the final contract was in excess of the original offer by over a lakh of rupees. Though in terms of the agreement, the entire work was to be completed by 4th August, 1973. 85 per cent of the work is reported to have been completed upto 31st December 1974, the date upto which the contractor has been granted extension. The Committee are informed that the factory foundation and structures are likely to be completed

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		by June, 1975. The Committee regret to note the delay of nearly two years in construction work of plant structure. They would like the Corporation to assess the effect of the delay in construction work on the erection of plant and machinery and to determine the liability of the constractors for the delay before finally settling their bills.
89	8.79	The Committee note that the Board of Directors decided on 23rd January, 1971 that in case Government approved the DPR for Bokajan Plant or approved awarding of construction work in anticipation of the sanction of DPR, the Corporation might accept the lowest tender of Shri Sohan Singh for construction of the residential and other buildings. At the meeting of the Board held on 15th March, 1971, it was confirmed that the brief on the subject considered by the Board on 23rd January, 1971 "had the concurrence of the Financial Advisor and Chief Accounts Officer (FA&CAO) though the same had not been specifically indicated in the brief." But in the subsequent meeting of the Board held on 16th June, 1971, the Managing Director clarified that when he mentioned about the concurrence of FA&CAO, what he had in mind was that all the tenders had been examined by the financial wing of the Corporation and the note of FA&CAO had been considered by him before putting up the recommendation to the Board. At that meeting (on 16-6-1971) the Managing Director had informed the Board that as per decision of the Board he had accepted the tender on receipt of sanction of the Government to the DPR and according to the recommendations of the Civil Engineering Adviser but that, as a measure of precaution he had asked the contractor to undertake only 50 per cent of the work in the first phase, the cost of the total work being Rs. 60 lakhs. The Committee were informed that the FA&CAO had expressed some doubt

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		about the contractors' capability to perform the contract and the Managing Director should have placed the views of the FA&CAO before the Board. They were told that on receiving the comments of the FA&CAO the Managing Director entrusted the Civil Engineering Advisor with the job of making enquiries about the past performance and financial resources of Shri Sohan Singh. The Civil Engineering Advisor reported on 4th June, 1971 that the contractor was quite capable of performing the work in question and on the basis of the note submitted by the Civil Engineering Advisor on 4th June, 1971, the tender was accepted by the Managing Director on the same date without consulting the FA&CAO further. At its meeting held on the 4th September, 1971, the Board felt that the tender should not have been accepted on 4th June, 1971, *i.e.* 12 days before 43rd meeting of the Board which was scheduled to meet on 16th June, 1971. The Committee are constrained to remark that the procedure followed by the Managing Director in dealing with this tender has been, to say the least, strange throughout. There are a number of points which if not fully investigated will leave a lingering suspicion about the fairness of the whole affair *e.g.*, why the doubts expressed by the FA&CAO about the competence of the contractors were not brought to the notice of the Board at its meeting held on 23rd January, 1971, at which the original brief was submitted by the Managing Director recommending the award of work to Shri Sohan Singh; why the brief put up at that meeting did not contain a comparative statement giving merits of various tenderers; why an erroneous statement was made at the Board's meeting held on 15th March, 1971, that the brief submitted by the Managing Director had the concurrence of the FA&CAO, why the comments of the FA&CAO were not brought to the notice of the Board even at its meeting held

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		on 15th March, 1971 or at the next meeting held on 16th June, 1971 at which the Board was asked to approve the award of contract; why the FA&CAO was not consulted again after the receipt of the note of the Civil Engineering Advisor about the competence of the Contractor and before the acceptance of tender on 4th June, 1971 by the Managing Director; and why undue haste was shown by Managing Director in accepting the tender on 4th June, 1971, when the Board was scheduled to meet on 16th June 1971. In the context of the other circumstances of the case the Committee cannot but also take notice of the speed with which the enquiry was conducted by the Civil Engineering Advisor who joined towards the end of April, 1971, visited Bokajan in May, 1971, and gave a favourable report to the Managing Director on 4th June, 1971. The Committee strongly feel that in order to clear the air, a thorough and independent enquiry should be held into all the aspects of this case and results of the enquiry communicated to the Committee.
90	8.80	The Committee note that the Phase-I of the work which was required to be completed by 4th June, 1972 was completed by 30th September, 1972. As regards Phase-II, which was scheduled to be completed by 15th July, 1974, the contractor had completed work of the value of Rs. 28.40 lakhs by 30th September, 1974, out of the tendered value of Rs. 35 lakhs. They were told that the Bokajan Site Office had recommended extension upto 15th January, 1975 and had intimated that there was no valid reason for levy of liquidated damages as the delay in execution was partly due to delay in supply of drawings and materials by the Corporation. The Committee would like the Corporation to examine the question of delay independently with a view to fixing responsibility and also the liability of the contractor.

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91	9.13	The Committee note that, after the completion of the limestone investigations by the Geological Survey of India at Rajban (Paonta)—Himachal Pradesh, a Feasibility Report for the setting up of a 600 tonnes per day dry process cement plant at Rajban was prepared and submitted to the Government on 6th August, 1968. When the Feasibility Report was under consideration, Government asked the Corporation to examine the scheme in the light of de-control on distribution of cement w.e.f. November, 1970. The matter remained under consideration and the Detailed Project Report was prepared and submitted to Government in February, 1970. While the DPR was under the consideration of Government, the Ministry desired in February, 1971 that the proposed projects at Paonta and Baruwala (Dehra Dun) may be combined into one with separate kilns and that the economic viability/profitability of the integrated project should be got examined in detail by an independent specialised agency, M/s. Holtec Engineers Private Ltd., who had offered their services free of cost (excluding TA &DA). However, Government approved the DPR on Paonta in May, 1971. In December, 1971 Holtec recommended an integrated plant at Dhera Dun with separate kilns for the two projects. The Corporation did not accept the recommendations of M/s. Holtec and communicated its rejection to the Government in January, 1972. In March, 1972, Government allowed the Corporation to proceed with the installation of a 600 tonnes per day plant at the site originally selected, namely, Rajban, for which the Government had already in May, 1971 given their approval to the DPR on the consideration that the criteria of viability could not be applied to this project as it was essential to promote the development of industry in a relatively backward area. The Committee see no reason as to why when the DPR was prepared after examining the economic

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		stand point as desired by Government in April, 1967 Government should have asked the Corporation in February, 1971 for consideration of the integration of the two projects when it was clearly known that the criteria of economic viability would not be applicable to a deficit area project. The Committee regret to note that it has taken a period of 4½ years from the date of completion of limestone investigations to clear the project for implementation, a delay which in the opinion of the Committee could have been avoided. The representative of the Ministry admitted during evidence that "we should have expedited it." The Committee cannot but express their displeasure at the inordinate delay on the part of the Corporation to prepare the DPR and of Government in according approval to the project. It is surprising that even after communicating the sanction to DPR in May, 1971, it was only in March, 1972 that Government allowed the Corporation to proceed with the project. The Committee see no reason for this delay of 10 months. The Committee expect that such delays will be avoided in future as they have a bearing on the capital cost and the profitability of the project.
92	9.26 to 9.27	The Committee find that the DPR of the Paonta Project envisaging an expenditure of Rs. 761.30 lakhs for a 600 tonnes per day plant was revised upwards to Rs. 1178 lakhs on receipt of tenders for the plant and equipment in January, 1972. The Board made alternative proposal to the Government in September, 1972 for setting up a 750 tonnes per day plant at a cost of Rs. 1326 lakhs after considering the Comparative cost/profiability but the Government sanctioned the revised cost estimates of Rs. 1178 lakhs for a 600 tonnes per day plant in April, 1973. The Committee note that due to the changes in the proposal from time to time, the project which

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93	9.28	The Committee note that notice inviting tenders for civil work relating to plant structures and machinery foundations has already been issued. They would like the Corporation to finalise the orders for civil works as early as possible and include in the contract a detailed schedule for the completion of various items of civil works in juxtaposition with the scheduled dates of supply of the various items of plant and equipment and take all possible steps right from the beginning to ensure that neither the execution of civil works nor the supply of plant and equipment is in any way delayed.
94	9.29	The Committee note that mining lease for the quarry area is not necessary as the land belongs to the Government. The factory and township are located along state highway and no approach road is therefore required for these. Though no railway siding is envisaged at plant site, a private railway siding is being taken at Jagadhri and the Northern Railways are taking necessary action in the matter. As regards approach road to quarry, action for land acquisition/lease is being taken. The Committee recommend that keeping in view the target date of the commissioning of the plant (i.e. February, 1977) different schedules may be fixed for securing the land acquisition/lease for the approach road to quarry and the railway siding at Jagadhri and all action to complete these items of work should be so organised that there is no slippage in the execution of these jobs beyond the scheduled dates.
95	10.14	The Committee note that, anticipating that the Mandhar Plant would go into production in October, 1969, the Corporation created the post of a Marketing Advisor to advise the Corporation on the pattern of the marketing organisation. The incumbent joined on 21st October, 1969 though the Mandhar Plant was formally commis-

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		sioned 9 months later on 19th July, 1970. The Committee find that the staff strength (including officers both in Units and Branch Offices) was 29 on 31-3-1972, 38 on 31-3-1973 and 37 on 31-3-1974 and the expenditure on the organisation rose from Rs. 3.11 lakhs in 1971-72 to Rs. 4 lakhs in 1973-74. The Committee were informed that the marketing organisation at Headquarters and the factories are in charge of the entire sales and other related matters. According to the Ccrporation, the Marketing Organisation was essential to see that provisions of Cement Control Order were complied with and distribution was fair in all areas. The Corporation's marketing division is stated to be a small one as compared to any other factory of the same capacity. The Committee however find that the organisation at Headquarters consists of a Marketing Adviser assisted by a Sales Officer and supporting staff. The Committee feel that as the two plants at present in production are separated by a great distance, and each will be having its own marketing problems, they recommend that the marketing organisation may be decentralised and except for policy issues including compliance with the provision of Cement Control Order and inter-plant co-ordination, all other matters should be left to be dealt with at the plant level. This will also enable the Corporation to judge the interse efficiency of the marketing organisations of the plants. The Committee also recommend that the markeing organisation at Headquarters should be compact and be such as may be necessary to deal with all policy matters connected with sales of the individual units. The Committee also suggest that Government should review the necessity for the Post of a high powered Marketing Adviser at Headquarters. The Committee also recommend that the Corporation should keep a strict eye on the staff strength of the marketing organisation and

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		see that it does not expand unnecessarily unrelated to the volume of the business of each plant and the Corporation as a whole.
96	10.39	The Committee note that Corporation appointed 4 regional wholesale dealers in 1970 for the sale of Mandhar Plant Cement and agreed to pay them commission at the rate of Rs. 1.25 per tonne which is the rate allowed by the Government in calculating the controlled price of cement. The agreement with the distributors was renewed for a further period of five years with effect from July, 1972. Out of the four regional distributors, the agreement with two of them laid down that the security deposits of stockists were to be collected and held by them and in the case of the other two distributors, the security was to be collected and held by the Corporation. As a result of these agreements, the former two distributors retained the security deposits worth Rs. 11 lakhs and when subsequently the Corporation tried to persuade them to allow the Corporation to hold the security deposits, they did not agree on the plea that they had bigger areas to cover involving larger numbers of stockists and heavier risks, particularly as they were indemnifying the Corporation for any losses. The Committee do not appreciate the rationale of treating the distributors differently and allowing two of them the advantage of holding security deposits and denying the same advantage to the other two. They feel that this was an initial mistake which should have been avoided. They note that the services of the regional distributors were terminated w.e.f. 1-12-1973 under the directive from the Ministry of Industrial Development and the stockists were brought under the direct control of the Corporation.
97	10.40 to 10.41	The Committee note that in order to compete with the other producers who were selling their products through their Branch

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		Offices and thereby avoiding the liability for central sales tax (3 per cent), the Corporation opened Branch Offices at Calcutta, Kanpur and Nagpur, in August 1970 and at Bombay and Hyderabad in August, 1972. Consequent upon the opening of these Branch Offices, the regional distributors were appointed as clearing and forwarding agents on a remuneration of Re. 0.75 per tonne. As against the payment of Re. 0.75 per tonne to distributors, the Corporation recovered Re. 1/- per tonne from the stockists to whom the cement was despatched by the regional distributors. The Committee find that under this stock transfer system, the Corporation sold 1,37,522.73 tonnes of cement during 1970-71 to 1972-73 and recovered a sum of Rs. 34,382 in excess of the clearing and forwarding charges paid to the distributors while the expenditure on the Branch Offices during the same period was Rs. 88,860/-, thus resulting in a loss of Rs. 54,478 (Approx.) to the Corporation. The Committee also note that as a result of this arrangement Government was deprived of the central sales tax amounting to Rs. 5.61 lakhs (approximately). In 1973-74, the excess recovery from the distributors amounted to Rs. 3523 as against the expenditure on Branch Offices (excluding Calcutta) amounting to Rs. 26,711 and a loss to the exchequer of Rs. 90,810|- on account of non-payment of central sales tax. The Commitee are shocked to observe that a public sector Corporation should have thought of resorting to the strategem of opening Branch Offices which aimed at depriving the exchequer of central sales tax amounting to Rs. 5.61 lakhs during the period 1970-71 to 1972-73. The other reason advanced in favour of opening Branch Offices that it was to compete with other producers, does not hold water as, in view of the acute shortage of cement, no competition in fact exist-

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		ed in the sale of cement. To cap it all, the Corporation also suffered a loss of Rs. 77,666 during this period in the bargain. The Committee cannot too strongly deprecate this action on the part of the Corporation and recommend that the Government should issue directives to the public undertakings that they should not resort to any measures which are aimed at evading Central or State taxes or defeating the purpose of such taxes. The Committee feel that in retrospect the very idea of opening branch offices was neither in the best interest of Corporation nor that of Government. It was stated that the stock transfer system was stopped w.e.f. 1st June, 1973.
98	10.42 to 10.44	The Committee were informed that complaints were received from certain Members of Parliament alleging that the cement manufacturers wanted their own men as dealers and distributors and in collusion with them higher prices for cement were charged. The Ministry examined the matter to see how far it would be possible to take up the wholesale distribution of cement through public sector agencies and in particular, to start with, whether the cement produced by the Corporation can be distributed through the Corporation itself. Having come to the conclusion that it was feasible to do so, a directive in this regard was issued by the Ministry to the Corporation. The Committee note that in pursuance of the directive issued by the Ministry of Industrial Development, the Corporation terminated the agreements with the regional distributors and stockists with effect from 1-12-1973 and appointed stockists afresh under its direct control thereby avoiding payment of selling agency commission at the rate of Rs. 1.25 per tonne to the distributors and also saved expenditure on the maintenance of branches. The Committee consider that the new distribution arrangement under which the middlemen

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		have been eliminated and the Corporation itself is required to undertake the distribution through a net-work of dealers appointed by it directly is a step in the right direction. In the opinion of the Committee such a step could and should have been taken much earlier.
		The Committee further note that the Corporation claims to be trying to distribute cement as evenly as possible to all the stockists and feed them to the maximum extent possible. The Corporation is stated to be making surveys and checking the stockists' record, etc., to keep a watch over the possible malpractices. The Committee cannot too strongly emphasize the importance of streamlining distribution of cement and eliminating hoarding, adulteration, black-marketing and profiteering in the sale of cement. The common man will judge the Corporation not so much by its production performance as by its distribution system. The Committee feel that the Corporation should spare no efforts to ensure that good quality cement is easily available to the needy persons at the controlled price in rural areas no less than in urban areas.
99	10.45	The Committee find that the selling and distribution expenses per tonne incurred by the Corporation in respect of Mandhar Plant inclusive of the selling agency commission, had increased from Rs. 2.64 in 1970-71 to Rs. 4.35 in 1972-73 and came down to Rs. 3.58 in 1973-74. The Committee are not able to understand the phenomenon of the selling and distribution expenses being highest in 1972-73 when the production in Mandhar Plant was the highest (90 per cent of the capacity) achieved so far. If anything, the expenses should have gone down during that year and in any case should not have

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		increased by 50 per cent over those in 1971-72 when the production was 82 per cent of the installed capacity. They would like the Corporation to analyse the reasons for this sharp increase in the selling and distribution expenses in 1972-73. The Committee also recommend that the Corporation should work out norms in this respect, after studying, if possible, the pattern adopted in private sector, and ensure that expenses on selling and distribution are kept to the minimum.
100	10.48 to 10.50	The Committee note that reports of underweight cement bags and unsatisfactory quality of cement have occasionally been brought to the notice of Government. They learn that the Cement Research Institute has prepared experimental bags to prevent loss of cement from the bags due to seepage and possible admission of moisture from the atmosphere leading to deterioration in the quality of cement and national loss of this basic and much needed construction material. The Government of India have issued instructions to the Cement Manufacturers Association, all the cement producers and to the State Governments to ensure that the weight of cement in a bag should not be less than 50 kgs. The State Governments have also been asked to issue instructions to their Weights and Measures Departments to carry out periodical random checks of the cement bags received at different stations to find out whether the cement bags conform to the prescribed standards and to take suitable action against defaulters. Despite the instructions issued by Government, it is a matter of common knowledge that as the gunny bags packed with cement pass through the various loading and unloading operations after leaving the plant, they lose some quantity of cement by way of seepage in each such operation and the bags also get torn in this process because of the very nature and quality of

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		texture of the gunny bags and by the time they reach the consumers, many if not most of the bags are under-weight and the consumers by and large being too needy and helpless, cannot do anything but accept the underweight bags. The Committee regret that, even though this is an age-old problem, the cement manufacturers have not done anything concrete so far to devise a foolproof method of packing cement. The fate of experimental bags made by the Cement Research Institute is also not known. The Committee urge that the Government should give a thought to this question seriously and examine how far the experimental bags made by the Cement Research Institute would be advantageous. Government may also consider the feasibility of using bags lined with polythene for packing cement as is being done in the case of fertilizers and also lay down specifications for improved quality of bags for packing cement. The Committee feel that use of such bags should be made obligatory on the cement manufacturers so that the consumers get their money's worth and there is no wastage of a scarce and precious commodity like cement of which there is already serious shortage in the country. Pending this, the Government may consider the feasibility of introducing retail sale of cement and fixing its price by weight, and not by bags as at present, to save the consumers of the loss which they have to suffer on this account.
		The Committee cannot too strongly emphasise the urgent need for concrete steps to prevent the seepage of cement from the gunny bags and the possibility of unscrupulous dealers adding foreign matter in cement by tampering with the bags used at present, if the interests of consumers, who find themselves completely at the mercy of such dealers, are to be safeguarded.

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101	11.16	The Committee note that the stocks of stores, spares etc. instead of going down, went up from Rs. 44.34 lakhs in 1971-72 to Rs. 53.50 lakhs and to Rs. 65.26 lakhs in 1972-73 and 1973-74 in the case of Mandhar. In the case of Kurkunta, the stocks of spares and stores increased from Rs. 16.08 lakhs in 1971-72 to Rs. 34.71 lakhs and to Rs. 51.03 lakhs in 1972-73 and 1973-74 respectively. There have been increases in the stocks of spares and stores in the case of other projects also. The increase in inventories in the case of Mandhar was stated to be due (partly) to procurement of certain stores intended for Mandhar Expansion and in the case of Kurkunta it was stated to be due to the plant being in full production in 1973-74 requiring larger inventories as compared to 1972-73. Besides, the value of inventories had also gone up due to overall increase in prices. The Committee regret to note that though the Bureau of Public Enterprises had considered the stocks of stores and spares held by the Corporation for maintenance and operation at the end of 1971-72 rather high and had suggested segregation of insurance items and fixation of stock level for each such item, the Corporation had not made any systematic review of the Stocks. The Committee are informed that it is proposed to make such a review after recruiting Industrial Engineering personnel. The Bureau had also suggested that norms should be fixed for different categories of inventories, reviewed at Board's level from time to time, and a proper catalogue should be prepared of items stocked. Though stock levels of certain important items are stated to have been fixed, the Corporation considers holding of certain items of stores in excess of the normal requirement unavoidable in view of the difficulty in arranging easy availability of different items of stores etc. according to fixed time schedules, bottlenecks in transport and

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		inflationary tendency. The Committee regret to observe that the Corporation has not appreciated the importance of the proper inventory control and in spite of the suggestions made by the Bureau of Public Enterprises as far back as October, 1972 it has not fixed norms for all the items of inventory nor has it brought down the levels of various items of stores, spares, etc., it has not also segregated the insurance items either. The Committee recommend that the Corporation should not lose any more time to segregate the insurance items, fix norms of each item of inventory and ensure that the stock holdings are within these norms to avoid unnecessary blocking of capital. The Committee also recommend that the Corporation should not rest satisfied with merely issuing instructions on the basis of Bureau of Public Enterprises circulars but also ensure that the instructions are properly implemented. The Corporation should review the stock items to identify non-moving, obsolete or surplus stores and take action for their disposal by transfer to other projects or Public Undertakings.
102	11.27 to 11.28	The Committee regret to note that the physical verifiaction of the inventory of the Limestone Investigation Division lying at Delhi, Kurkunta, Mandhar and Bokajan had not been conducted after March, 1969. The periodic assessment of limestone stock is stated to have been done at end of each financial year but the exact stock verification of limestone was not considered possible earlier to February, 1974 because of the scattered uneven nature of the limestone stocks. The Committee are not convinced of the reasons advanced by the Corporation and regret that the Corporation had neglected to conduct an exact physical verification of limestone between March, 1969 and February, 1974. The Committee, however, note that as a result of physical verification done in 1974, a net shor-

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		tage of limestone boulders from inception to 31st March, 1974 of 38,726 tonnes valued at Rs. 4.96 lakhs (approximately) was discovered. The shortage was attributed to over-booking of departmental raisings (12,480 tonnes), embedding (14,490 tonnes) and embedding and loss of fine materials at various transfer points (11,756 tonnes). The Corporation has ruled out under-delivery of limestone by contractors or pilferage by any outsider on the ground that the material raised through contractors was taken on actual weighment and there was good watch and ward arrangement. The Committee learn that after going into the matter, the Board approved the writing-off of the shortage of 38,726 tonnes of limestone boulders valued at Rs. 4.96 lakhs and decided to give a warning to the Quarry Manager at Mandhar to be more careful in future. The Committee feel that if the stock verification of limestone had been done at regular intervals, the Corporation would have detected the shortage right in the beginning and could have taken preventive measures to avoid loss on this account which swelled to Rs. 4.96 lakhs in 1974. They are not convinced by the reasoning given by the Corporation against the possibility of short delivery or pilferage and they also do not agree that the embedding of limestone was entirely unavoidable due to softness of the land, etc. The Committee would like that the reasons for the shortage should be investigated with a view to fix responsiility and the Committee informed of the action taken.
103	12.17	The Committee note that the Corporation has been following w.e.f. 1972-73 a system of process costing under which cost at each process, *viz.*, raising, transportation of limestone, crushing, preparation of slurry, manufacture of clinker and cement and packing, is determined separately. However, costing records are not being maintained on the basis of integrated system of

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		cost and financial accounts. It has been stated that the draft recommendations of the consultants regarding the system of cost and financial accounts were received recently and a final dicision regarding their implementation is to be taken. The Committee recommend that the system be introduced soon in the interest of testing the accuracy of cost figures with reference to financial accounts. The Committee recommend that the system should be finalised and implemented without delay.
104	12.18	The Committee are also informed that the Corporation has laid down standard cost per unit of final output including quantitative consumption standard of limestone, gypsum, power, coal and explosives but standards in physical terms for consumption of stores and spares per tonne of limestone raising and clinker and cement production per unit are yet to be finalised. The Committee expect that these standards will also be finalised soon so that the standard costs both in regard to quantity and value may be available for purposes of budgetary and material control.
105	12.19	The Committee learn that coal and gypsum are not physically weighed on their receipt in the factories for want of weigh bridge, the installation of which is not considered economical by the Corporation. The difference between the R/R weight and physical balance computed on the basis of volumetric measurement is treated as consumption. The Committee are informed that coal and gypsum are transported in open wagons and that the railways and suppliers do not accept responsibility for transit losses. The Corporation has claimed that the actual consumption of coal and gypsum per tonne of cement at Mandhar unit inclusive of transit and handling losses compared favourably with the percentage of consumption given in the DPR . The Committee have dealt with this aspect in a saparate section. They would like the Corporation to examine the

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		present system of their transportation in consultation with the Railways and devise measures to obviate the likelihod of pilferages and losses in transit. They feel that there is a snag in the present arrangement for computing the quantities of coal and gypsum on the basis of volumetric measurements in as much the pilferages and losses in transit cannot be known exactly in the absence of a weigh-bridge. The Committee would like the Corporation to consider the economics of installation of a weigh-bridge and other alternative methods of exact measurement vis-a-vis the benefits that may accrue to the Corporation from exact weighment and adopt a suitable system which can enable it to check the R/R weight of coal and gypsum with their exact weight on receipt thereof at destination.
106	12.20 to 12.21	The Committee regret to note that, as compared to the norms laid down in DPR, the consumption of limestone was higher at Mandhar in 1970-71 and 1971-72; the consumption of gypsum was higher both at Mandhar and Kurkunta in 1972-73 and 1973-74: the consumption of coal was higher at Mandhar in 1970-71 and 1973-74 and at Kurkunta in 1972-73 and 1973-74; and the consumption of power was higher in all the years of operation both at Mandhar and Kurkunta. The higher consumtption of limestone was attributed to abnormal dust losses; that of gypsum to high percentage of tri-calcium aluminate in the cement produced: that of coal due to inferior quality of coal supplied by the collieries linked by the Linkage Committee to the Corporation's cement plants and due to teething troubles at Kurkunta plant; and the higher consumption of power was due to higher hardness of the limestone at Kurkunta and higher percentage of tri-calcium silicate in the clinker at Mandhar. The Committee feel that it should be possible for the Corporation to control the higher consumption of coal and power at Kurkunta by removing the defects and

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		deficiencies in the working of the plant without loss of time.
		As regards the supply of good quality coal, the Committee have recommended in paragraph 12.36 that the matter may be taken up by the Ministry with the authorities concerned at the highest level and pursued vigorously till the supply of good quality coal is assured.
107	12.22	The Committee note that as against the norm of 1.65 tonne for limestone and gypsum per tonne of cement, the actual consumption of limestone and gypsum together has been less both at Mandhar and Kurkunta. The Committee are not sure whether in view of the high percentage of dust losses in Mandhar the overall less use of limestone and gypsum could produce 1 tonne of cement without detriment to quality. The Committee would like Government/Corporation to examine this aspect.
108	12.23	The Committee are not sure whether in view of the hardness of the limestone and the high percentage of tri-calium aluminate in the cement discovered at Mandhar, the norms of consumption of limestone and gypsum laid down in the DPR would be the correct basis of comparison. They recommend that realistic norms for consumption of the materials, e.g. limestone, gypsum coal, and power may be worked out keeping in view the characteristics of limestone so that a true assessment of cost and consumption of materials may be possible.
109	12.29	The Committee note that on the basis of the cost studies made by the Tariff Commission and 85 per cent utilisation capacity, the Government have been fixing fair uniform ex-works retention prices for cement from time to time. The last revision in the retention prices was announced in September, 1974 when it was fixed at Rs. 139.15

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		per tonne. This price will be valid for the period till 1978-79 and will be subject to escalation on 1st July each year in accordance with laid down formulae following increases in (i) wages and dearness allowance. (ii) price of coal, (iii) power tariff and (iv) freight on coal. As retention prices now fixed are considered quite reasonable for the existing cement units, Government envisage no change in them. The Committee feel that as the retention prices have been fixed after a proper study by Tariff Commission and are subject to escalation on 1st July each year in accordance with the laid-down formulae, the Corporation has no ground to attribute its losses to lower retention prices as it has sought to do in the Chapter of profitability. They would like the Corporation to bear in mind that the only way to run its factories on profit is to bring down the cost of production and operate the plants at the maximum capacity. It would do well to identify constraints in the way of maximising production and lowering costs and make concerted efforts to remove them.
110	12.36	The Committee note that the cost of production per tonne (excluding interest on loan) at Mandhar factory was Rs. 124.66, Rs. 126.36 and Rs. 144.06 during 1971-72, 1972-73, and 1973-74. They were informed that the actual cost of production at Mandhar in 1971-72 was less than the average cost of production computed by Tariff Commission for the 23 costed units. Even the cost of production in 1972-73, after giving allowance for the selling and distribution expenses, was less than the average cost computed by Tariff Commission. The per tonne cost of production in 1973-74 was less than the cost projected for that period though the capacity utilisation was only 74.4 per cent. They learn that the cost of production could be further improved if the

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		capacity utilisation is maintained at 85 per cent which has not been possible due to non-availability of suitable quality of coal and wagons and power cuts. Besides, increases in the cost of inputs and wages of labour are beyond the control of the Corporation. The questions relating to quality of coal and supply of wagons are reported to have been taken up by the Ministry with the concerned authorities. The Committee are distressed to note that the cement factories at Mandhar and Kurkunta are not able to get good quality of coal and adequate number of wagons. They would urge the Ministry to pursue the matter more vigorously with the concerned authorities at the highest level and not to relent till regular supply of good quality coal and adequate number of wagons is assured on a firm basis. They would also like the Ministry to take up the question of power supply to Kurkunta factory with the authorities concerned in Karnataka State and make efforts to get adequate and uninterrupted power supply for the factory.
111	12.37 to 12.38	The Committee were also informed that the cost of production for 1973-74 at Mandhar Plant was higher than the standard cost fixed by the Board during that year due to lower volume of production and higher usage of limestone, coal and power as compared to the standards. Having achieved 90 per cent utilisation of capacity in 1972-73, they are distressed to note that the production fell in 1973-74 and resulted in higher cost of production. They have dealt with the fall in production and the higher usage of limestone, coal and power elsewhere in this report. The Committee note that the cost of production at Kurkunta unit was much higher (Rs. 171.53 in 1972-73 and Rs. 153.57 per tonne in 1973-74) than the Mandhar plant mainly due to lower volume of production, resulting in higher inci-

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		dance of depreciation, overheads, etc. per tonne. They are informed that production in Kurkunta factory has not yet stabilised due to various constraints and the comparison of cost of production with that assumed by the Tariff Commission would not be meaningful. During the quarter ended December, 1974, when the average capacity utilisation at Kurkunta was 76 per cent (as compared to 43 per cent in 1972-73 and 55.5 per cent in 1973-74) the actual cost of production excluding the interest charges was Rs. 134.05 per tonne as against the cost of Rs. 127.15 taken into consideration by Government in allowing the retention price of Rs. 142.15 (including selling expenses). The Committee are unhappy to learn that even at 85 per cent capacity utilisation in Kurkunta, the cost of production is expected to be more than that taken into consideration by the Government because of higher capital outlay. They would like the Government/Corporation to study the working of the Kurkunta factory in death and take concerted measures to bring about reduction in the cost.
112.	12.39	The Committee note that, besides other factors accounting for high cost of production, the cost of limestone is high. They were informed that necessary steps were being taken to reduce the cost of limestone. The Committee have already expressed their views on making the quarry operations more efficient and economical. They hope that all possible measures will be taken to maximise departmental production and lower the cost of production of limestone.
113	12.40	The Committee are informed that under normal circumstances the utilisation of capacity during the Fifth Plan period is expected to go upto 90 per cent of rated capacity in Mandhar and Kurkunta and on this expectation and at prices and wages prevailing in December, 1974, the cost of production (without interest char-

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		ges) would come to Rs. 127.62 and Rs. 128.65 per tonne at Mandhar and Kurkunta respectively as compared to the cost of Rs. 127.15 assumed by Tariff Commission including escalation allowed by Government upto 15th September, 1974. They hope that the Corporation would spare no efforts to realise its expectation of 90 per cent utilisation of rated capacity in each of these two factories during the 5th Plan period and will keep its cost of production below the level determined by the Government from time to time.
114	12.51	The Committee note that as against the permissible limit of 27½ per cent upto June, 1973 and 33½ per cent afterwards for the use of old gunny bags, the Mandhar plant used less number of old gunny bags in 1970, 1972, 1973 and 1974 (upto March) and the Kurkunta plant used less number of such bags in 1972 and more in 1973-74. Lesser use of old gunny bags which required excessive use of new gunny bags resulted in an extra expenditure of Rs. 2,48,530 till 1973 and the excessive usage of old bags brought about a saving of Rs. 92,449. The Committee are informed that the Corporation used excessive number of new gunny bags during the initial period of the commissioning of its plants (1970 and 1971 in the case of Mandhar and 1972 in the case of Kurkunta) to create an image for its product. While the Committee appreciate the anxiety of the Corporation to create a good image when it entered the market for the first time, they cannot understand why the excessive use of new gunny bags was continued in 1973-74 in the case of Mandhar. They regret to note that by resorting to excessive use of new bags, the Corporation not only added to the cost per tonne of cement unnecessarily but also violated the orders issued by the Cement Controller in this regard. The Com-

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		mittee would like the Corporation to ensure that the use of new gunny bags does not exceed the permissible limits at Kurkunta or Mandhar hereafter.
115	12.52	The Committee were also informed that the excessive use of old gunny bags had to be resorted to due to unsatisfactory supply position of new gunny bags. They would like the Corporation to plan the purchase of new gunny bags in such a way that each plant always has enough stock of new gunny bags and temporary dislocation in the supply of new bags does not create any difficulty in the packing of cement.
116	12.64	The Committee find that while the actual cost of production per tonne of cement (including interest on loans) was less than the average sales realisation, it was more than that assumed by Government for working out the retention price in 1971-72 and 1972-73, leading consequentially to reduction in margin of profit. They are however concerned to note that, in 1973-74 cost of production (including interest on loans) per tonne went up to Rs. 154.42 as against the average sales realisation of Rs. 141.74. During 1974-75, the gap has further widened in as much as the increase allowed by Government in the retention price is Rs. 8.15 per tonne while the cost of production had gone up by Rs. 10.79 per tonne upto September, 1974 and has further increased by Rs. 2.82 by December, 1974. The Committee have no doubt that the Corporation is fully aware of the consequences of the higher rise in cost of production than covered by the increased retention price during 1974-75 which is sure to affect adversely the profitability of the Corporation further if nothing is done in the meantime to reduce the cost of production. The Committee recommend that the Corpora-

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		tion should spare no efforts to bring down the cost of production by increasing the output and by effecting economies in consumption of materials and expenses on overheads so that the profitability may be improved.
117	13.10 to 13.11	The Committee note that the Corporation had made cash credit arrangements upto a limit of Rs. 78 lakhs (Rs. 43 lakhs in respect of Mandhar Plant and Rs. 35 lakhs in respect of Kurkunta Plant) against hypothecation of finished and semi-finished goods etc. with the State Bank of India. Due to the credit curbs imposed by the Reserve Bank of India, the drawing power against the credit limit of Rs. 78 lakhs was reduced to Rs. 60.87 lakhs from December 1973 and to Rs. 49.68 lakhs (Mandhar—Rs. 26 lakhs and Kurkunta—Rs. 23.68 lakhs) from July, 1974. The cash credit actually availed of as on 31st March, 1974 amounted to Rs. 36.70 lakhs (Rs. 15.16 lakhs for Mandhar and Rs. 21.54 lakhs for Kurkunta). The Committee are informed that the reduced cash credit limits are not adequate to finance the working capital requirements and the funds received from Government for capital expenditure have been diverted temporarily to meet the working capital requirement of the two operating plants. In view of the fact that the cash credit actually availed of by the Corporation was much less, Rs. 36.70 lakhs as on 31st March, 1974 than even the reduced cash credit limit of Rs. 49.68 lakhs, the Committee are unable to understand the justification for the Corporation to divert capital funds received from Government to meet the working capital requirements. In the opinion of the Committee such a diversion of funds is irregular. The Committee therefore recommend that Government should examine the implications

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		of this arrangement and take steps to strengthen the financial position of the Company.
118	13.21	The Committee are surprised to learn that in 1972-73, when the Mandhar Plant utilised 90 per cent of its installed capacity, it suffered a loss of 0.64 lakhs as compared to a profit of Rs. 2.56 lakhs in 1971-72 when capacity utilisation was 82 per cent, even though there were savings accruing from recoveries made towards the cost of containers and selling agency commission. The loss swelled to Rs. 25.86 lakhs in 1973-74 reportedly due to under-utilisation of capacity (76½ per cent), increases in coal and power consumption, costs of inputs and wages and adjustments relating to previous years. The losses suffered by Kurkunta plant were Rs. 39.60 lakhs and Rs. 28.61 lakhs in 1972-73 and 1973-74 respectively. On the basis of selling price and costs prevailing in December, 1974, the Mandhar factory is expected to break even at 83 per cent utilisation of its capacity and the Kurkunta factory at 85 per cent utilisation of capacity. The Committee recommend that the Corporation should take concerted measures to maximise production, avoid excess consumption of materials and effect economies in overhead expenses so that the cost of production may be reduced and the plants are in a position to breakeven.
119	13.26	The Committee note that the Internal Audit Cell started functioning in March 1968 and was strengthened first in 1970 and then again in 1972. It had not, till October, 1973, conducted any appraisal of the performance of the Corporation as a whole on the lines recommended by the Committee in their 15th Report (4th Lok Sabha—April, 1968), reportedly due to inadequate staff. They are informed that the supporting staff was enhanced and the increased

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		strength is considered enough in view of the size and economic viability of the organisation. By the middle of 1975-76, the Head Office based internal audit unit is proposed to be supplemented by two field units and each field unit will attend to regular internal audit of two projects/plants/establishments. The Committee recommend that the Corporation should organise the internal audit wing on a sound footing, to enable it to discharge effectively its functions, including critical review of systems, procedure and the operation of the undertaking as a whole as recommended by the Committee in their 15th Report (Fourth Lok Sabha).
120	14.13	The Committee note that in response to the recommendations made by the Action Committee on Public Enterprises headed by Shri M. S. Pathak, which examined the structure of Corporation's headquarters office and the Mandhar and Kurkunta Plants, a Director (Projects) and a Director (Operations) has been appointed but no action appears to have been taken on that part of their recommendation which related to the appointment of 3 part-time Directors, two of them representing the Administrative and Finance Ministries and the third an eminent specialist from the Industry. The Committee recommend that an early decision may be taken, particularly, in regard to the appointment of an eminent specialist from the Industry as a part-time Director on the Board.
121	14.14	The Committee also note that the Action Taken Committee recommended that there should be General Managers incharge of operating plants as well as those under construction. The Action Taken Committee pointed out that

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		the existing structure at Mandhar Plant suffered from a number of weaknesses, *viz.*, as many as 11 people reported directly to the Works Manager, direct responsibility for production was shared between Resident Engineer and Production Superintendent, the chain of command and line of communication was not rational and adequate specialised service support to production department seemed to be lacking. The Committee are informed that the Corporation does not consider the post of General Manager necessary because of the small size of the units at present and the appointment of General Manager will be considered as and when the capacities of the plant expand. The plants are at present under the charge of Works Managers who are assisted by other functional officers in the running of the plants. The Committee note that posts of Project Manager have been/are being filled up for each project under construction from initial stages, as recommended by the Action Committee. The Committee would like that Government/Corporation should rationalise the chain of command and line of communication and build up a scientific management information system. The Committee recommend that the organisation structure at the plant level may be suitably reframed keeping in view the recommendation of Action Committee after carefully considering the financial implication thereof with a view to removing the defects and deficiencies in the set-up and providing well defined areas of responsibility for attaining maximum production coupled with economy.
122	14.32	The Committee note that in 1972 when the staff strength was 138, the Staff Inspection Unit of the Ministry of Finance had conducted a work study of the Headquarters of the Corporation and

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		found that 16 persons (including 6 officers) were surplus. The Management stated (November, 1973) that in view of the two new projects sanctioned by Government and the increased activities of the Corporation arising out of the advance action to be taken for Fifth Five Year Plan projects, the implementation of the recommendations of the Staff Inspection Unit was not possible. The staff strength as on 31st March, 1974 has risen to 156. The Committee have already found that on account of the excessive staff in Headquarters which was stated to have been based on the original anticipation of 5 million tonnes capacity the overheads on the individual projects have been very high. The Committee would like to caution the Corporation that if the staff strength at the Headquarters is not kept under strict control and if the man-power is allowed to increase unrelated to the volume of work, the surplus manpower will become a permanent liability which will have an adverse effect on the profitability of the Corporation.
123	14.33	The Committee also note that as against the strength of 511, provided in the DPR, for Mandhar plant, the personnel in position as at the end of March of 1971, 1972 and 1973 were 694. 669 and 667 respectively. The strength of the personnel in position as on 31-3-1974 came down to 629. The Staff Inspection Unit of the Ministry of Finance recommended a strength of 481 for all the departments except (i) Quarry Department, (ii) Accounts Department and (iii) Drawing Office. On the basis of the Staff Inspection Unit's recommendations the Board approved the permanent strength of 488 (481 recommended by the Inspection Unit and 7 for preventive maintenance for which no provision had been made by the Inspection Unit) for the departments covered by the Unit. The Board subsequently sanctioned a strength of 89 for Accounts, Drawing and Quarry

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		Departments which were not covered by the Inspection Unit, thus sanctioning a total strength of 577 for the entire Mandhar plant as against the actual staff strength of 629 as on 31-3-1974. The Committee note that no fresh appointments are being made by the Corporation and the surplus staff is being adjusted against the vacancies arising from time to time. They hope that the Corporation will continue efforts to bring the actual staff strength down to the level of sanctioned strength.
124	14.34	The Committee note that as against the strength of 511 indicated in the DPR of Kurkunta Plant the actual strength on 31st March, 1974 is 573. The Committee are informed that, as against the provision of 511 personnel in DPR, the Board in November, 1974 approved the permanent staff strength of 574 personnel and temporary additional strength of 27 personnel. Explaining the increase over the strength provided in DPR, it has been stated that the DPR provided the minimum requirements on the basis of average conditions prevailing at that time (1966) but it did not take into consideration the exact lay-out of the plant which was given hy the plant supplier later. The permanent staff strength sanctioned by the Board in 1974 is stated to be as per Industrial Engineering Study. The Committee see no justification for sanctioning temporary strength of 27 over and above the permanent strength fixed as per the Industrial Engineering Study when the Plant is already carrying a large surplus. They would like the Corporation to regulate the staff strength in the light of the Industrial Engineering Study and avoid carrying surplus as surplus staff will have an adverse effect on the cost of production and the profitability.
125	14.35	The Committee note that it has not been possible for the Corporation to make a compara-

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		tive study of the productivity (man-hour/tonne) and cost of salaries and wages per tonne etc. in Mandhar Plant and other cement factories due to non-availability of relevant data in respect of factories in private sector. The productivity for the Mandhar Plant works out to 6.5 man-hour per tonne which is stated to be comparing favourably with 3 cement factories (names not disclosed) having an average of 7 man-hour per tonne. As the 3 factories referred to above are admittedly not exactly identical with the Mandhar Plant, the Committee feel that the comparison is of no relevance. **The Committee would like the Corporation to work out the norms of productivity in respect of each of its plants in operation and appraise the performance of each plant with reference to the norms from year to year.**
126	14.45	The Committee note that under Articles 117(26) and (27) of the Articles of Association, the Directors of the Corporation delegated certain powers to the Managing Director in 1965 and the same delegation is still in force. The Bureau of Public Enterprises had emphasised in September, 1970 that the system of delegation of powers throughout the managerial hierarchy upto the lowest level of each enterprise should be reviewed on a comprehensive basis in order to ensure that, at all levels, the centres of responsibility corresponded exactly to the centres of powers but no such review was done till November, 1973 nor was the demarcation of the detailed powers and functions of the Financial Adviser made as required under the guidelines issued by the Bureau in May, 1969. They are informed that the draft delegation of powers to the Chairman-*cum*-Managing Director, functional Directors and heads of Departments was prepared but it was considered necessary to revise it in the context of changes recommended in the

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		organisational structure by the Action Taken Committee headed by Shri M. S. Pathak and the revised delegation of powers is being finalised currently. The Committee do not, however, see any justification for handing over this work to a firm of Chartered Accountants when this function is for the management to finalise. As the matter has already been delayed for too long, the Committee would like the Corporation to finalise without any further delay the delegation of powers not only to the Managing Director, functional Directors and Heads of Departments but also to subordinate officers throughout the hierarchy in the light of the recommendations made by the Bureau of Public Enterprises in May, 1969 and September, 1970 and the Action Taken Committee and implement the same as soon as possible.

GMGIPND—LS II—754 LS—23-7-75—1400.