

CEMENT CORPORATION OF INDIA LIMITED

**MINISTRY OF INDUSTRY
(Department of Heavy Industry)**

**COMMITTEE ON
PUBLIC UNDERTAKINGS
1993-94**

TENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

THIRTY-FOURTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1993-94)

(TENTH LOK SABHA)

CEMENT CORPORATION OF INDIA LIMITED

MINISTRY OF INDUSTRY
(DEPARTMENT OF HEAVY INDUSTRY)



*Presented to Lok Sabha on 29.4.1994
Laid in Rajya Sabha on 29.4.1994*

LOK SABHA SECRETARIAT
NEW DELHI

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(1993-94)

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***Ceased to be a Member of the Committee consequent upon the retirement from Rajya Sabha w.e.f. 2nd April, 1994.

**STUDY GROUP III OF
COMMITTEE ON PUBLIC UNDERTAKINGS**

Bharat Coking Coal Limited, Indian Airlines — Under Utilisation of Fleet; Idle Wages to Flying Crew; Avoidable Payment on Leased Aircraft; Wasteful Expenditure on Training of Pilots; and Delay in Commissioning of Jet Engine Shop, Cement Corporation of India Limited, Bharat Heavy Electricals Limited, National Textiles Corporation Limited, Mining & Allied Machinery Corporation Limited, Educational Consultants India Limited.

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- 4. Smt. Saroj Dubey**
- 5. Shri Virendra Singh**
- 6. Shri Santosh Kumar Sahu**

INTRODUCTION

1. The Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf present this Thirty-fourth Report on Cement Corporation of India Limited.

2. The Committee's examination of the subject was mainly based on Report of the Comptroller & Auditor General of India Union Government (Commercial) No. 11 of 1992.

3. The subject was examined by the Committee on Public Undertakings (1992-93). The Committee took evidence of representatives of Cement Corporation of India Limited on 29th March, 30th March and 27th April, 1993. The Committee on Public Undertakings (1993-94) examined the subject and took evidence of the representatives of Cement Corporation of India on 25th June and 18th August, 1993. The Committee also took evidence of representatives of Ministry of Industry (Department of Heavy Industry) on 28th October, 29th October and 24th November, 1993.

4. The Committee on Public Undertakings (1993-94) considered and adopted the Report at their sitting held on 25th April, 1994.

5. The Committee feel obliged to the Members of the Committee on Public Undertakings (1992-93) for the useful work done by them in taking evidence and Shifting information. They would also like to thank the officials of the Lok Sabha Secretariat attached to the Committee on Public Undertakings for their excellent work and assistance rendered to the Committee.

6. The Committee wish to express their thank to the Ministry of Industry (Department of Heavy Industry) and Cement Corporation of India Ltd. for placing before them the material they wanted in connection with examination of the subject. The Committee also wish to thank in particular the representatives of Ministry of Industry (Department of Heavy Industry) and Cement Corporation of India who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

7. The Committee also place on record their appreciation of the assistance rendered by the Comptroller & Auditor General of India.

NEW DELHI;

April 28, 1994

Vaisakha 8, 1916 (Saka)

VILAS MUTTEMWAR,

Chairman,

Committee on Public Undertakings.

CHAPTER I

HISTORICAL AND OBJECTIVES

A. Historical Background

Cement Corporation of India Limited was incorporated on 18.1.1965 under Companies Act, 1956. This was wholly owned by Government of India. The Company was incorporated with the objective of prospecting survey and exploring of cement grade limestone deposit for the cement industry and further to exploit available cement grade limestone by installing of sufficient manufacturing capacity of cement plants in the country to meet the growing demand for the development of the country.

1.2 Initially, the cement plants installed by the Corporation were based on wet process and their capacity was limited to 2.0 lakh tonnes per annum. Subsequently, plants were based on dry process technology and were also limited to 2 lakh tonnes per annum capacity. Later the Company installed bigger capacity plants of 4 lakh tonnes per annum based on dry process. In the meantime Company also started manufacturing slag cement in one of the 2 lakh tonne per annum capacity wet process plant. The latest plants installed have a capacity of 1 million (10 lakh) tonne per annum capacity. As on date there are 11 plants of CCI all over the country. The total installed capacity of these plants is 42.16 lakh tonnes per annum. One of the plants of the Company viz. Charkhi Dadri was taken over by Government from private sector and handed over to CCI. The details of the Units of CCI are given below:—

S. No.	Unit & Location	Date of Commencement of Commercial production	Type of process	Installed Capacity
1	2	3	4	5
1.	Mandhar (MP)	July, 1970	Wet	3.80
2.	Kurkunta (Karnataka)	Oct. 1970	Wet	1.98
3.	Bokajan (Assam)	April, 1977	Dry	1.98
4.	Rajban (HP)	April, 1980	Dry	1.98
5.	Nayagaon (MP)	March, 1982	Dry	4.00
6.	Akaltara (MP)	April, 1981	Dry	4.00

1	2	3	4	5
7.	Yerraguntla (AP)	April, 1982	Dry	4.00
8.	Charkhi Dadri (Haryana)	Sept, 1981	Semi-dry	1.42 (Since derated)
9.	Adilabad (AP)	April, 1984	Dry	4.00
10.	Tandur (AP)	July, 1987	Dry	10.00
11.	Nayagaon Expn./ Delhi Grinding/ Unit (MP/Delhi)	May, 1990	Dry	5.00
				42.16

1.3 Besides these plants, CCI has a subsidiary company named Damodhar Cement & Slag Limited. This was a joint venture with West Bengal Industrial Development Corporation. Initially, in the process of Industrial Development, WBIDC had signed an agreement with private sector partner for installation of cement grinding plant in order to utilise the slag generated from IISCO. The private partner backed out and WBIDC requested Central Government to participate and accordingly CCI signed a MOU with WBIDC on 19.7.1983. The Unit is located at Madhukunda, Purulia District, West Bengal and the capacity for manufacture of slag is 3 lakh tonnes per annum and cement grinding 2.7 lakhs tonnes per annum. The unit does not have its own clinker manufacturing unit. The clinker is purchased from outside.

1.4 Apart from production of cement in above factories, CCI has a wide marketing network consisting of five zonal office under which there are number of Regional offices, Sales Office and Dumps. The Company is also having a Research & Development Centre, Training & Development Centre at Nayagaon.

B. Location of Plants

1.5 It has been stated by audit that the units of the Company were not located at the economically most advantageous areas. The demand for cement was in the North and North East but units of CCI were set up in the South where there was chronic power shortage.

1.6 When asked about the reasons for not locating the plants at the economically most advantageous areas, CCI stated in a written reply:—

“It is difficult to comment at this stage. The locations of the cement plants were decided in conformity with the industrial policy of the Government of India as per Industrial Development & Regulation Act. The licences have been issued by the Government

on the basic criteria following the Industrial Policy, balance regional development and availability of raw material. In case of Public Sector, projects are examined by Administrative Ministry, Planning Commission and Public Investment Board. Only after clearance such locations are taken up by the Company."

It was further stated in the note that:—

"It was fact that North and North East are deficit areas. It is also fact that 45% of the capacity of CCI is located in South where there is now chronic shortage of power."

1.7 When asked as to how many places or locations were examined by CCI before sending proposal for the eleven existing units of CCI, it was informed to the Committee through a post evidence reply as under:—

"CCI had done detailed prospecting at 14 locations out of which 9 units had been set up by CCI based on these prospecting. The other 2 units *i.e.* Charkhi Dadri was a sick unit transferred by the Government to CCI and DGU is only grinding unit based on clinker produced at Nayagaon Expansion Unit."

1.8 When asked as to how many private units had come up in and around CCI units in South since the inception of CCI plants. CCI informed the Committee through a note that the total installed capacity of CCI in South was 2 million tonnes per annum as against the total installed capacity of 21.70 million tonnes per annum in South as on 31.3.1993.

Some of the units which had come up in South after CCI plants were set up were as under:—

- | | | | |
|---|---|---------|-----------|
| A. <i>Near Yerraguntla (Capacity 4 LTPA)</i> | | | |
| (a) India Cement, Chilankur | — | 10 LTPA | 1984 |
| (b) Andara Cement, Nadikude | — | 05 LTPA | 1983/1987 |
| (c) Texmaco, Tapatri | — | 05 LTPA | 1985 |
| B. <i>Near Tandur (10 LTPA) & Kurkunta (2 LTPA)</i> | | | |
| (a) Kesram, Ramagundam | | 09 LTPA | 1984 |
| (b) Raasi Cement, Madepally | | 11 LTPA | 1981/1987 |
| (c) Priyadarshani, Ramapuram | | 06 LTPA | 1986/1987 |
| (d) Shri Vishnu, Sitapuram | | 06 LTPA | 1987 |
| (e) ACC, Wadi | | 16 LTPA | 1968/1983 |
| (f) Rajshree Cement, Malkhed | | 16 LTPA | 1984/1991 |
| (g) Vasvadatta Cement, Sedam | | 05 LTPA | 1986 |
| C. <i>Near Adilabad (4 LTPA)</i> | | | |
| (a) Orient Cement Rechni Road | | 09 LTPA | 1982/1990 |
| (b) Manikgarh Cement, Manikgarh | | 10 LTPA | 1986 |
| (c) L & T, Awarpur | | 22 LTPA | 1983/1987 |

1.9 During the course of examination of the representatives of Department of Heavy Industry, the Committee enquired why inspite of locational disadvantages most of the units of Cement Corporation of India were located in the Southern part of the country whereas the market for CCI was in North and North Eastern parts of the country. Replying to the query, the Secretary, Department of Heavy Industry stated as under:—

“Going through the records, I find that, even at that point of time, it is fact that North, was a little more deficit than other parts of the country, After taking all these factors into accounts, the PIB and the Cabinet have decided to approve the projects to be located in the South. So, it is not that the deficit that was in the North was not taken into consideration, when these projects were approved. It was a conscious decision when these projects were approved in the South.

And some of the factors that are taken into consideration when specific projects are approved are the availability of raw materials, the availability of infrastructure and so on. Of course, market should also be a factor that should be taken into account. But, sir, as the Hon'ble Members are aware, at that point of time, cement was a totally controlled commodity and there was a freight equalisation that was being granted to all the factories. Possibly, that could have been one of the reasons why, if cement was to be marketed to distant areas it may not have been a disadvantage at the point of time. The limestone, the availability of other infrastructure were all taken into account and thus, these projects were cleared.

I would like to read out from the minutes of one of the meetings that we held, which will indicate what really happened. It says:— ‘Region-wise, South Zone is presently having surplus in cement production. However, it is anticipated that if more capacity is not created in South, even that Zone will become a deficit Zone by the end of 1976. Moreover, the cement produced at Adilabad, Yerraguntla can be transported to the East Zone by steamers which presently carry coal from Calcutta port. The Tandoor plant is nearer to the West Zone which is a deficit zone and can serve its needs. It has been clearly brought to the notice of the Cement Corporation of India that the maximum deficit happens to be in the North Zone.’

So, this is the consideration. So, it is not that they have gone to the South, without considering various factors. As I read out, they have taken into consideration the deficit in the North, but still, they have approved of this.”

1.10 Elaborating further on this point, the Secretary, Department of Heavy Industry stated:—

“Despite the fact that it has been recognised that north already is a deficit area, decisions were taken to instal three plants at Tandur Adilabad and Yerraguntla in the South. Yesterday, a point was

raised whether adequate lime stone is available or not, I checked up with the Cement Corporation and am told that there is no problem about the availability of limestone. So the raw material is available in plenty. The Chairman also mentioned to me that when these plants were considered for locating them in South, South was power surplus. Power deficit came only around 1986-87."

1.11 When asked whether a study was conducted in certain areas or in all the areas for setting up of these units in Southern part of the country, the Secretary, stated during the course of evidence,

"I do not think there was any comparative study made about the sites in different parts of the country while approving these projects."

1.12 While commenting about the requirement of cement, the Secretary further added:

"The cement requirement in the North was more than what was being produced."

He also stated:—

"South was surplus and North was deficit. Despite that, after taking into consideration various factors, they consciously decided to approve these projects."

1.13 Referring to a query regarding the examination of alternative sites and justification while sanctioning a project, the Secretary, Department of Heavy Industry stated during evidence:—

"There was some justification for taking a decision. The concept of IRR was not invoked when this was considered. IRR was not considered as a factor as a normal rule, while approving the project. IRR came into being a little later. It was not considered for these projects also."

C. Objectives

1.14 In accordance with the guidelines issued by the Bureau of Public Enterprises (BPE) the Government directed the Public Sector Undertakings in May, 1979 and February, 1983 to frame their micro objectives consistent with the broad objectives spelt out in the Government of India Industrial Policy Statement of December, 1977 and get them approved by their administrative Ministry to facilitate meaningful evaluation by Government.

The micro objective of CCI are stated to have been approved by the Government in February, 1984. Some of the micro objectives approved as are as under:—

(i) To achieve a pioneering and leading position in the exploration, prospecting and proving a cement grade limestone reserves and deposits to sustain ambitious growth plans of the Corporation, in particular and of the cement industry, in general.

(ii) To emerge as a growing and important leader in the production of cement in the country by creating additional capacity either by expansion or by improved technology or by setting up new cement plants.

(iii) To emerge as a leader in setting up capacities in deficit/remote areas for removing existing regional imbalances of production and consumption in pursuance of the national policy in this regard.

(iv) To emerge resultantly as the largest seller of cement in the country and to continue to perpetuation and improve upon the same position by constant increase in the production capabilities.

However, it was stated by Audit that the Company's share of production of cement in the country was 6.68 percent in 6th Plan period and 6.04 percent during the 7th plan period (1985-90). During 1990-91, its production was 6.29 percent of the country's production of 455 lakhs tonnes of cement.

1.15 When asked how far CCI had been able to achieve the each of the micro objectives set out by it, CCI stated in a written reply that micro objectives of the company were approved by Government in February, 1984. After that there had been lot of change in the external environment and the Government policies. The Government had also decided to restrict its investment in the cement sector. Number of private sector units have come up in the cement industry. CCI had, however, been able to achieve the objective within the constraint of changing Government policy and external environment.

1.16 Elaborating further regarding the priority levels and constraints being experienced by CCI in fulfilling the objective, CCI stated in a note that in order to become the leader in Industry, CCI needed additional investment which was not forthcoming from the shareholders. As a result the capacity could not be enhanced. Within the financial constraint, this was the optimum installed capacity. The Company's priority is to maintain viability and solvenoy. They further intimated to the Committee that the capital structure of the Company and its return on investment was not attractive enough for the public to invest funds. Therefore, the Company had no option but to stop its ongoing expansion projects or put them as joint venture companies.

1.17 The Committee wanted to know the reasons for allocating low priority to the Cement Industry in the Public Sector and also the reasons for restricting investment of more funds in CCI. The Department of Heavy Industry stated in a written reply:—

“Under the Industrial Statement of 1991, the public sector will focus on strategic high tech and essential infrastructure. Government will review those industries based on low technology, non-strategic areas, inefficient areas, areas with low public purpose and those where the private sector had developed sufficient expertise and resources. The CCI is also not in a position to play an effective role in the cement market.”

1.18 The Committee enquired whether the Government had received any request from CCI for more funds to set up more plants and enhance its production capacity. The Department of Heavy Industry intimated in a written reply:—

“The focus is currently on improving the capacity utilisation and profitability of the CCI. Funds constraints and the industrial policy do not favour setting up more cement plants in the public sector.”

1.19 The Cement Corporation of India Limited came into existence on 18.11.1965 as a company wholly owned by the Government of India. The Company has 11 plants all over the country with a total installed capacity of 42.45 lakhs metric tonnes. The Committee's examination has revealed that the plants of the company were not located at economically most advantageous areas. Three of the plants of CCI viz. Tandur, Adilabad and Yerraguntla which account for nearly 45% of total capacity of CCI are located in the Southern part of India where there is chronic power shortage. The Committee also found that the demand for cement was more in the north and north eastern part of India.

1.20 What dismays the Committee further is that even at the time of setting up these plants in the South, the North was a little more deficient in cement than other parts of the country and the South was in fact surplus in cement production. Admittedly, while approving these projects in the South, no comparative study was made by CCI or the Government about the sites in different parts of the country. The reasons put forward by the Secretary, Department of Heavy Industry *inter-alia* that due to the existence of freight equalisation scheme and the industrial policy prevalent at the time, plants were set up in the South hardly convince the Committee. The Committee is of the firm view that the decision regarding location of the plants should have been based on the market situation keeping in mind the areas which were deficient in cement. At this stage the Committee can only express its displeasure over the faulty decisions taken by the Government in the past. They recommend that in future due consideration should be given to all the relevant factors apart from the infrastructural facilities before setting up a plant. Besides wherever proposals are pending for setting up new Cement Plants by CCI, availability of adequate power should be ensured before setting up these plants.

1.21 The Committee find that according to the micro objective of CCI as approved by the Government in February, 1984, the company *inter-alia* aimed to emerge as a growing and important leader in the production of cement in the country by creating additional capacity either by expansion or by improved technology or by setting up new cement plants to emerge as the largest seller of cement in the country and to continue to perpetuate and improve upon the same position by constant increase in the production capabilities.

1.22 The Committee are, however, distressed to note that instead of emerging as the leader in the industry, CCI's share in the total cement production of the country has been very meagre in the past few years. In the year 1990-91 its production was 6.29 percent of country's production of 455 lakh tonnes of cement. The Company attributed this state of affairs to the change in external environment policies, lack of funds and increasing number of private companies in the cement sector. The Committee are, however, of the opinion that within these constraints, there is still scope for CCI to improve their capacity utilisation and achieve the objective of increasing its share in the cement market in the country.

1.23 The Committee are also unhappy with the views of Government that, CCI is also not in a position to play an effective role in the cement market. It appears to the Committee that the Government have tacitly decided to accord a low priority to this Sector. The Committee are of the view that cement industry, being one of the most important industries which play a crucial role in developing infrastructure cannot be left like that. They, therefore, urge that the Government should work out a comprehensive proposal for strengthening CCI and provide additional investment wherever necessary so that it can accomplish its well defined objectives.

CHAPTER II

DEVELOPMENT AND PROJECTS

A. Loss of Mineable area in Nayagaon

2.1 It has been observed from Audit report that investigation carried out by CCI during 1967 revealed availability of 746.68 lakh tonnes of cement grade limestone over 6.30 sq. kms. in Nayagaon. Further investigation established the availability of 310.40 lakh tonnes of mineable cement grade limestone sufficient to support a plant of capacity 1200 tonnes per day, for 50 years. The Company acquired (February 1974) mining lease over 336.85 hectares of land at a cost of Rs. 10.38 lakhs but factory and township were constructed on a site in the quarry area depriving Company of 31 per cent of the mineable reserve.

2.2 Replying to a query whether the company was aware of the fact that factory and township were constructed over mineable reserve depriving company of precious reserves the CCI stated in written note as under:—

“It is presumed that company should be aware of the fact that the site office, factory and township were constructed at mineable reserve.”

2.3 On being asked whether this decision was taken by the Director or the Board of CCI, the Chairman and Managing Director of CCI stated during evidence:—

“As per the delegated powers Director (Project) was the one who decides.”

2.4 The Committee wanted to know from the Ministry of Industry whether the decision to construct the township was conveyed to the Ministry and prior approval sought and when did the Ministry first come to know about the construction of factory and township on the quarry area. The Department of Heavy Industry stated in a written note that at the time of construction of the township, the Government was not aware that the same was being built over the limestone reserves. The matter came to the notice when CAG conducted the appraisal of the CCI during 1991-92.

2.5 On the question of fixing responsibility for this lapse of construction of the factory and township over mineable reserve, the Department of Heavy Industry informed the Committee through a post evidence reply as under:—

“CCI was directed vide our letter dated 27.10.93 to enquire into the circumstances leading to construction of township and factory on

mining area in Nayagon. The Company was also instructed to ensure that in future neither the plant nor the township is allowed to be located over the limestone reserves.

In their reply dated 24.11.93, the Company had stated that the plant lay out decisions are generally taken by the concerned Director incharge of the project and in the present case of Nayagaon project, the concerned Director has since retired. CCI has further indicated that the relevant records in this case were lost in fire in their Office in 1979 and therefore, the specific details could not be located now.

The Company has, however, assured that in future lay out of factory and township would be carefully examined to avoid their location over the mining area."

B. Capacity Development

(i) Cost and Time Overruns in 5th and 6th Five Year Plan Projects.

2.6 It has been reported by Audit that during 5th and 6th Five Year Plans, the Company planned execution of 7 projects at Bokajan, Rajban, Yerraguntla, Akaltara, Mandhar Expansion, Nayagaon and Adilabad as detailed below:—

Name of Project	Annual capacity (in lakh tonnes)	Scheduled month of completion as per DPR	Cost approved by Govt. (Rs. in lakhs)	Month of completion	Actual cost (Rs. in lakhs)	No. of months delay w.r.t. DPR	Excess cost over original cost estimate (Rs. in lakhs)
Bokajan	2.00	May, 75	1098	April, 77	1447	23	349
Rajban	2.00	Oct., 76	761	April, 80	2176	42	1415
Yerraguntla	4.00	Oct., 77	1542	April, 82	3218	54	1676
Akaltara	4.00	Jan., 78	1870	April, 81	3372	39	1502
Mandhar Expansion	1.80	Oct., 78	211	Nov., 78	614	1	403
Nayagaon	4.00	Sept., 79	1538	March, 82	3289	30	1751
Adilabad	4.00	June, 82	1604	April, 84	4039	22	2435
Total	21.80		8624		18155		9531

2.7 It is apparent from the above table that in the seven completed projects of 5th and 6th Plans cost overrun was Rs. 95.31 crores over original estimates of Rs. 86.24 crores and time overruns ranged from 1 to 59 months.

2.8 During 5th and 6th Five Year Plan on the delays occurring in some of the projects the Committee on Public Undertakings (1975-76) in their 69th Report (Fifth Lok Sabha) had strongly recommended that Government/Corporation should take serious and concerted measures to

ensure that the projects come up by scheduled dates and are not further delays.

2.9 In the 7th Five Year Plan, the Company planned completion of 3 projects at Tandur, Nayagaon Expansion and Yerraguntla Expansion as given below:—

Name of Project	Capacity (in Lakh tonnes)	Scheduled month of completion per DPR	Original estimate as approved by Govt.	Exp. incurred upto 31st March 1992.	Actual month of completion	Remark
Tandur	10	June, 82 revised 1985	5396	15157	(Rs. in lakhs) June, 1986	Commercial production started in July, 87.
Nayagaon Expansion						
(a) Clinkerisa- tion at Nayagaon	10	April, 86	6507	15037	Oct. 1987	Started Commercial production in May, 1990
(b) Delhi Grinding Unit	5	Oct., 86	1238	3414	May, 89	—
(c) Bhatinda Grinding Unit	5	April, 86	1195	810	—	Clearance by Minist. of Environment and Forest Given in 1993
Yerraguntla Expansion						
Expansion	10	April, 87	7572	5681	—	—

2.10 In the implementation of three projects in the 7th Plan period it may be seen that the Tandur Project and Clinkerisation at Nayagaon Expansion and DG Units of Nayagaon Project were not completed without cost and time overruns. The Bhatinda Grinding Unit of Nayagaon Expansion Project and Yerraguntla Expansion Project are still at standstill.

2.11 According to Audit, the implementation of seven projects during the 5th and 6th plan period and three projects in the 7th plan period had shown a large number of inadequacies and failure in project formulation and implementation. The Committee wanted to know what action was taken by the Ministry in view of the recommendations made by the Committee on Public Undertakings in their earlier Report to ensure that delays do not occur in execution of the three projects of Tandur, Nayagaon Expansion and Yerraguntla Expansion, which was planned for completion in the 7th Five Year Plan. The Ministry stated in a written reply:—

“The implementation of the projects were monitored by this Department, Planning Commission and the Ministry of Programme

Implementation. CCI has been sending monthly flash reports and quarterly progress reports of the projects to the concerned authorities. The progress of the projects were also reviewed by the Planning Commission during the Annual Plan discussions. In pursuance of the various reviews, steps were taken to see that the projects were completed as early as possible."

2.12 On being enquired how inspite of such close monitoring delays occurred in the completion of these projects, the CCI informed the Committee in a note as follows:—

"Initially the projects were to be financed with the World Bank Finance. Later these were withdrawn from World Bank because of the policy difference between Government of India and World Bank. In order to avoid bunching of projects these were staggered. The projects suffered delays mainly due to fund constraints in case of Tandur and Nayagaon Expansion, M/S. ABL the turnkey supplier of Tandur going for liquidation, defective equipment supplied and design deficiencies in the plant by M/S. KCP for Nayagaon Expansion etc. In case of Yerraguntla there was rethinking on the part of the Government whether to continue with the project or not and M/S. WIL the turnkey plant and machinery supplier for the project going for arbitration and stopping the work."

2.13 When the Committee asked whether delays also occurred due to delay in approvals by Government, the CCI informed in a written reply that for the approval of the projects the Government has established practices and procedures for scrutiny of the project proposals which takes its normals time for the approval of the projects. The normal time taken in approval of a project of Public Sector Undertakings can be roughly estimated between the 12 to 24 months after the receipt of the DPR by the Administrative Ministry.

C. Individual Projects

2.14 The Committee will now discuss in detail these three projects which are planned to be completed in the 7th Five Year Plan.

(i) Tandur Project

2.15 It has been reported by Audit that on the Tandur Project, the World Bank initially showed interest in giving a loan but later project was financed wholly by the Government. The cost estimates were revised afterwards due to price escalation (Rs. 874 lakhs), exchange rate variations (Rs. 206 lakhs) and increase in interest burden.

2.16 The Company informed that on contractor's failure to carry out the performance guarantee test, company wanted to encash bank guarantee (Rs. 6 crores) but the Ministry of Power advised against the encashing of the bank guarantee.

2.17 In this connection, CCI informed the Committee in a note they did

not encash Bank Guarantee when the Contractor had failed to carry out the performance guarantee test as the contractors M/S. ABL had been taken under the administrative control of Power Ministry and the decision regarding not allowing CCI to encash the Bank guarantee given by M/S. ABL was taken by Ministry of Power after taking up the matter with Cabinet Secretariat. The Bank Guarantee is still pending which has not been encashed and M/S. ABL has not completed the work.

The note furnished by CCI further stated that since M/S. ABL is under the Government Management as on date, the case will be referred to permanent machinery in Department of Public Enterprises.

2.18 When asked whether the case has since been referred, the CCI stated in a written reply:—

“...the matter has been taken up with the Secretary, Government of India, Department of Public Enterprises, Ministry of Industry as well as Department of Heavy Industry to take up this matter with Ministry of Finance to pressurise SBI for encashment of BGs and also with Department of Power to pressurise M/S. ABL for conducting the performance guarantee test.”

They also informed that they have also pursued the matter with the Administrative Ministry.

2.19 When enquired from the Department of Heavy Industry whether they have enquired from the Ministry of Power the reasons for not allowing CCI to encash bank guarantee, the Department of Heavy Industry informed the Committee in a written reply that the matter had been taken up with the Department of Power and the same was being pursued.

2.20 The Committee wanted to know if Ministry of Industry requested Ministry of Finance to put pressure on SBI to allow encashment of Bank Guarantee and the reasons for not doing so. The Ministry stated in a written reply:—

“The issue was sought to be resolved initially by taking up the matter with the Department of Power. Meanwhile, Government decided to rehabilitate ABL and subsequently, there was a CCEA decision that CCI should withdraw its invocation of guarantee against SBI provided by ABL.”

Further, it was also stated in written reply:

“The performance guarantee test was not conducted by M/S. ABL and has since lapsed. This Department has taken up the issue with the Department of Power.”

2.21 The Tandur Project which was completed in the month of June 1986 commenced commercial production in July 1987. When asked for reasons for the delay in starting commercial production, a witness stated during evidence:—

"I was the Chief General Manager. The work on the project was taken up and completed in 1986. But unfortunately, during that period ABL faced a lot of financial problems and they were closed. We were not able to get any assistance at all from them. That is why it took us a little longer time than the stipulated plan."

2.22 Nayagaon Expansion Project comprises of three units viz. Clinkerisation Unit, Delhi Grinding Unit and Bhatinda Grinding Unit. The Clinkerisation Unit at Nayagaon was completed in October, 1987 but started commercial production in May, 1990. The Committee wanted to know the reasons for this delay. Elaborating reasons for the delay, an official of CCI informed during evidence:—

"It was basically trial production. As our Chairman said, when the plan was started, nothing was moving. The first thing was each and every machine had to be corrected and then matching of one machine with the other machine had to be done. Then there was a water problem and we had to get bores and during this period we were not able to match the machines with each other because the contractor had also stopped the work."

The witness further added,

"It was the CCI engineers who got these machines corrected as these were not erected properly by the Contractors."

2.23 The Committee pointed out that since the project was on turnkey basis, the company ought to have given an approval regarding the taking over of the project after completion. As official of CCI stated during evidence:—

"The project was not handed over to us. Only equipments were undersized and it took some time to set right them. Even now some are undersized."

2.24 It was also intimated by CCI that the performance of the Nayagaon plant had been low because of defective equipments, systems and design supplied by the turnkey supplier resulting in number of failure of equipments and more time in stabilisation.

2.25 When asked when were these equipments were purchased and what action had been taken against the officials responsible for purchase of defective equipments, the CCI informed the Committee in a written reply that these equipments were purchased during the period 1984-87 and the Director Incharge of the Project had been charge-sheeted.

2.26 In reply to a query as to when the charge-sheet was issued to the Director (Projects), the CMD, CCI stated during evidence:—

"....He was given charge-sheet before a month he retired."

2.27 In this connection, the CMD further informed the Committee during evidence:—

“He has joined one of the turnkey suppliers who had been engaged with us, that is, Walchand Industries. He is the Chief Executive of the Company.”

2.28 The Committee wanted to know from the Ministry when the matter about the dubious dealing of the then Director (Projects) was brought to the notice of the Ministry and why the charge-sheet was issued to him just a month before his retirement. The Department of Heavy Industry stated in a written reply as follows:—

“The proposal for charge-sheeting the then Director (Projects), Shri Rijhsinghani, was received through the CVO of this Department on 12.10.90. The charges did not relate to Shri Rijhsinghani's dealings with M/s. WIL but were about the delay in placing and executing that order for supply of engineering and bulk conveyer system by M/s. Rampur engineering company for implementation of the Nayagaon expansion project. As regards WIL, there is a dispute with M/s. WIL regarding Yerraguntla expansion project which is under arbitration. CVC's advice for initiation of major penalty proceedings against Shri Rijsinghani was received on 12.10.90. Shri Rijsinghani superannuated on 12.11.90. Shri Rijsinghani has got the matter stayed through court and the matter is sub-judice.”

2.29 On being asked what efforts have been made to get the stay vacated, the Ministry of Industry stated in a written reply:—

“The High Court granted the stay on 15.11.91. Though efforts were made to get the case listed for early hearing for vacation of the stay, the Govt. Counsel has advised that it would not be possible to get the case listed for early hearing.”

2.30 The Committee were also informed by the CMD, CCI during evidence that the then Director (Projects) did not insist on performance guarantee in the case of all the plants handled by him as a result of which commercial production suffered.

2.31 The Committee enquired from the Ministry of Industry whether the former Director (Projects) was required to take permission from the Government before taking up employment with M/s. WIL (Suppliers of equipments to CCI) after his retirement from CCI. The Department of Heavy Industry informed the Committee through a post evidence reply:—

“Under the then prevailing rules, Shri Rijsinghani, being a contractual appointee, was not required to seek permission from the Government for joining any private company. As already mentioned above, Shri Rijsinghani retired on attaining the age of superannuation and the disciplinary action initiated against him could not be proceeded with due to the High Court's orders.”

2.32 The Committee wanted to know from the Department of Heavy Industry whether CCI was required to submit any periodical reports to the Ministry regarding the progress of work projects and whether the fact that the equipments being installed were not as per specifications and desired

quality were brought to the notice of the Ministry. While replying in the affirmative the Ministry stated in a written note as under:—

“The Company is required to submit a Quarterly Progress Report to the Ministry about the physical and financial progress of the work. The physical progress explanatory note is limited to critical milestones only. The quality of equipments being installed in the project during its implementation period, etc. is monitored by the Company.”

(iii) *Bhatinda Grinding unit of Nayagaon Expansion*

2.33 It has been reported by Audit that the grinding unit in Bhatinda was due for completion in March, 1986. Due to delay, the project cost went up from Rs. 17.59 crores to Rs. 24.84 crores. The project work was suspended pending pollution clearance from Government of India (August, 91) after Government of Punjab gave Environmental clearance. CCI has since received clearance from the Ministry of Environment & Forests in February, 1993.

2.34 The Committee wanted to know from CCI the latest position regarding the plans for setting up of grinding unit at Bhatinda. The CCI informed the Committee in a written reply:—

“The matter regarding setting up of cement plant at Bhatinda was taken up by the Govt. of Punjab with the Ministry of Industry, Govt. of India. Ministry vide their letter dated 29th May, 1992 informed CCI about Punjab Chief Minister's insistence regarding locating the grinding unit at Bhatinda itself and directed CCI to interact with State Government..... Accordingly, the matter was taken up with Department of Heavy Industry, Ministry of Industry vide our letter dated 25th Feb., 1993 wherein a request was made to provide adequate budgetary support for taking up project. Alternatively joint venture could be taken up with Punjab Government.”

CCI further informed that the Company has incurred Rs. 8.62 crores upto 31.3.1993 on this project.

2.35 In regard to the setting up of Bhatinda Grinding Unit, the CMD, CCI stated before the Committee:—

“..... we are certainly not in a position to take the liabilities and other obligations on projects like Bhatinda..... We have to go to the Government and tell them that there is no money. The Government of Punjab is insisting on putting up of the unit there. We have given a proposal saying that if the Government of Punjab could give us the required financial assistance, it could be possible to put up. The Grinding Package is lying for the past 10 years. This unit could be put up although it may not be giving the same IRR which was projected when the proposal was sent or cleared by the Govt. of India. We have yet to get the feedback from the Government. We are in the process of discussing the matter. This is going on..... We tried to have a Satellite Grinding

Unit concept. It was approved by the Board. It must have some alternative plan. We try to see that this money is utilised. We either go in for a joint sector project or for satellite grinding unit concept. We sell our clinker to people in these areas. The point is that it should be a commercial viable project."

2.36 When the Committee enquired from the Department of Heavy Industry whether Government has agreed to provide budgetary support to CCI for setting up the Bhatinda Grinding Unit, the Secretary of the Department stated during evidence:

"They (Planning Commission) did not agree to finance Bhatinda Grinding Unit. Towards the end of the discussion, the Planning Commission gave an indication that they will provide money for the DG sets and nothing else. I have already told my officers to start processing on the presumption that the budgetary support will not be forthcoming to Bhatinda Grinding Unit."

2.37 In this connection, the CCI informed the Committee in a written reply that Bhatinda Grinding Unit cannot be installed unless the funds are made available as internal generation of the company is not sufficient to carry out the project.

2.38 On a query regarding diversification of CCI, the Secretary, Department of Heavy Industry opined that CCI needed budgetary support for improving their performance. During evidence, he said,

"..... We have asked the Cement Corporation of India to carry out their cost benefit analysis also. After all, as a Department incharge of this organisation we have to see what they need. We will support them in the Planning Commission for their proposals. Over a period of time when it is decided to sell these plants, then it is another matter. But still such time the Government decides to dispose of the Cement Corporation of India, if the Corporation does not have internal generation of funds and if its requirements are of urgent nature then we will support. Bhatinda was a part of the Nayagaon Project and it is not a new project. If we do not support its requirement of equity or funds for setting up the unit, then half the clinker that is produced in Nayagaon will go waste. Therefore, there is a necessity for supporting this unit."

2.39 Elaborating on a question of the future prospects of the Cement Industry and the reasons for keeping this industry in low profile by the Ministry of Industry, the Secretary, Department of Heavy Industry stated before the Committee,

"In the public sector, we are finding it difficult to give budgetary support for the CCI even for its essential requirements like the Bhatinda Grinding Unit. There is no possibility at all for giving support to any new cement unit to be set up unless some

overriding reasons are there. But, generally speaking there is no strong case or reason made out for setting up more units in the public sector as far as cement is concerned."

(iv) *Yerraguntla Expansion*

2.40 The Committee note from the Audit Report that with a view to expand the production capacity of Yerraguntla Plant (commissioned 1982) from 1200 to 4200 TPD (14 lakh tonnes per annum) Government approved project at a cost of Rs. 75.72 crores in April, 1981. It was to be completed in April, 1987. The Project was revised in March, 1989 to Rs. 191.25 crores and further to Rs. 307 crores. The project could not be completed as the contractors, who were asking for escalation beyond contract period, stopped the work in 1988 and referred the case to Arbitrator. The capital expenditure incurred upto 31st March, 1992 was Rs. 56.81 crores. The project was subsequently scheduled to be completed only in January, 1994. Because of delay in execution, the project cost was likely to go up to Rs. 340 crores. Now, the internal rate of return has been estimated to be only 7.5 per cent.

2.41 The Committee wanted to know as to what did CCI propose to do with the Yerraguntla Project. Informing about the present position, the CMD of CCI stated during evidence (March, 1993):—

"The Committee of Secretaries have cleared it and recommended it to the Cabinet. The Cabinet has to take decision for selling it as on where basis. The recommendation is that it should be disposed off. The Committee of Secretaries had cleared four months back."

2.42 Elaborating the reasons for the stoppage of work at the project stage the CMD, CCI further intimated to the Committee during evidence:—

"The one million tonne Yerraguntla project was sanctioned initially. The initial cost increased after a gap of few years because Government at that point of time, could not provide the necessary funds. When the revised cost was sanctioned, the cost of the Project has further gone up. In the meantime the supplier wanted unreasonable escalated price. The request was not genuine. Their requests were not reasonable. So, the CCI management at that point of time did not agree. The suppliers demanded more money and the CCI did not agree as the price asked for was not reasonable. They stopped work and they wanted to have an arbitrator appointed. Subsequently, the arbitrator was appointed. He was appointed by the predecessor, a few days before his retirement. Since then, the arbitration claim has been going on and the party involved is Walchand Industries. Pending the arbitration, our requests for continuance of work, our persuasion to the main contractor that is WIL failed. They did not agree. All this led to the situation where it was not possible to go through this Project. An alternative had to be found out; various alternatives were being

thought of, since the past two years. The Government has decided that it may not be possible now to go through the Project because IRR has gone down. In view of this, the Government appointed a Committee to look into it. Then, it was referred to the Committee of Secretaries. The Committee of Secretaries has made a recommendation to the Government that the Project may be wound up. This is awaiting the clearance of the Cabinet. I am told that we may not be able to do that project ourselves without adequate budgetary support. After we receive the decision from the Government of India, we should see what is to be done. Nothing has so far given any positive results, as yet. That is the situation."

2.43 On being asked that what was the rationale for winding up the project after spending Rs. 57 crores, the CMD, CCI pointed during evidence:

"This is the decision to be taken by the Government of India Committee of Secretaries have recommended that to the Cabinet. They feel it is better to close it."

2.44 Answering on the question of handing over the project to private companies as official of CCI stated during evidence:

"We have not yet offered to anybody. In fact, we have yet to get clearance from the Government. The final decision as to what has to be done — whether it is to be disposed of as is where is basis or to be given to somebody or we should continue has been left with the Government."

2.45 On the possibility of going in for a joint venture, the official stated:

"We can go in for a joint venture. Whatever we spend that could be our equity. We could sell it up as a project as a whole. These were the alternatives we have given to the Government."

In this connection, the CMD, CCI further stated:

"We had explored all the possibilities. There was no response. Without getting the approval, it is really, not possible to go through. We also mentioned that if somebody is interested in outright purchase on lease basis, then we can give it. But during the discussion, nobody showed any interest. We did not come across any serious buyer for it. The Government will have to take a final decision."

2.46 When the Committee asked whether the project was still viable, the CMD, CCI categorically stated during evidence:

"It may not be viable today."

2.47 CCI had informed Audit that expansion of Bokajan and Rajban project would have been better instead of expanding Yerraguntla project. The Committee asked why expansion of Bokajan and Rajban which were

in cement deficit areas, was not preferred in place of Yerraguntla. The CCI stated in a written reply as under:—

“Yerraguntla expansion was conceived in 1981 and at that point of time both Rajban and Bokajan have just been commissioned and the question of expansion, does not arise. But with retrospective effect if you see the condition as on date. Perhaps enhanced capacity in Rajban and Bokajan could have been prudent as compared to expansion at Yerraguntla.”

2.48 When the similar question was asked from the Ministry of Industry they too informed the Committee through a written reply that when the Yerraguntla Expansion project was conceived in 1981 both Rajban and Bokajan Units had been commissioned recently. It appeared that in view of these units being newly commissioned CCI had not sent a proposal for expansion. On the query regarding the final decision of disposal of the matter by Cabinet the Department of Heavy Industry informed the Committee in a written reply that no final decision had been taken by them..

2.49 The Committee find that investigation work carried out in Nayagaon revealed sufficient availability of mineable grade limestone which could have supported a plant of capacity of 1200 tonnes per day, for 50 years. Although the company acquired mining lease but factory and township were constructed on a site in a quarry area depriving company of 31 percent of the mineable reserve. It is regrettable that the decision for the construction of the township and factory was taken by an official of the level of Director yet the Government was not aware of the same. The matter came only to their knowledge when C&AG conducted the appraisal of CCI during 1991-92. It was only in October, 1993 that Government directed CCI to enquire into the matter i.e. after about 20 years of acquisition of mining lease in February, 1974 and that too when the Committee took up the subject for examination. To say the least, it is indeed a sorry state of affairs not only on the part of the CCI but the Ministry also that no responsibility for this irrational decision was ever fixed. In view of the Committee merely by stating that the relevant records in this case were lost in the fire, cannot absolve CCI and Ministry from their responsibility. They desire that an enquiry should be initiated afresh at the earliest which should not only fix responsibility for the loss of mineable area to the company but also look into circumstances in which the vital records of the case were destroyed. The Committee strongly feel that suitable system should be evolved both at company and Government level to ensure that such things do not happen in future and valuable records are not lost.

2.50 The Committee note that due to delay in completion of 5th and 6th Five Year Plan Projects as well as 7th Five Year Plan Projects there has been substantial increase in the cost of the projects. In the 7 completed

projects of 5th and 6th Five Year Plan the time over-run was more than 20 months and in fact it was as high as 54 months in the case of Yerraguntla Project. This resulted in cost over-run of Rs. 95.31 crores over originally estimates of Rs. 86.24 crores that is about 110%. The Committee are distressed to find that inspite of the earlier recommendations made in their 69th Report (5th Lok Sabha) the Cement Corporation could not complete their projects in time. This is inspite of the fact that these projects were monitored by the Department of Heavy Industry, Planning Commission and the Ministry of Programme Implementation. The progress of the projects was also stated to be reviewed by the Planning Commission during the Annual Plan discussions. The Ministry have admitted that CCI had been sending monthly flash reports to the concerned authorities. The Committee are led to the conclusion that apart from inadequacies and failures in project formulation and implementation as discussed in the succeeding paragraphs the Ministry of Industry and other agencies involved failed to fulfil their responsibility properly.

2.51 The Committee desire that the Ministry should in future take appropriate action for timely completion of projects and take quarterly progress reports etc. furnished by the Corporation as a serious exercise by giving them a proper feed back and not treating them as routine exercises. The Department of Heavy Industry should effectively coordinate with other Ministries like Ministry of Finance etc. so that the projects which are approved are not delayed due to delay in financing of projects.

2.52 The Committee are perturbed to find that the Tandur project which was originally scheduled to be completed in June, 1982 was completed in June, 1986. The expenditure incurred on the project up to 31st March, 1992 was Rs 15.15 crores as against the original estimates of Rs. 5.4 crores approved by the Government. Not only was there time and cost over-run but it took 13 months to start the commercial production after completion of the project. The reason for the delay in start of commercial production has been stated to be the financial problems faced by the turnkey suppliers during the trial production and they closed the work. What is more distressing is the fact that although all the plant and machinery for the project were procured on turn-key basis yet the company failed to encash bank guarantee after the contractors M/s. ABL Limited failed to carry out the performance guarantee test.

The Ministry of Power is stated to have advised against the encashing of the bank guarantee. To the Committee, the role of the Ministry of Industry does not appear to be worth appreciating as they failed to pursue the matter vigorously with the Ministry of Power and performance guarantee lapsed in the meantime. The Committee also take a serious note of the fact that not only in the case of Tandur Project in most of the cases company was unable to get the performance guarantee service for the plants.

2.53 Similarly the Clinkerisation Unit of Nayagaon Expansion Project which was scheduled to be completed in April, 1986 was completed in October, 1987 and as against the original estimates of Rs. 65 crores approved by the Government the actual expenditure incurred upto 31st March, 1992 was Rs. 150.37 crores, here also the commercial production started only in May, 1990. In the case of Nayagaon Expansion Project also defective equipments, systems and designs were stated to have been supplied by the Turn-key supplier resulting in number of failures of equipments and more time taken in stabilisation. The Committee have been informed that defective equipment for Nayagaon Project were purchased during the period 1984-87 and there were delayed in placing and execution of the order for design, engineering & supply of Bulk Conveyor System by the supplier. The Director In-charge of the Project was chargesheeted for some of these lapses. Just a month before his retirement. The Committee are surprised that although the Ministry was in receipt of the quarterly progress reports from CCI yet the fact regarding the dubious dealings of the then Director (Projects) who subsequently joined one of the suppliers came to the notice of the Ministry just a month before his retirement, although the charges against the Director did not relate to the dealings with this particular supplier. The Committee can only express their unhappiness over the fact that the then Director got the matter stayed through the High Court in November, 1991 and there is no possibility of an early vacation of the stay. The Committee desired that efforts should be made to get the stay vacated and steps taken for his prosecution. They also desire that responsibility should be fixed for delay in execution of all these projects.

2.54 The Bhatinda Grinding Unit of Nayagaon Expansion Project which was scheduled to be completed by April, 1986 as per the DPR has not so far been completed due to delayed clearance by Ministry of Environment and Forest which was received only in February, 1993. The Committee are astonished to observe that after incurring a sum of Rs. 8.62 crores as on 31st March, 1993 the fate of the Project is uncertain, since the CCI has no funds to execute the Project and the Ministry of Industry have also shown their helplessness in the matter. The Committee have been informed by the Secretary, Department of Heavy Industry that in case the Bhatinda Grinding Unit is not set up, half of the Clinker produced at Nayagaon would go waste. The Committee express their displeasure over the delay in taking a decision in the matter and desire that a final decision regarding the fate of the Bhatinda Grinding Unit should be taken without any further delay and the Committee apprised in the matter.

2.55 Yerraguntla Expansion Project was the third project of the Seventh Plan which was scheduled to be completed in April, 1987. However, the project has not so far been completed. In the meantime, the cost of the project which was approved at Rs. 75.72 crores in April, 1981 is expected to go upto Rs. 307 crores. The cost went up initially because the Government

could not provide necessary funds for the project and subsequently the contractors referred the case to Arbitration demanding an unreasonable escalation in prices. The Government subsequently decided that it may not be possible to go through the project as the IRR of the project has gone down. The Committee of Secretaries to whom the matter was referred also recommended in December, 1992 that the project be wound up. However, the Government has not been able to take a final decision so far in regard to the future of the Yarranguntla Expansion Project. The Committee is unable to understand the failure of the Government in arriving at a final decision in respect of the recommendations made by the Committee of Secretaries for closure of the project. They would urge the Government to take a decision in regard to the future of the project without any further loss of time under intimation to the Committee.

CHAPTER III PRODUCTION PERFORMANCE

The physical performance of the company from the year 1980-90 to 1992-93 in terms of major performance parameters is given below:—

Nit	Licenced Capacity	Installed Capacity	Budgetted Production (Lakh M.T.)					Actual Production					% of installed capacity					
			89-90	90-91	91-92	92-93	89-90	90-91	91-92	92-93	89-90	90-91	91-92	92-93	89-90	90-91	91-92	92-93
	Lakh M.T.	Lakh M.T.																
MDO	3.80	3.80	3.50	3.50	3.45	3.15	3.42	2.95	2.68	2.40	2.40	2.40	2.40	90	78	71	63	
KKO	2.00	1.98	1.60	1.70	1.80	1.65	1.80	1.40	1.58	1.70	1.70	1.70	1.70	94	70	79	86	
BKO	2.00	1.98	1.65	1.70	1.65	1.56	1.60	1.30	1.13	1.13	1.13	1.13	1.13	80	65	57	57	
RIO	2.00	1.98	1.80	1.80	1.70	1.63	1.76	1.89	1.92	1.64	1.64	1.64	1.64	88	95	96	83	
NYO	4.00	4.00	3.20	3.40	3.60	3.48	4.06	4.17	3.38	1.30	1.30	1.30	1.30	102	104	85	33	
AKO	4.00	4.00	3.20	3.20	3.10	3.36	2.80	2.69	3.59	2.45	2.45	2.45	2.45	70	67	90	61	
YBO	4.00	4.00	3.20	3.10	3.00	3.29	2.54	2.54	3.13	3.07	3.07	3.07	3.07	64	64	78	77	
CDO	2.35	1.42(denied)	1.32	1.10	1.42	1.36	1.30	1.59	1.37	1.37	1.37	1.37	1.37	79	96	83	96	
ADO	4.00	4.00	3.20	3.10	3.00	3.29	2.80	2.93	3.56	3.74	3.74	3.74	3.74	72	73	89	94	
TDO	10.00	10.00	6.00	6.40	6.00	6.00	5.41	4.95	6.18	6.09	6.09	6.09	6.09	54	50	62	67	
NYOEXP	5.00	5.00	3.00	5.00	3.80	3.75	0.00	2.19	3.09	4.15	4.15	4.15	4.15	0	48	62	83	
TOTAL	43.15	42.16	31.67	34.00	32.52	32.52	27.66	28.60	31.61	29.64	29.64	29.64	29.64	74	68	74	70	

NOTE :-1. % of actual production to installed capacity of NYOEXP & DGU during 1990-91 is for 11 months as the unit started its commercial production from May, 91 onwards.

3.2 It is apparent from the above table that the actual production of cement was far below the capacity built up and budgetted production during all the years.

3.3 The Committee wanted to know the reasons for the actual production of CCI being lower than the budgetted production during the above years. While justifying the low production the CCI intimated in a written reply as under:—

“The budgetted targets for the production are fixed with the assumption that certain amount of infrastructural facilities such as, power, coal and wagon will be available to the unit during the year. Apart from this, the Corporate Management would always like to fix up stiff targets from the unit to ensure that unit put best efforts in meeting the targets. In this way targets through out have been fixed optimistically but because of the real life situations such as non-materialisation of infrastructure facilities such as power, coal and wagons, actual production turns out to be lower than the budgetted production.”

3.4 When asked about the reasons for keeping the budgeted production lower than the installed capacity CCI informed in written reply:—

“Apart from the theoretical installed capacity, factors for fixing the budgetted targets relate to infrastructural facilities likely to be available with an optimistic outlook. Previous year performance has to be taken into account as also the industry growth rate. In case of new plants targets are fixed taking into consideration the production as per the DPR. Apart from this, in order to maintain the health of the plant, planned shut downs are taken into account, which means the targetted production would be less than the installed capacity.”

3.5 On a query regarding short term and long term perspective planning to improve the physical performance of the Company, CCI intimated in a written reply that the Company had made short term and long term perspective plans to improve the physical performance. However, these plans could not be implemented as for this huge investment was required. Some of the important plans were relating to energy conservation, putting of captive power plants, putting of precalcinators in some of the units disposing of some of the plants which were perinnially loss making.

3.6 When asked specifically what were the reasons for the low capacity utilisation the CMD, CCI stated during evidence:—

“Sir, in 1990-91 we have taken into account the new plant. As I explained earlier, Government wanted us to take this into account.

It was because of that, the capacity utilisation reduced in that year. In 1992-93, because of recession in the industry, a conscious decision was taken by the Board to curtail the production of some the units giving negative contribution."

3.7 The Committee wanted to know how far did the Ministry agree with the contention of CCI, the Secretary Department of Heavy Industry stated during evidence:—

"We normally go by what the CCI tells us. If the Committee wants, we can go deeper into it."

In this connection, the Secretary further stated:—

"We did not carry out any indepth study to what extent it has led to reduction in production in a particular unit....."

".....There was a review done before my time in which it is stated that when the stock started piling up, they had decided to curtail produciton. There was a discussion between the C&MD of the Corporation and the Secretary of the Ministry. All these factors were recorded. Recession was a cause for reducing production may be some shortfall could be due to some other account also. That detailed analysis can be carried out. But recession was certainly a contributing factor for lowering the production. If the Chairman of the Corporation is making a statement that he is lowering the production then, unless there is a reason to disbelieve we have to accept his statement."

3.8 The Committee noticed from a study made by the Express Investment Week (August 9—15, 1993) that based on the data supplied by Cement Manufacturers Association against a capacity utilisation of 70% in 1992-93 by CCI, the Capacity utilisation in J&K group was 102%, ACC 97%, Shree Digvijay 96% and Birla Group 94%.

The Committee desired to know the reasons for the capacity utilisation in CCI being substantially lower than in private sector. The CMD, CCI stated during evidence:

"First of all my loss of production due to these factors Viz. Coal, Power and Traffic Wagons, is 15 per cent *vis-a-vis* private sector 5 per cent. I have lost 10 per cent production on account of this. At Tandur it used to be 60 wagons per day. It was reduced from

90 per day to 62 per day. At one point of time, it was 120 per day. Now, it restored to 90 per day with the result Tandur has done very well this year. It will run with full capacity. But lot of improvement is required to be done. Infrastructure constraint is the biggest constraint. North-East is a good areas for marketing."

3.9 When asked as to what was the total power requirement of CCI, a representative of CCI stated before the Committee:

"The requirement varies from plant to plant. For the total plants contracted demand was approximately 110 MW.

We take care of 30 to 40 per cent of power cuts. We are trying to envisage installation of DG sets to mitigate the shortage and this is a ground reality. You would appreciate that any rational management would like to think of installing the captive power plant. That is what we thought of. Accordingly actions have been taken to minimise the time delays."

3.10 On a query regarding the cost of installation of DG sets, the CMD stated:

"Rs. 55 crores. If I have to make all the units viable, I require money. IDBI will not be able to give us loan. We are not having sufficient internal generation. We are keeping the scheme in abeyance."

3.11 When asked about the assistance of the Ministry of Industry in providing DG sets, the CMD stated during evidence:

"Ministry of Industry have not only appreciated our point but they have also recommended to the Planning Commission that we may go in for diesel sets to have matching captive power, so that the power problem can be solved. This is included in the Annual Plan and the Eighth Five Year Plan. Provisions were made for captive power in the 8th Five Year Plan under the head of particular Ministry and my company but subsequently due to liquidity crunch I have not been provided for any budgetary support. Because I became a profit making concern two years ago the Government thought that we will be able to come out of it and we will be able to support it in due course....."

3.12 In this connection, a representative of Department of Heavy Industry stated during evidence:

"They have now given a total picture of how the funds have been utilised. We have asked a specific question to them. They have asked for funds from the Government saying that they need money and the Secretary has said that they are placing it before the Planning Commission irrespective of whatever has happened in the past, DG sets are necessary to increase production and in fact, if they do not have funds, Government may have to find funds. We

are placing it before the Planning Commission. We asked the Company as to how is it that they are asking for funds when they had funds and they did not buy it."

3.13 When asked whether Ministry was considering seriously to provide funds to CCI for DG sets the representative further said:

"The budget releases are made to the companies as is provided in the plan. But there are no plan provision because there was no decision to provide budgetary support to the Company. Sometimes extra budgetary support will come in the RE stage and we cannot take the contingency funds also."

3.14 At this stage, the Committee enquired whether it was a fact that the extra budgetary support which was given to Department of Heavy Industry was diverted to Heavy Engineering Corporation Limited. Clarifying the position a representative of the Department of Heavy Industry said:

"But then the company has to prove two things, that is with these Rs. 13 crores, production and capacity utilisation will increase. In HEC's case, there was a meeting with the Bankers and consultants and there was analysis."

3.15 The Committee while clarifying that they were not against the diversion of funds to other public sector undertaking, desired to know the conditions under which it was done. The Department of Heavy Industry furnished a post evidence reply in this regard which stated as under:

"In the year 1990, CCI made a proposal for procurement of 3 DG sets for their cement Plants located in Andhra Pradesh, as there was acute power shortage. They had, therefore, requested for release of Rs. 20 crores. Though at that time all the 10 units of CCI had DG sets, they had proposed purchase of additional DG sets for their units at Yerraguntla, Adilabad and Tandur. As this proposal did not form part of the Annual Plan 1990-91, already approved by the Planning Commission, CCI had requested that the amount may be released to them from the savings of their Budget Provision for 1990-91. However, the IF Wing of this Department clarified that as the proposal did not form part of the Annual Plan, it would require the specific approval of the Planning Commission.

Accordingly this Department took up the matter with the Planning Commission *vide* O.M. dated 27th February, 1991. Planning Commission *vide* their O.M. dated 27th March, 1991 agreed to the inclusion of purchase of 2 DG sets for CCI's Plants at Tandur and Yerraguntla, in the Annual Plan, 1990-91 and for provision of funds for them out of the savings under the existing budget provision for CCI during the same year, subject to the approval of the scheme by the competent authority. However, as it was the *flag end* of the financial year, no funds could be released to

CCI as the surplus funds had already been diverted, with the approval of the competent authority to meet pressing needs of other Undertakings."

3.16 While discussing about the infrastructural problems faced by CCI, the Committee drew reference of coal and wagon problem also and asked the Department of Heavy Industry about the assistance rendered by them to overcome these problems. The Secretary, Department of Heavy Industry stated before the Committee.

"As far as Coal Linkage Committee is concerned, I have had a discussion with the Chairman of the CCI. He has mentioned that in 1990-91, Coal Linkages Committee had changed the formula for linkage of coal. But, after about seven-eight months, the Ministry had taken up with the Coal Linkage Committee etc. The old system has been restored. Presently the old system of linkage is there. I saw the file yesterday. A number of letters have been written to the Ministry of Coal about problems of CCI in getting coal. As far as wagon is concerned, we have taken up this matter with the Ministry of Railways. I wrote to the Chairman myself that wagon should be made available for export of cement. We take it up whenever the problem comes to notice... We will give them support. We are also as interested as they are. But, our support also sometimes may not be any help to them. However, I can assure the Committee that whenever the problems are brought to the notice of the Department, we always support."

3.17 Commenting on the stand taken by the Ministry of Coal on allocating linkages, the Secretary informed the Committee during evidence:

"In 1990-91 what had happened was that instead of production, they went on some parameters which adversely affected the CCI. As far as installed capacity angle is concerned, we will take it up. However, if you are not utilising your installed capacity, I do not think the Coal Ministry will give you the linkages 100 per cent. However, that can be taken up to see that the maximum amount of coal linkages is available. It is in the interest of the Department to support its own units. We will do it. Earlier also, we were doing it. I do not know individual meetings have taken place or not."

3.18 When Committee asked whether there was any co-ordination among the Ministry of Railways, Coal and Power, the Secretary stated: "There is a Co-ordination Secretary in the Cabinet Secretariat who co-ordinates all these things. Wagon is co-ordinated by the railways generally. Whenever these companies have a serious problem, they come to us."

3.19 In this connection with the Committee were informed by the Department of Heavy Industry through a post evidence reply as under:

“The Department of Industrial Development in the Ministry of Industry is the nodal agency for coordination with the concerned authorities in respect of matters pertaining to requests from cement companies in the private sector as well as public sector (including CCI) for railway wagons, coal, power, etc. Specific requests from CCI are taken up with the concerned authorities directly by the Department of Heavy Industry also.”

3.20 The Committee regret to note that over the years the actual production of cement in CCI has been far below the capacity built up as well as the targets. The actual production during the years 1989-90 to 1992-93 ranged between 58% and 74% of the installed capacity. In fact the capacity utilisation in 1992-93 has gone down to 70% against 74% in 1991-92. The Committee are also unhappy to note that the capacity utilisation of CCI is substantially lower than the capacity utilisation in private sector cement plants. In none of the years the company could even achieve the targets set for production. The Committee are surprised at the revelation made by the Company that the production targets are usually kept higher than the realistic targets to ensure that the units put up the best efforts in meeting the targets. The Committee urge that instead of fixing inflated targets management should make efforts in the real sense to achieve higher production. They also desire that in future the targets should be fixed keeping in mind the normal fluctuation, planned shut down of plants, probable non-materialisation of infrastructure facilities and likely availability of wagons and coal etc.

3.21 The Committee further note that the production of CCI is hampered due to power cuts. To maintain the power supply CCI had submitted proposals for captive power plants by way of purchasing DG sets. The Committee are dismayed to note that although the Planning Commission had given consent for inclusion of purchase of 2 DG sets for CCI's Plants at Tandur and Yerraguntla in the Annual Plan 1990-91 by providing extra budgetary support, the funds which were earmarked for CCI were diverted to some other Public Undertaking under the control of Department of Heavy Industry, which, while fully knowing that CCI desperately needed DG sets for improving their performance failed to pursue the matter and on the contrary, diverted the funds to some other undertakings. The Committee recommend that at least now the Government should act judiciously and provide necessary funds to CCI to have the matching captive power to sustain growth.

3.22 The Committee are also perturbed to note that while the CCI maintains that production was low due to the recession in the market, the Ministry did not carry out any indepth study to ascertain the reasons for the shortfall in production. The Ministry normally seems to go by the assessment of CCI in any matter. The Committee desire that a proper study about the market situation should be made and CCI should be advised accordingly to capture a substantial share in the market.

Government should also consider giving purchase preference to CCI wherever possible.

3.23 Another problem being faced by CCI was stated to be due to shortage of coal and wagons. The Committee have been informed that loss of production in CCI due to factors like coal, power and wagons was 15 percent against 5 percent in the private sector. They desire that as assured by the Ministry, all necessary assistance should be provided to CCI to overcome the coal and wagon problems faced by the Company. The Ministry of Industry should hold regular and frequent meetings with the Ministry of Railways to ensure availability of sufficient wagons to CCI.

CHAPTER IV

FINANCIAL MATTERS

A. Financial Performance

4.1 According to Audit the Profit (+)/Loss(-) of CCI during the year 1986-87 to 1992-93 is as under:

Years	(Rs. in lakhs)
1986-87	(-) 2102
1987-88	(-) 4597
1988-89	(-) 4663
1989-90	(-) 6288
1990-91	(-) 2933
1991-92	(+) 210
1992-93	(-) 5203

The cumulative loss incurred by the company upto 31st March, 1993 amounted to is 230.22 crores.

4.2 It has been stated in the Audit Report that the losses incurred by CCI during the years 1986-87 to 1990-91 were attributed to increase in power tariff, lower production of clinker and cement, rise in the cost of coal and gunny bags, increase in railway freight, power cuts, transportation of coal, supplying more cement to Uttar Pradesh (where the prices had dipped) increase in salaries and wages, increase in mineral right tax, deteriorating quality of coal and strikes. The losses were also the result of low capacity utilisation especially in Adilabad and Nayagaon Units, higher downtime of plant and machinery and lesser turnover the working capital and higher interest burden.

The Company has, however, turned the corner and made a profit of Rs. 2.10 crores in 1991-92.

4.3 The Committee wanted to know the various alternative thought by CCI to tide over its losses and improve profitability of the Company. The CCI informed the Committee in a written reply as under:

“CCI has been incurring losses for couple of years and turned the corner in 1991-92. Even at this point, it has huge accumulated losses. Internal generation was not sufficient enough to take care of the liabilities of the Company. At this point of time, the Company has to consolidate and re-structure its assets. Apart from this, the Company has to use its assets

more efficiently. It will be prudent at this point of time to sell or dispose off some of the loss making units so that the company is able to generate some cash to liquidate its liabilities and able to reduce the losses on account of loss making units and also on account of high costs."

4.4 When asked during evidence if loss making plants are taken out of the control of CCI or privatised, would it be able to make profits, the CMD, CCI stated:

"In fact, we had requested the Government for capital restructuring also. If that is done, the Company would certainly be in a much better position and will be making net profit."

4.5 During the discussion the Committee drew reference of private sector units which were manufacturing cement and were running in profit.

4.6 Forwarding the reasons due to which the Company was not able to be at par with private companies, the CMD said,

".....if a comparison is made it has to be plant to plant basis when I talk of 75 per cent capacity utilisation, it takes into account many things. Tandur plant has improved and last year I have produced 75 per cent cement at Tandur. Here, I would like to submit that 75 per cent which I have achieved is subject to tremendous power cuts and infrastructural problems regarding wagons and coal which are already reflected. If the loss of production due to this is removed, I would rank at par with industry. These are beyond my control."

4.7 Further in this connection, the CMD stated:

"Loss in private sector due to infrastructural constraints is something like five to seven per cent. Whereas, in our case it is as high as 17 to 20 per cent. I have to close one of my units for want of coal for a couple of weeks. This does not happen in private sector because they can buy in the open market. We have to depend on linkages. Then there is 40 to 60 per cent power deficit for us. But in the case of private sector, they have matching captive power. We have represented our case and it was agreed in the Action plan that matching captive power would be provided to me."

4.8 When asked that what are the steps that have been taken by the Ministry to improve the performance of CCI, a representative of the Ministry stated during evidence:

"....We are now in 1993. The position has not significantly

improved because financial restructuring has not achieved results. The Company's projection of cash resources being generated has not fructified. There is no provision in the Budget to put money on a piecemeal basis. Giving piecemeal support to 'a', 'b' and 'c' problem was tried in the past but that did not give good result. Now, we are talking in terms of unit-wise analysis. We have asked the Company to make unit-wise analysis. Company has informed us that some units will never be viable unless huge subsidies are made. It is being analysed. They have now asked for Rs.30 crore which is required for power generation sets. In our appraisal we have asked the companies to make unit-wise analysis."

4.9 In this connection the Secretary, Department of Heavy Industry further stated:

"I came to the Department about 4 months ago, I took a Review meeting with the top management of CCI. They mentioned various problems in a general way I felt that in order to really address ourselves to this task we much have unit-wise appraisal. I had told them this sometime in August, 1993."

4.10 When Committee wanted to know by when was the unit-wise analysis of the CCI plants likely to be completed for the purpose of taking final decision in regard to disposal of unviable units and sanctioning second capital restructuring the Department of Heavy Industry stated in the post evidence reply:

"As already mentioned in reply above, the comprehensive proposal is still awaited from the CCI. This will be examined as and when received in consultation with the various Departments concerned."

B. Capital Restructuring

4.11 It has been reported by Audit that the Company was registered with an authorised capital of Rs. 5 crores which was raised and stood at Rs. 700 crores as on 31st March, 1992. The paid-up capital of the Company as on 31st March, 1992 was Rs. 351.23 crores, all of its subscribed by the Government of India.

4.12 The amount of loan from Government of India as on 31st March, 1992 stood at Rs. 162.28 crores. The interest accrued and due on Government loans upto 31.3.1992 worked out of Rs. 41.72 crores (including penal interest of Rs. 1.92 crore).

4.13 When asked how the Ministry proposed to help CCI to tide over their financial problems, it was stated in a written reply:

"Initially, the Government approved the capital restructuring proposal in August 1991 which envisaged, *inter alia*, conversion of plan loans of Rs. 41.75 crores into equity. Moratorium on repayment of loans, writing off a portion of loans, interest holiday

for one year on some balance amount of plan loans, etc. As CCI for various reasons, was not able to fulfil the obligations stipulated therein, the capital restructuring did not come into operation. Subsequently, CCI had submitted another proposal for capital restructuring which is under consideration.”

4.14 The Committee wanted to know the details of proposal submitted to the Ministry of Industry (Department of Heavy Industry) for restructuring the capital base of CCI. The Company informed the Committee in a note that it has submitted proposal for restructuring the capital base to Ministry of Industry, Department of Heavy Industry, during December, 1992. Summary of reliefs sought was given as under:

- (i) On the basis of projected production and the profitability along-with cash flow, the Company proposes following package to ensure solvency and long term viability in addition to financial concessions already given vide Government of India letter No. 10/21/89-PE. XII dated 21.8.1991.
- (ii) Interest holiday in respect of planned loan for five years (1992-93 to 1996-97).
- (iii) Repayment of planned loan to be scheduled such that repayment starts with effect from 1.4.1997 onwards.
- (iv) Waiving off of outstanding interest as on 1.4.1992 after taking into account the interest already paid during 1992-93.
- (v) Converting non-plan loan into equity.
- (vi) Additional non-plan loan for meeting working capital requirement and providing interest holiday for five years and repayment w.e.f. 1.4.1997.
- (vii) Additional fund of Rs. 8.00 crores for VRS with interest holiday of five years and repayment after five years.”

4.15 During his evidence before the Committee, the CMD, CCI stated that if the capital restructuring is effected, the company would certainly be in a much better position.

4.16 The Committee enquired the reasons for delay in taking decision on the proposals of CCI while giving the complete scenario regarding the restructuring proposals by CCI, the Additional Secretary and Financial Advisor stated during evidence:

“After a very long discussion with the Financial Advisor and others in the Ministry, that company said that they wanted a few concessions from the Government and in turn they gave certain assurances to the Government. It amounts to some Rs. 41 crores of loan to be converted into equity; to give some moratorium for the interest payments; the convert short term loans into long term loans; and some outstanding interest which amounted to Rs. 3.5

crore, as on 1989 to be written off. So, the Government conceded. From the company's side, the assurance was that once this was done, all the interests up to 1989-90 would be treated as totally paid. Once this burden was removed from them and the loan was converted into equity, then, the company said that they will pay the dues from 1990-91 immediately and in 1991-92, there would not be any default. They will be able to manage the financial position really well and by the end of the Eighth Plan, the capacity utilisation of the company will reach 84 percent. Later on when we were reviewing from the Finance side, we found that the company had not paid in 1990-91. They expressed their inability to pay. In 1992-93, they said that they are not in a position to pay. The position was that about Rs. 40 crore which was due to the Government could not be collected because they did not have the money. They had also said that from next year onwards, it will not be possible. Thus, restructuring does not make any sense because, the restructuring will be done only on paper. The company will have cash only if they do not pay interest to the Government. Anyway that money is kept with them. What will happen to that money? Their working capital requirement is going up. There are also operational problems for the company.

It may be due to so many factors. So, this can be improved only if a detailed analysis is made unit by unit. They have said that instead of writing off Rs. 40 crore, please write off Rs. 100 crore and also give us some more money to carry on. The results have not clearly brought out which are the ills. There was a proposal to sell out two or three units for improving other units. If by selling out these units, other units could be improved, there was no difficulty. A unit by unit picture has to be taken from them. Then it will have to be analysed. In most of the companies in the heavy Industry, this exercise is going on. The market scenario has completely changed."

Elaborating further, the witness said:

"Since, 1980, India was deficit in cement. Today it is not deficit. There was no proposal whether one should have some investment in some critical area like power generation and so on, on which a decision can be taken. Whether the fault lies in equipment or in operation or in marketing or something else have to be analysed. From the very beginning, these units have been incurring losses."

4.17 In this connection, the Secretary, Department of Heavy Industry, stated before the Committee during evidence:

"...for the 8th Plan, the Cement Corporation was supposed to meet the requirement either from its own generation or from the market. This was the decision of the Planning Commission. A sum

of Rs. 300 crore was the outlay. The CCI has to generate a sum Rs. 127 crore from their internal generation and the remaining sum of Rs. 173 crore had to be generated from the market. The capital restructuring took place on certain presumptions such as operating efficiency of a unit because there was no point in writing of the loans if nothing was going to happen in the Cement Corporation. This was sanctioned in 1991. In December 1992, the CCI came back with their second restructuring proposal. Before they came back with their second proposal, the Government had found out that the conditions that were laid down while approving restructuring had not been fulfilled. The Department of Expenditure had said that there was no point in going ahead when the CCI had not fulfilled the conditions that were laid down at the time of approving restructuring. The CCI, in their second restructuring proposal, took the position that the first restructuring proposal had been implemented. They had taken into account the conversion of loan into equity and writing off the loans in their second proposal. In the absence of fulfilment of the conditions, we will have now to see the whole restructuring *ab initio*."

4.18 When enquired whether the Ministry had asked CCI to submit a revised restructuring proposal, the witness informed:

"We had asked them to revise their figures and not to take into account the first restructuring. In addition to that, they had sent a proposal for disposal of certain units. The Ministry feels that there should be a comprehensive proposal as one composite involving both financial and physical restructuring."

4.19 Subsequently, the Ministry informed the Committee through a post evidence reply that revised proposal for restructuring was received in the Ministry in December, 1992. The Ministry asked CCI to prepare a comprehensive proposal indicating performance analysis of individual units, relief sought from Government and expected targets to be achieved etc. and the same was awaited from CCI.

C. Disposal of Unviable Units

4.20 The Committee were informed by CCI that it would be prudent at this point of time to sell or dispose off some of the loss making units so that the company is able to generate some cash to liquidate its liabilities and be able to reduce the losses on account of loss making units and also on account of high costs. Asked to identify such units, the CCI stated in a reply submitted after evidence that Charkhi Dadri Unit has a very high break even point of around 500%. Similarly Kurkunta unit is having obsolete technology and need heavy investment for its conversion. It has a break even point as high as 250%. Also, the Nayagaon Plant which has been supplied with defective/undersized equipments having design deficiencies has a very high interest and depreciation burden because of

time and cost overruns. The contribution of these plants was stated to be negative.

4.21 While commenting upon the performance of these units, the CMD of CCI stated during evidence:

"I am only reiterating that these factors are beyond my control. I have to get rid of some non-viable units. I would like to go in for privatisation or sell outright just two or three units which are not at all viable. They will never become viable."

4.22 In respect of Charkhi Dadri Unit, the Committee observed from the Audit Report that Government of India took over this plant and gave it to Cement Corporation of India on 23rd June, 1981. On the rehabilitation of the project the Company incurred expenditure of Rs. 511.42 lakhs upto 31st March, 1992.

4.23 In view of continued uneconomic operation and loss of about Rs. 5 crores per year the Company had submitted an action plan to the Government three years back and had also proposed closure of the unit. But no decision has yet been taken by the Government either for closure of the unit or giving it to some other parties or taken any action for making the unit viable. The total loss suffered during the 3 years from 1989-90 to 1991-92 of the unit was Rs. 11.06 crores. CCI informed the Committee in a written note that when the unit was not viable and the Management is compelled to conduct the operations the loss in any case would be incurred.

4.24 The Committee wanted to know from CCI the compulsions behind taking over the unit by CCI. The CMD, CCI informed the Committee during evidence that it was a sick unit which was taken over by the Government from Dalmias keeping in view the Socio-economic considerations to safeguard the interest of the workers. He also informed the Committee that about five hundred people are surplus there. The mine around the plant has been exhausted. The Government of India wanted to protect the interests of the workers there and that policy was still continuing.

4.25 While commenting upon the viability of the plant the CMD stated during evidence:

"In case of Charkhi Dadri, I have to move limestone from a distant place. But in this case, the cost of bringing limestones on trucks is almost 15 times more.

When I assumed charge of this company, I recommended an action plan that it should be closed. This is figuring in the document here.

According to the recent policy of the Government, we are also making an exercise. We decided that we should have a joint sector concept."

4.26 When the Committee enquired from Ministry of Industry about the compulsions for taking over this uneconomical unit, they stated in written reply as under:

“The Charkhi Dadri Cement Plant was lying closed since 18.3.1980 and several representations including letters from Members of Parliament were received urging restarting of the factory in the interest of ensuring continued employment to the workers of the factory. State Government of Haryana had also urged Central Government to take over the factory under the IDR Act to protect the employment of large number of workers.”

4.27 When asked whether any study was conducted by the Government to assess the economic viability of the plant before taking it over, it was stated in a written reply:

“a viability study was conducted by the CCI during 1980 and subsequently another economic viability study was conducted by the than Cement Research Institute. A Committee consisting of the then Chairman, EICP, acting-DG. CRI and President. Dalmia Dadri Cement Factory Men’s Union was also constituted to give their recommendations. The decision to take over the unit was arrived at after considering the recommendations of these study reports.”

4.28 In regard to the Nayagaon Expansion, the CMD, CCI stated during evidence as follows:

“On Nayagaon expansion I have lost about Rs. 28 crores in 1992-93. The Government is not providing money to put up second grinding plant at Bhatinda. The depreciation and interest on this is about Rs. 30 crores a year. So, if I would get rid of this non-viable unit it will be a big advantage for CCI.....the investment is very high in Nayagaon. I still have excellent MOU ratings in the last three years. The cost of running the unit is so high that I can only lose. The capital cost is three times more than what it should have been and no management can run it. We cannot reduce the fixed cost to that extent. It is not possible and the Ministry is aware of it.”

4.29 Regarding the Kurkunta unit the witness stated:

“.....Take the example of other non-viable unit of Kurkunta in Gulbarga district in Karnataka. It is an old technology. It is a wet process plant. Its capacity is 1.986 lakh tonnes.”

4.30 When Committee asked whether CCI has written to the Government about these units which are to be privatised or disposed of, the CMD replied:—

“.....My action plan which I have proposed to the

Government, is that I would like to get rid of three non-viable units.”

4.31 When asked whether the Government have taken a final decision regarding the fate of these units, the Secretary, Department of Heavy Industry while quoting from a note which had gone to CCEA for restructuring said during evidence:

“The Corporation had earlier suggested that Kurkunta and Charkhi Dadri units, where the break-even point is very high and the units which were suffering substantial losses should be closed. However, with the better realisation from sales CCI did not consider it advisable to initiate steps for the closure of these units for the present.”

4.32 While quoting from the minutes of one of the review meetings held with CCI, the witness further informed the Committee during evidence:

“Charkhi Dadri Plant is in deficit area; if the interest cost and the manpower cost could be reduced, this plant can be brought to the net profit. The matter has already been taken up with the Government for capital restructuring and only after the outcome of that, a decision can be taken in respect of Charkhi Dadri.....”

4.33 On a query about the urgency of physical restructuring of CCI plants the witness admitted before the Committee.

“But, I am in full agreement with you that physical restructuring is a matter of priority.”

4.34 On being enquired about the reason for delay in arriving at a decision in the matter, the CMD, CCI stated:

“It is a lengthy process. We have suggested formation of a Committee of SBI Cap and Financial institutions viz. IFCI and IDBI like for IISCO. A Committee of these Bankers can lock into it. Let them finalise it. Let them sell it and give it.”

4.35 When enquired from the Ministry of Industry as to how many proposals they had received for the disposal of unviable units, the Department of Heavy Industry stated through a post evidence reply as under:

“While considering the performance of individual units and the infrastructural constraints effecting production, CCI had, in their letter dated 25.6.92. *interalia*, suggested that Kurkunta and Charkhi Dadri Units, which were economically unviable should be considered for closure. A subsequent proposal for disposal of Nayagaon Complex was received later on 22.9.93.”

4.36 While referring to the disposal of nayagaon unit, the Committee enquired from the Ministry whether they examined the aspect of disposal

of Nayagaon Complex keeping in mind the possibility of revival of the plan. The Secretary, Department of Heavy Industry simply stated:

“We have not come to any conclusion as yet.”

4.37 When asked whether this aspect of disposal of the unit was ever discussed with the undertaking the Secretary said:

“I would like to submit that this proposal has come as a result of the in-depth review what was undertaken towards the end of August by me with the top management of the CCI. I told them that they have to give me unit by unit performance and then indicate as to what should be done to maintain the CCI properly and to run it efficiently. On the basis of that and in response to that, this proposal has come. Right now, I may not be able to say that the Ministry has come to any tentative conclusion also about this recommendation.....”

4.38 The Committee note that Cement Corporation of India Limited has been incurring losses continuously over the past many years though it earned a profit of Rs. 2.10 crores in 1991-92. The cumulative loss of the company as on 31st March, 1993 stood at Rs. 230.22 crores. To bring CCI out of the crisis the Ministry approved capital restructuring of the company in August 1991 which *inter alia* envisaged conversion of plan loans of Rs. 41.75 crores into equity, moratorium on repayment of loans, interest holiday for one year etc. The company on its part agreed that it would pay the dues from 1990-91 onwards and improve capacity utilisation. Contrary to what was agreed upon, the Committee observe that CCI could not fulfil the conditions for availing the restructuring.

4.39 The Committee have been informed that CCI subsequently submitted second restructuring proposal in December 1992 in order to be able to perform better. In turn, the Ministry asked the Company to prepare a comprehensive proposal indicating performance analysis of individual units relief sought from Government and expected targets to be achieved etc. The Committee are distressed to find that CCI has not yet submitted the comprehensive unit-wise proposal sought by the Ministry. Thus no final decision has been taken and implemented firmly by either CCI or the Government as the capital restructuring is concerned. The Committee therefore, recommend that a final decision regarding the capital restructuring of CCI should be arrived at within three months of presentation of this Report after careful and judicious analysis of all the factors.

4.40 The Committee find that in order to improve their performance and get rid of the loss making units which had remote or no possibility of becoming viable due to high break even point, old technology and high cost of operation, CCI had recommended for the disposal of three units *viz.* Charkhi Dadri Kurkunta and Nayagaon. The Committee were given to understand that the idea behind disposing of the units is to get rid of the

losses associated with these units and to improve the performance of other units as the budgetary support is not forthcoming from the Government.

4.41 The Committee regret to note that although the proposal for disposal of two units of Kurkunta and Charkhi Dadri was sent to the Ministry in June 1992 and for Nayagaon complex in September, 1993 the Government have failed to arrive at any conclusion and have further asked for unit-wise information from CCI. The Committee recommend that Government should constitute a Committee of experts including financial experts which would go into details and weight all the pros and cons of disposal of these units and submit its report within three months. After the report of this Committee a final decision regarding the fate of these units should be taken by Government and the Committee apprised of the same.

CHAPTER V

MISCELLANEOUS

A. Material Management

5.1 It has been observed from the Audit Report that a firm of Chartered Accountants conducted physical verification of A and B class stores and gave a report in December 1986. Reconciliation of shortages for Rs. 122.43 lakhs pointed out had not been effected by the Company till March, 1991 but amount was written off in 1986 without investigation of reasons.

5.2 When asked from CCI that why the amount was written off, in 1986 without investigating the reasons, CCI stated in a written reply:

“Reasons regarding write-off have not been recorded. Though a Committee was appointed to investigate, but it did not record the reasons for shortage and also responsibility has not been fixed.”

5.3 When enquired whether the Committee was asked to find out and record the reasons for shortage, CCI simply informed the Committee in a written reply that Committee had not given any analysis regarding shortage.

Similarly the Committee noted that in Akaltara Unit shortages of stocks valuing Rs. 65.70 lakhs were found during the year 1984-85. But shortages were not reflected in accounts so as not to add to losses. CCI had stated in a written reply that accounts were prepared on the basis of physical verification reports available.

5.4 When Committee asked whether the matter regarding the shortage of stocks of Rs. 65.70 lakhs was taken up at any point of time and whether any efforts have been made to fix responsibility in this regard, CCI stated in a written reply:

“Detailed reasons have not been recorded and it is difficult to stipulate at this point of time.”

5.5 Also, the Committee noted a shortage was created in Cement Silo stock by 3000 tonnes by extra booking of production to be adjusted in the month of April and May, 1984. Shortage of 23000 MTs continued for more than 2 to 3 years. CCI had stated that the reasons for shortage of cement in silos by 23000 MTs have not been recorded by the Committee appointed to investigate the matter. However, in view of the delay involved, records were not available to draw any inference as on date.

5.6 When enquired about the reasons for continuing the shortage of

23000 MTs for more than 2 to 3 years and the details of date of appointment of Committee, CCI stated in a written reply:

“There should have been no reason for continuing the shortage of 23000 MTs for more than 2 to 3 years In view of the delays involved, the records are not available as on date.”

B. Loss in Purchase of Gunny Bags

5.7 The Committee noted that in 1983-84, CCI placed an order for 458 lakh bags with suppliers against which 340.70 lakh bags were identified by the units. 248.75 lakh bags were received upto March, 1984 and 23.00 lakh bags after March 1984. Remaining 68.65 lakh bags were not received at all. Without making any efforts to get balance jute bags from the suppliers at the contracted rate, Corporate Office placed orders with same parties for the jute bags at a higher rate at which balance orders were also supplied. This led to avoidable loss of Rs. 52.51 lakhs.

5.8 On a query in regard to irregularities in the purchase of gunny bags and avoidable loss of Rs. 52.51 lakh, CCI stated in a note that Central Bureau of Investigation filed a suit for Rs. 45 lakhs against ex-officials of the Corporation in the Court of Law. This case was sub-judice.

5.9 In this connection, the Company further intimated to the Committee in post evidence reply as under:

“The case regarding purchase of gunny bags was being investigated by Vigilance Department of CCI and Statements of a number of officials whose evidence was material in the investigation of the case had been recorded. While this process was going on, Central Bureau of Investigation registered a Regular Case RC No. 4/86-CIU(F) in connection with purchases and started investigation. Relevant documents/files/papers pertaining to the purchase of gunny bags were also seized by CBI. As per the guidelines issued by the Central Vigilance Commission to avoid parallel investigation in the cases which are taken over by CBI and that the departmental investigation in such cases should be suspended, the investigations by the Vigilance Department of CCI was suspended. Central Vigilance Commission was informed accordingly on 25th August, 1986.

(b) Shri A.P. Maheshwary, the then Chairman-cum-Managing Director and Shri M.P. Gupta, the then Sr. Manager (Material) besides other civilians (of various firms involved in the case) were charge sheeted by CBI. Consequent upon the registration of the case by CBI, Shri Maheshwary was removed from the services of the Corporation by the Government and Shri M.P. Gupta who was due to superannuate, retired on 28.2.1987. Presently, no official who has been charge-sheeted by CBI is in the employment of CCI.

(c) After the completion of investigation in this case, chargesheet has been filed by CBI in the court of Special Judge,

“Delhi on 29.4.1988 against the accused persons. The case is still sub-judice. Action in this regard can be taken only after the decision is given by the court in respect of the case filed by CBI.”

C. Exports

5.10 The Committee observed that during 1991-92 a total of about 3.59 lakh tonnes of cement exports were made from the country. In the year 1990-91, 2.72 lakh tonnes of cement was exported. The major portion of cement was exported to Nepal and Bangladesh followed by small quantities to Maldives and Phillipines. The share of export by CCI was only 0.015 lakh MT which was 42% in 1991-92.

5.11 The Committee wanted to be apprised of the prospects of exports. The CMD, CCI stated during evidence:

“We made a beginning last year. For the first time in history we were able to break in the export field. We exported to Bangladesh. We have some orders from Bangladesh and Nepal. We have supplied to Bangladesh and Nepal. A delegation of CMA has recently gone to Bangladesh and they were informed that there are three brands which are popular. We are supplying one of these brands to them.”

5.12 When asked about the countries to which the CCI Cement is being exported, the CMD stated during evidence:

“We are exporting only to Bangladesh. It is feasible as far as freight is concerned and for other countries, we have no part based units. But we are making efforts.”

5.13 The CCI further informed the Committee in a post evidence reply as under:

“The delegation of CCI visited Bangladesh and Nepal during the last 5 years. As a result of this CCI has been exporting cement to these countries.

The main markets for export of cement are the neighbouring countries like Bangladesh, Nepal, Sri Lanka etc. In case of other countries, it has not been possible for the cement industry to compete as the international prices quoted there are quite low and not found to be viable. The ocean freight and port charges are also high. In case of CCI it has locational disadvantages as CCI does not have port based plants or the plants located near the border to the neighbouring countries resulting in incurring more inland freight upto the port. In order to boost exports, officers of the company have visited Bangladesh and Nepal and studied the cement market there including their distribution and selling mechanism. They also met important importers of cement. Their visits have proved to be fruitful. The company has been able to make good trend in export. CCI exported about 7.600 MT of

cement (Rs. 1.24 crores) in 1992-93. In the current year (1993-94), CCI has already exported 8,300 MT of cement, i.e. about Rs. 1.43 crores worth of cement. It is expected that CCI may be able to export about 50,000 MT of cement in the current financial year to the neighbouring countries thereby earning foreign exchange worth Rs. 10 crores. It may be mentioned that Bangladesh is importing about 12 lakhs MT of cement every year out of which export from India is 1.00 lakh MT. CCI has only 6% market share in India. Therefore, its export share would be around 12,000 MT. In the current year, CCI has already exported 83,000 MT of cement. CCI has also quoted their best rates against their various enquiries for export to number of countries but could not get orders as our rates were not found to be competitive and other countries quoted much lower rates."

5.14 The Committee asked from the Department of heavy Industry whether there was any bilateral trade agreement with any country. The Secretary of the Department stated during evidence:

"Sir, there is no bilateral agreement for cement. It is only on a unit to country basis that exports are being undertaken. Recently, the Chairman, Cement Corporation of India sought permission to go to Bangladesh to probe the possibility of export to that country and we have given the permission to him. Soon he is about to go to Bangladesh to look for the possibility of export. Railway Board has got some problems of wagons. I have just written to the Chairman, Railways Board and we are trying to sort out that problem. I shall write to the Cement Corporation to lay greater emphasis on trying to export their cement to the neighbouring countries to the extent possible."

5.15 When pointed out by the Committee that some private companies were exporting cement to Burma, the Secretary stated:

"I am sure, they will look into this possibility, apart from exporting to Nepal, Bangladesh and Pakistan. But if you go far away, the freight becomes heavy. But in any case, there is no harm in exploring the possibility."

D. Damodhar Cement and Slag Limited

1.16 Damodhar Cement & Slag Ltd. (DCSL) was incorporated on 18th November, 1977 as Joint Sector Company of West Bengal Industrial Development Corporation Ltd. (A State Govt. Undertaking) and M/s Ashoka Cement Ltd. (A company in the private sector). In May 1981 M/s Ashoka Cement Ltd. withdrew their holding from the Company by selling all their shares to WBIDC. In October 1982, the Govt. of India approved the participation of Cement Corporation of India Ltd. as a joint venture with WBIDC. Accordingly, M/s. Damodhar Cement & Slag Ltd. became a subsidiary Company of M/s CCI Ltd. with effect from 24.5.83.

A formal agreement was concluded in July 1983 between CCI and WBIDC having equity participation of 51% and 49% respectively. Subsequently, CCI Ltd. enhanced their holding to 90% participation of WBIDC became 10% w.e.f. January, 1992.

5.17 On the question of efforts made by CCI for improving the performance of DCSL, the Committee were informed in a written reply furnished by the Company that after acquiring 90% equity of DCSL, the CCI has no majority in the Board of Directors of DCSL, which could be workable and practicable for the purpose of controlling its interest and thereby improving the performance of DCSL. The Ministry have already been requested to appoint 4 more nominees on behalf of CCI on the Board of DCSL for effective functioning of the later after acquisition of 90% of its share holding by CCI.

5.18 The Committee were also informed by CCI in a note that disciplinary proceedings against the Managing Director of the Damodhar Cement & Slag Limited were contemplated and the Managing Director had been placed under suspension w.e.f. 10.6.1993. On being enquired about the charges on a account of which the Managing Director of DCSL has been suspended the CCI informed in a written reply that the Managing Director of DCSL Committee serious acts of misconduct involving his integrity. He showed undue favour to certain private parties in the award of contract of C&F/Handling Agency in violation of prescribed procedure and granted extension to private parties, thereby causing undue financial gain to them. He also got the work of transportation of cement through a private party at higher rate, thereby causing undue pecuniary gain to the party with corresponding loss to the Company. He also caused falsification of records and furnished false and misleading information to the DCSL Board. besides, he also defied various resolution/directions passed by the Board of Director of DCSL, thereby committing various administrative lapses.

5.19 The Committee find that shortages for Rs. 122.43 lakhs of A and B class stores noticed in 1986 had not been properly accounted for by the company and the same were written off without giving adequate reasons. The committee are surprised to observe that although Committee was appointed to investigate in this regard but it did not record the reasons for shortages and subsequently no responsibility was fixed. They would like to be apprised of the reasons for the Committee having neither recorded the reasons for shortages/fixed responsibility for the shortages.

5.20 It also come out that in Akaltara unit of CCI, shortages of stocks valuing Rs. 65.70 lakhs found during 1984-85 were not reflected in accounts. Similarly shortage of 23,000 MTs continued for more than 2 to 3 years. In this case also, the Committee appointed by CCI had not recorded the reasons for its shortage.

The Committee are perturbed to find that although enquiries were

conducted for the lapses but no inference could be drawn as the necessary records regarding the cases were not available.

5.21 The Committee note that against an order for 458 lakhs gunny bags placed by CCI in 1983-84 the suppliers short supplied 68.65 lakh bags. Instead of making efforts to know the reasons for the short supply of bags against the first order, the corporate office placed another order at a higher rate with the same supplier with this the remaining bags of first order were also supplied leading to available loss of Rs. 52.51 lakhs. A case was filed by CBI in this regard against some ex-officials of the company which is till subjudice.

5.22 The Committee are of the firm opinion that there is urgent need to strengthen the Company's Material Management Department and internal audit system so that such irregularities immediately could come to knowledge of Management and remedial steps taken urgently. The Committee would await the decision of the court in regard to the case filed by CBI against the ex-official of the Company.

5.23 The Committee are satisfied to learn that CCI has marginally improved its export performance from 1500 MT in 1991-92 to 7600 MT worth Rs. 1.24 crores in 1992-93. But they are of the view that a lot still remains to be done. So far the Company has been able to export cement to Bangladesh only. The Committee desire that CCI should explore further markets in neighbouring countries like Nepal, Sri Lanka, Burma and Pakistan etc. Efforts should be made to enter into bilateral agreements. The Committee also desire that in future if any new plants is to be added to CCI, it should be near the port as far as possible so that the Company can augment their export potentials.

5.24 The Committee note that Demodhar Cement & Slage Limited (DCSL) located in the Purulia District of West Bengal became a subsidiary of Cement Corporation of India w.e.f 24.5.1983. In January, 1992 the equity holding of CCI in DCSL was revised from 51% to 90% with the remaining 10% being held by West Bengal Industrial Development Corporation. The Committee have been informed that even after acquiring 90% shares of DCSL, the CCI has no majority in the Board of Directors of DCSL which could be workable and practicable for the purpose of controlling its interest and thereby improving the performance of DCSL. The Committee, therefore, urge that immediate action should be taken to transfer the remaining 10% equity to enable it to have better control over the functioning of DCSL and to improve the performance of the subsidiary.

5.25 The Committee have been informed that the Managing Director of DCSL has been placed under suspension for serious acts of misconduct involving his integrity. He is alleged to have shown undue favour to certain private parties in awarding contract of C& F/Handling Agency in violation of prescribed procedures by granting extension thereby causing undue financial gain to them, getting the work of transportation of cement at

higher rate, furnishing false and misleading information to DCSL Board and defying various resolutions/directions passed by the Board of Directors of DCSL. The Committee feel that these are charges of serious nature and therefore, they recommend that the disciplinary proceedings against the Managing Director of DCSL should be completed expeditiously and suitable action taken against him under intimation to the Committee.

5.26 Damodhar Cement & Slag Limited (DCSL) is situated in a deficient area in the State of West Bengal where there is no other public sector cement plant. The Committee, therefore, recommend that Government of India should take up with the State Government of West Bengal the question of giving purchase preference to Damodhar Cement & Slag Limited in some of the Districts around the Plant.

NEW DELHI;
April 28, 1994

Vaisakha 8, 1916 (S)

VILAS MUTTEMWAR
Chairman,
Committee on Public Undertakings.

APPENDIX

Statement of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report

S. No.	Reference to Para no. in the Report	Conclusions/Recommendations
1	2	3
1.	1.19 to 1.20	<p>The Cement Corporation of India Limited came into existence on 18.1.1965 as a company wholly owned by Government of India. The Company has 11 plants all over the country with a total installed capacity of 42.45 lakhs metric tonnes. The Committee's examination has revealed that the plants of the company were not located at economically most advantageous areas. Three of the plants of CCI viz. Tondur, Adilabad and Yerraguntla which account for nearly 45% of total capacity of CCI located in Southern part of India where there is chronic power shortage. The Committee also found that the demand for cement was more in North and North Eastern part of India.</p> <p>What dismays the Committee further that even at the time of setting up these plants in the South, North was a little more deficient in cement than other parts of the country and South was in fact surplus in Cement production. Admittedly, while approving these projects in the South, no comparative study was made by CCI or the Government about the sites in different parts of the country. The reasons put forward by the Secretary, Department of Heavy Industry <i>inter-alia</i> that due to the existence of freight equalisation scheme and the industrial policy prevalent at the time, plants were set up in the South hardly convince the Committee. The Committee are of the firm view that the decision regarding location of the plants should have been based on the market situation keeping in mind the areas which were deficient in cement. At this stage the Committee can only express their displeasure over the faulty decision taken by the Government in the past. They recommend that in future due consideration should be given to all the relevant factors apart from the infrastructural facilities before setting up a plant. Besides whenever proposals are pending for setting up new Cement plants by CCI, availability of adequate power should be ensured before setting up these plants.</p>

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2. 1.21 to 1.23 The Committee find that according to the micro objective of CCI as approved by the Government in February, 1984, the Company *inter-alia* aimed to emerge as a growing and important leader in the production of cement in the country by creating additional capacity either by expansion or by improved technology or by setting up new cement plants to emerge as the largest seller of cement in the country and to continue to perpetuate and improve upon the same position by constant increase in the production capabilities.
- The Committee are, however, distressed to note that instead of emerging as the leader in the industry, CCI's share in the total cement production of the country has been very meagre in the past few years. In the year 1990-91 its production was 6.29 percent of country's production of 455 lakh tonnes of cement. The Company attributed this state of affairs to the change in external environment policies, lack of funds and increasing number of private companies in the cement sector. The Committee are, however, of the opinion that within these constraints, there is still scope for CCI to improve their capacity utilisation and achieve the objective of increasing its share in the cement market in the country.
- The Committee are also unhappy with the views of Government that, CCI is also not in a position to play an effective role in the cement market. It appears to the Committee that the Government have tacitly decided to accord a low priority to this sector. The Committee are of the view that cement industry, being one of the most important industries which play a crucial role in developing infrastructure cannot be left like that. They, therefore, urge that the Government should work out a comprehensive proposal for strengthening CCI and provide additional investment wherever necessary so that it can accomplish its well defined objectives.
3. 2.49 The Committee find that investigation work carried out in Nayagaon revealed sufficient availability of mineable grade limestone which could have supported a plant of capacity of 1200 tonnes per day, for 50 years. Although the company acquired mining lease but factory and township were constructed on a site in a quarry area depriving company of 31 percent of the mineable reserve. It is
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regrettable that the decision for the construction of the township and factory was taken by an official of the level of Director yet the Government was not aware of the same. The matter came only to their knowledge when C&AG conducted the appraisal of CCI during 1991-92. It was only in October, 1993 that Government directed CCI to enquire into the matter *i.e.* after about 20 years of acquisition of mining lease in February, 1974 and that too when the Committee took up the subject for examination. To say the least, it is indeed a sorry state of affairs not only on the part of the CCI but the Ministry also that no responsibility for this irrational decision was ever fixed. In view of the Committee merely by stating that the relevant records in this case were lost in the fire, cannot absolve CCI and Ministry from their responsibility. They desire that an enquiry should be initiated afresh at the earliest which should not only fix responsibility for the loss of mineable area to the company but also look into circumstances in which the vital records of the case were destroyed. The Committee strongly feel that suitable system should be evolved both at company and Government level to ensure that such things do not happen in future and valuable records are not lost.

4. 2.50 to 2.51 The Committee note that due to delay in completion of 5th and 6th Five Year Plan projects as well as 7th Five Year Plan projects there has been substantial increase in the cost of the projects. In the 7 completed projects of 5th and 6th Five Year Plan the time over-run was more than 20 months and in fact it was as high as 54 months in the case of Yerraguntla project. This resulted in cost over-run of Rs. 95.31 crores over originally estimate of Rs.86.24 crores that is about 110%. The Committee are distressed to find that inspite of the earlier recommendations made in their 69th Report (5th Lok Sabha) the Cement Corporation could not complete their projects in time. This is inspite of the fact that these projects were monitored by the Department of Heavy Industry, Planning Commission and the Ministry of Programme Implementation. The progress of the projects was also stated to be reviewed by the Planning Commission during the Annual plan discussions. The Ministry have admitted that CCI had been sending monthly flash reports to the concerned authorities.

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The Committee are led to the conclusion that apart from inadequacies and failures in Project formulation and implementation as discussed in the succeeding paragraphs the Ministry of Industry and other agencies involved failed to fulfil their responsibility properly.

The Committee desire that the Ministry should in future take appropriate action for timely completion of projects and its take quarterly progress reports etc. furnished by the Corporation as a serious exercise by giving them a proper feed back and not treating them as routine exercises. The Department of Heavy Industry should effectively coordinate with other Ministries like Ministry of Finance etc. so that the projects which are approved are not delayed due to delay in financing of projects.

5. 2.52 to 2.55 The Committee are perturbed to find that the Tandur Project which was originally scheduled to be completed in June, 1982 was completed in June, 1986. The expenditure incurred on the project up to 31st March, 1992 was Rs. 15.15 crores as against the original estimates of Rs. 5.4 crores approved by the Government. Not only was there time and cost over-run but it took 13 months to start the commercial production after completion of the project. The reason for the delay in start of commercial production has been stated to be the financial problems faced by the turn key suppliers during the trial production and they closed the work. What is more distressing is the fact that although all the plant and machinery for the project were procured on turn-key basis yet the company failed to encash bank guarantee after the contractors M/s. ABL Limited failed to carry out the performance guarantee test.

The Ministry of power is stated to have advised against the encashing of the bank guarantee. To the Committee, the role of the Ministry of Industry does not appear to be worth appreciating as they failed to pursue the matter vigorously with the Ministry of Power and performance guarantee lapsed in the meantime. The Committee also take a serious note of the fact that not only in the case of Tandur Project in most of the cases company was unable to get the performance guarantee service for the plants.

Similarly, the Clinkerisation Unit of Nayagaon Expansion Project which was scheduled to be completed in April,

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1986 was completed in October, 1987 and as against the original estimates of Rs. 65 crores approved by the Government the actual expenditure incurred upto 31st March, 1992 was Rs. 150.37 crores, here also the commercial production started only in May, 1990. In the case of Nayagaon Expansion Project also defective equipments, systems and designs were stated to have been supplied by the Turn-key supplier resulting in number of failures of equipments and more time taken in stabilisation. The Committee have been informed that defective equipments for Nayagaon Project were purchased during the period 1984—87 and there were delays in placing and execution of the order for design, engineering & supply of Bulk Conveyor System by the supplier. The Director-in-charge of the Project was charge-sheeted for some of these lapses just a month before his retirement. The Committee are surprised that although the Ministry was in receipt of the quarterly progress report from CCI yet the fact regarding the dubious dealings of the then Director (Projects) who subsequently joined one of the suppliers came to the notice of the Ministry just a month before his retirement, although the charges against the Director did not relate to the dealings with this particular supplier. The Committee can only express their unhappiness over the fact that the then Director got the matter stayed through the High Court in November, 1991 and there is no possibility of an early vacation of the stay. The Committee desired that efforts should be made to get the stay vacated and steps taken for his prosecution. They also desire that responsibility should be fixed for delay in execution of all these projects.

The Bhatinda Grinding Unit of Nayagaon Expansion Project which was scheduled to be completed by April, 1986 as per the DPR has not so far been completed due to delayed clearance by Ministry of Environment and Forest which was received only in February, 1993. The Committee are astonished to observe that after incurring a sum of Rs. 8.62 crores as on 31st March, 1993 the fate of the Project is uncertain, since the CCI has no funds to execute the Project and the Ministry of Industry have also shown their helplessness in the matter. The Committee have been informed by the Secretary, Department of Heavy Industry that in case the Bhatinda Grinding Unit is not set up, half of the Clinker produced at Nayagaon would go waste. The

Committee express their displeasure over the delay in taking a decision in the matter and desire that a final decision regarding the fate of the Bhatinda Grinding Unit should be taken without any further delay and the Committee apprised in the matter.

Yerraguntla Expansion Project was the third project of the Seventh Plan which was scheduled to be completed in April, 1987. However, the project has not so far been completed. In the meantime, the cost of the project which was approved at Rs. 75.72 crores in April 1981 is expected to go upto Rs. 307 crores. The cost went up initially because the Government could not provide necessary funds for the project and Subsequently the contractors referred the case to arbitration demanding an unreasonable escalation in prices. The Government subsequently decided that it may not be possible to go through the project because the IRR of the project has gone down. The Committee of Secretaries to whom the matter was referred also recommended in December, 1992 that the project be wound up. However, the Government have not been able to take final decision so far in regard to the future of the Yerraguntla Expansion Project. The Committee are unable to understand the failure of the Government in arriving at a final decision in respect of the recommendations made by the Committee of Secretaries for closure of the project. They would, urge the Government to take a decision in regard to the future of the project without any further loss of time under intimation to the Committee.

6. 3.20

The Committee regret to note that over the years the actual production of cement in CCI has been far below the capacity built up as well as the targets. The actual production during the years 1989-90 to 1992-93 ranged between 58% and 74% of the installed capacity. In fact the capacity utilisation in 1992-93 has gone down to 70% against 74% in 1991-92. The Committee are also unhappy to note that the capacity utilisation of CCI is substantially lower than the capacity utilisation in private sector cement plants. In none of the years the company could even achieve the targets set for production. The Committee are surprised at the revelation made by the Company that the production targets are usually kept higher than the realistic targets to ensure that the units put up the best efforts in

meeting the targets. The Committee urge that instead of fixing inflated targets management should make efforts in the real sense to achieve higher production. They also desire that in future the targets should be fixed keeping in mind the normal fluctuation, planned shut down of plants, probable non-materialisation of infrastructure facilities and likely availability of wagons and coal etc.

7. 3.21
to
3.23

The Committee further note that the production of CCI is hampered due to power cuts. To maintain the power supply CCI had submitted proposals for captive power plants by way of purchasing DG sets. The Committee are dismayed to note that although the Planning Commission had given consent for inclusion of purchase of 2 DG sets for CCI's Plants at Tandur and Yerraguntla in the Annual Plan 1990-91 by providing extra budgetary support, the funds which were earmarked for CCI were diverted to some other Public Undertaking under the control of Department of Heavy Industry, which, while fully knowing that CCI desperately needed DG sets for improving their performance failed to pursue the matter and on the contrary, diverted the funds to some other undertakings. The Committee recommend that at least now the Government should act judiciously and provide necessary funds to CCI to have the matching captive power to sustain growth.

The Committee are also perturbed to note that while the CCI maintains that production was low due to the recession in the market, the Ministry did not carry out any indepth study to ascertain the reasons for the short fall in production. The Ministry normally seems to go by the assessment of CCI in any matter. The Committee desire that a proper study about the market situation should be made and CCI should be advised accordingly to capture a substantial share in the market. Government should also consider giving purchase preference to CCI wherever possible.

Another problem being faced by CCI was stated to be due to shortage of coal and wagons. The Committee have been informed that loss of production in CCI due to factors like coal, power and wagons was 15 percent against 5 percent in the private sector. They desire that as assured by the Ministry, all necessary assistance should be provided to CCI to overcome the coal and wagon problems faced by the Company. The Ministry of Industry should hold regular and frequent meetings with the Ministry of Railways to ensure availability of sufficient wagons to CCI.

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| 8. | 4.38
to
4.39 | <p>The Committee note that Cement Corporation of India Limited has been incurring losses continuously over the past many years though it earned a profit of Rs. 2.10 crores in 1991-92. The cumulative loss of the company as on 31st March, 1993 stood at Rs. 230.22 crores. To bring CCI out of the crisis the Ministry approved capital restructuring of the company in August 1991 which <i>inter-alia</i> envisaged conversion of plan loans of Rs. 41.75 crores into equity, moratorium on repayment of loans, interest holiday for one year etc. The company on its part agreed that it would pay the dues from 1990-91 onwards and improve capacity utilisation. Contrary to what was agreed upon, the Committee observe that CCI could not fulfil the conditions for availing the restructuring.</p> <p>The Committee have been informed that CCI subsequently submitted second restructuring proposal in December 1992 in order to be able to perform better. In turn, the Ministry asked the Company to prepare a comprehensive proposal indicating performance analysis of individual units, relief sought from Government and expected targets to be achieved etc. The Committee are distressed to find that CCI has not yet submitted the comprehensive unit-wise proposal sought by the Ministry. Thus no final decision has been taken and implemented firmly by either CCI or the Government as far as capital restructuring is concerned. The Committee therefore, recommend that a final decision regarding the capital restructuring of CCI should be arrived at within three months of presentation of this Report after careful and judicious analysis of all the factors.</p> |
| 9. | 4.40
to
4.41 | <p>The Committee find that in order to improve their performance and get rid of the loss making units which had remote or no possibility of becoming viable due to high break even point, old technology and high cost of operation, CCI had recommended for the disposal of three units viz. Charkhi Dadri Kurkunta and Nayagaon. The Committee were given to understand that the idea behind disposing of the units is to get rid of the losses associated with these units and to improve the performance of other units as the budgetary support is not forthcoming from the Government.</p> |

The Committee regret to note that although the proposal for disposal of two units of Kurkunta and Charkhi Dadri was sent to the Ministry in June, 1992 and for Nayagaon complex in September, 1993 the Government have failed to arrive at any conclusion and have further asked for unit-wise information from CCI. The Committee recommend that Government should constitute a Committee of experts including financial experts which should go into details and weight all the pros and cons of disposal of these units and submit its report within three months. After the report of this Committee a final decision regarding the fate of these units should be taken by Government and the Committee apprised of the same.

10. 5.19 to 5.20 The Committee find that shortages for Rs. 122.43 lakhs of A and B class stores noticed in 1986 had not been properly accounted for by the company and the same were written off without giving adequate reasons. The Committee are surprised to observe that although a Committee was appointed to investigate in this regard but it did not record the reasons for shortages and subsequently no responsibility was fixed. They would like to be apprised of the reasons for the Committee having neither recorded the reasons for shortages/fixed responsibility for the shortages.

It also come out that in Akaltara unit of CCI, shortages of stocks valuing Rs. 65.70 lakhs found during 1984-85 were not reflected in accounts. Similarly shortage of 23000 MTs continued for more than 2 to 3 years. In this case also, the Committee appointed by CCI had not recorded the reasons for this shortage.

The Committee are perturbed to find that although enquiries were conducted for the lapses but no inference could be drawn as the necessary records regarding the cases were not available.

11. 5.21 to 5.22 The Committee note that against an order for 458 lakhs gunny bags placed by CCI in 1983-84 the suppliers short supplied 68.65 lakh bags. Instead of making efforts to know the reasons for the short supply of bags against the first order, the corporate office placed another order at a higher rate with the same supplier with this the remaining bags of first order were also supplied leading to avoidable
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loss of Rs. 52.51 lakhs. A case was filed by CBI in this regard against some ex-officials of the company which is till subjudice.

The Committee are of the firm opinion that there is urgent need to strengthen the Company's Material Management Department and internal audit system so that such irregularities immediately could come to knowledge of Management and remedial steps taken urgently. The Committee would await the decision of the court in regard to the case filed by CBI against the ex-officials of the company.

12. 5.23

The Committee are satisfied to learn that CCI has marginally improved its export performance from 1500 MT in 1991-92 to 7600 MT worth Rs. 1.24 crores in 1992-93. But they are of the view that a lot still remains to be done. So far the Company has been able to export cement to Bangladesh only. The Committee desire that CCI should explore further markets in neighbouring countries like Nepal, Sri Lanka, Burma and Pakistan etc. Efforts should be made to enter into bilateral agreements. The Committee also desire that in future if any new plant is to be added to CCI, it should be near the port as far as possible so that the Company can augment their export potentials.

13. 5.24 to
5.26

The Committee note that Demodhar Cement & Slag Limited (DCSL) located in Purulia District of West Bengal became a subsidiary of cement corporation of India w.e.f. 24.5.1983. In January, 1992 the equity holding of CCI in DCSL was revised from 51% to 90% with the remaining 10% being held by West Bengal Industrial Development Corporation. The Committee have been informed that even after acquiring 90% shares of DCSL, the CCI has no majority in the Board of Directors of DCSL which could be workable and practicable for the purpose of controlling its interest and thereby improving the performance of DCSL. The Committee, therefore, urge that immediate action should be taken to transfer the remaining 10% equity to enable it to have better control over the functioning of DCSL and to improve the performance of the subsidiary.

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The Committee have been informed that the Managing Director of DCSL has been placed under suspension for serious acts of misconduct involving his integrity. He is alleged to have shown undue favour to certain private parties in awarding contract of C&F/Handling Agency in violation of prescribed procedures by granting extension thereby causing undue financial gain to them, getting the work of transportation of cement at higher rate, furnishing false and misleading information to DCSL Board and defying various resolutions/directions passed by the Board of Directors of DCSL. The Committee feel that these are charges of serious nature and therefore, they recommend that the disciplinary proceedings against the Managing Director of DCSL should be completed expeditiously and suitable action taken against him under intimation to the Committee.

Damodhar Cement & Slag Limited (DCSL) is situated in a deficient area in the State of West Bengal where there is no other public sector cement plant. The Committee, therefore, recommend that Government of India should take up with the State Government of West Bengal the question of giving purchase preference to Damodhar Cement & Slag Limited in some of the Districts around the Plant.
